Center for Global Development
Independent research & practical ideas for global prosperity

A Doing Business Facility

A Proposal for Enhancing Business Climate Reform Assistance

The Supporting Business Climate Reforms Working Group

Advancing Africa's Private Sector Series

Todd Moss, Chair

March 2010

Center for Global Development

Center for Global Development

Independent research & practical ideas for global prosperity

A Doing Business Facility

A Proposal for Enhancing Business Climate Reform Assistance

The Supporting Business Climate Reforms Working Group

Advancing Africa's Private Sector Series

Todd Moss, Chair

March 2010

The Supporting Business Climate Reforms Working Group
Advancing Africa's Private Sector Series
Final Report • March 2010
http://www.cgdev.org/content/publications/detail/1423783

Margo Alexander	Acumen Fund, Council on Foreign Relations; formerly UBS, Paine Webber
Benjamin Leo	Cisco Systems; formerly National Security Council, U.S. Treasury Department
Bruce McNamer	TechnoServe; formerly executive at several start-up companies, National Economic Council
Todd Moss (Chair)	Center for Global Development; formerly U.S. Department of State, World Bank
Papa Ndiaye	Advanced Finance and Investment Group (AFIG); formerly Emerging Markets Partnership, IFC
Jennifer Oppenheimer	The Brenthurst Foundation; formerly Davis, Polk & Wardwell
Ambassador Robert C. Perry	Corporate Council on Africa; formerly U.S. Department of State, Ambassador to Central African Republic
Vijaya Ramachandran	Center for Global Development; formerly Georgetown and Duke Universities, World Bank
Ambassador John Simon	Center for Global Development; formerly U.S. Ambassador the African Union, OPIC, NSC, USAID
Richard Stern	Foreign Investment Advisory Service; formerly IMF

Institutions listed solely for identification. Each member participated in a strictly individual capacity.

ISBN: 978-1-933286-46-4
Center for Global Development
1800 Massachusetts Ave. NW
Washington DC 20036
www.cgdev.org

Contents

About the Advancing Africa's Private Sector Series

The Advancing Africa's Private Sector series of working groups is an ongoing effort of the Center for Global Development to bring together top scholars, practitioners, and policymakers to propose practical new ways of encouraging business growth on the continent. Africa's future prosperity depends greatly on growing private businesses and unleashing the continent's vast but still untapped entrepreneurial energy. The success of democracy also requires an independent business and middle class free from dependence on government largesse and patronage. Both foreign investors and public policymakers are crucial to expanding the private sector in Africa. These are key areas of CGD's research and the focus of our Emerging Africa Project.

This proposal focuses on better ways for donors to support business reforms. Along with other current work on transferring energy technology and catalyzing private capital flows, the focus on the business climate was chosen based on growing empirical evidence—including that presented in *Africa's Private Sector: What's Wrong with the Business Environment and What to Do About It* by CGD senior fellow Vijaya Ramachandran—on the major constraints facing African business. This working group considered lessons learned from innovations in aid provision to recommend new policy instruments that structure incentives to encourage business climate reforms. The report is aimed at policymakers in the major donor governments and international institutions that seek to promote private-sector growth in Africa.

Preface

The donor community can do a lot to help poor countries fix their business climates, but too much of this aid is scattered in an ad hoc, non-strategic way. Surely, the United States, the World Bank, and others can do much better. If we are going to be serious about promoting the private sector—to create jobs, tax revenue, and build a base for young democracies—then we need to find a way to target the technical and other assistance that is supposed to unleash the energy of entrepreneurs stuck in stifling regulatory environments. In Swaziland, for example, it takes ten different procedures and a total of 66 days just to start a business, let alone pay taxes, export goods, or register property. How can we expect an economy to thrive under such conditions?

As part of CGD's efforts to provide concrete proposals to address problems in poor countries, we have initiated a series of working groups on specific ways to improve Africa's investment climate. This report is the result of the first working group's deliberations. This group, comprised of experts from the private sector and policy world, has proposed a new facility that will concentrate business climate help in just a few countries, to be decided by third-party data. This approach would support the governments most committed to reform and create a clear and high-profile incentive for more reform. I am confident that this report will help spark a genuine discussion in donor agencies about a better way forward and in some small measure help to create opportunities for all those hidden entrepreneurs in the world's poorest countries.

We are grateful for the generous and flexible support of the Australian Agency for International Development, without which this work would not have been possible.

Nancy Birdsall
President
Center for Global Development

Summary

Africa remains extremely difficult for entrepreneurs: two-thirds of Africa's low-income countries are in the bottom quarter of the World Bank's rankings on the ease of doing business. Donors are increasingly targeting assistance to address the investment-climate constraints that hinder private-sector growth, but their efforts—though constructive and positive—are inefficient and sometimes haphazardly deployed. Something better is needed. We propose a "Doing Business Facility," which would determine a country's eligibility for technical and financial assistance on the basis of third-party measurements of its performance in addressing business-sector constraints. Similar to the U.S. Millennium Challenge Corporation, the Doing Business Facility would use performance-based filters to identify a few reforming countries each year and then implement program agreements to reinforce and advance further reforms to the business climate. The facility will both target assistance on countries that will use it well and create reform incentives for countries on the threshold.

This report lays out the case for promoting investment climate reforms more strategically, various options for implementing a system to do so, and possible institutional homes for the proposed facility.

Introduction

Despite steps in the right direction, Africa remains extremely difficult for entrepreneurs. New evidence confirms that the barriers to opening, operating, and expanding private businesses are substantial. In an increasingly competitive global economic environment, these problems are compounded by Africa's exceedingly unfavorable position relative to other regions. Nine of ten of the world's worst business climates are in Africa, according to the World Bank's ranking for "ease of doing business." Two-thirds of the continent's low-income countries are ranked in the bottom quarter (figure 1, next page). Only two low-income African countries rank in the top half (Rwanda, Zambia) in the 2009 data, the same number as in the previous year (Ghana, Kenya).[1]

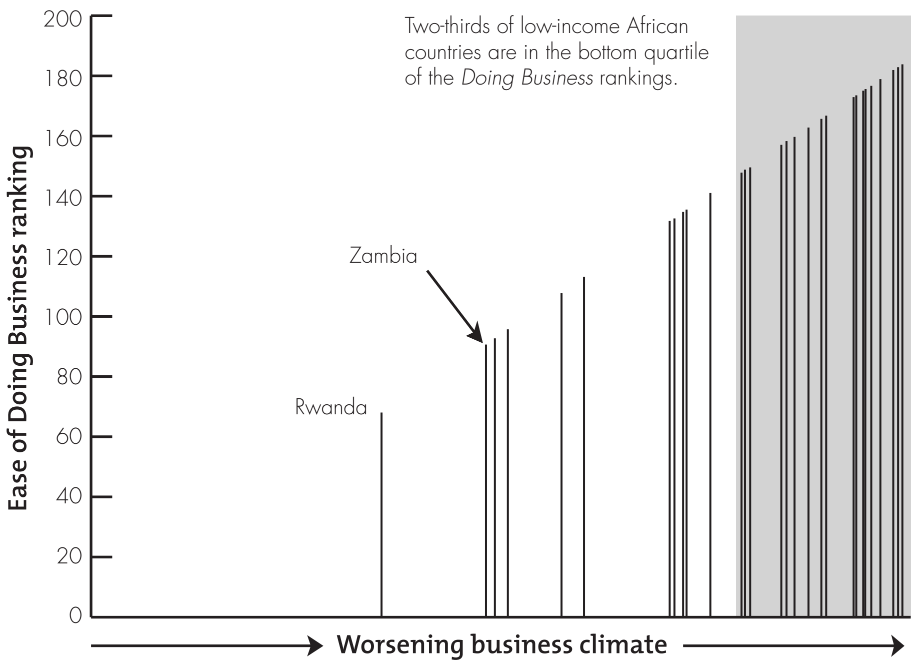
African firms pay more, wait longer, and remain ultimately less competitive than their peers.

The detrimental business climate is devastating for the creation of jobs, wealth, and a sustainable tax base. In practical terms, the poor investment environment means that African firms pay more, wait longer, and remain ultimately less competitive than their peers. In a globalized economy, this is the difference between building a world-class company that can export, pay taxes, and employ thousands of workers and having an underground economy of small, barely viable informal firms. It is no coincidence that many of the negative characteristics associated with African economic performance—low growth, a large informal sector, and a concentration of activity in a few large firms connected to the state—are traceable to the failure of public policy to create an enabling (or even permissive) environment for the development of a private sector. A poor business climate could have harmful political effects in addition to the obvious harmful economic effects. Much of the political economy literature points to an independent business and middle class as a bedrock foundation of a healthy democracy. Thus, a stifling business climate not only hurts Africa's economies but also its polities.

The lack of a thriving business class also reinforces long-term aid dependency. Without an independent tax base, countries will continue to require external aid to finance public services. Countries that hope to "graduate" from aid—and donors who expect to eventually reduce their foreign assistance budgets—should consider promoting a viable competitive business sector critical to enduring success. The international community has recognized that the barriers to private business activity must be reduced for Africa to meet its full potential. Policymakers are well aware that conditions must change to unleash Africa's significant but latent entrepreneurial energy. Efforts have focused, for

1. Middle-income countries Mauritius, South Africa, Botswana, and Namibia were also above the global median in both 2008 and 2009. Confusingly, the *Doing Business 2010* report was released in late 2009 and reports on 2009 conditions. Unless otherwise indicated, all data used in this proposal are based on that latest data release: The World Bank Group, *Doing Business 2010,* http://www.doingbusiness.org.

Figure 1. Low-income African countries perform poorly on the Doing Business Indicators



The lack of a thriving business class also reinforces long-term aid dependency. Without an independent tax base, countries will continue to require external aid.

the most part, on two areas: data collection to better understand relative performance and technical assistance to both governments and firms to improve policies and performance.

The World Bank Group is involved in multiple aspects. The International Finance Corporation (IFC) produces the annual *Doing Business* indicators, which are quantitative measures of the regulatory environment and efficiency in ten areas.[2] The World Bank Institute (WBI) publishes an annual governance index that has several components relevant to the business climate, in particular measures of regulatory quality, rule of law, and control of corruption.[3] The Bank's International Development Association (IDA) conducts lengthy surveys of firms and uses the data to produce Investment Climate Assessments.[4] IDA

2. See www.DoingBusiness.org for details.

3. Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi, "Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996–2008," World Bank Policy Research Working Paper No. 4978 (June 29, 2009), http://info.worldbank.org/governance/wgi/sc_country.asp.

4. The World Bank Group, "Investment Climate Assessments," http://go.worldbank.org/6IQR415UN0.

also provides technical and policy assistance to client governments, while the IFC supports firms and provides limited technical advice to governments.

Bilateral donors are also involved in business climate reforms. Within the United States Government, for instance, programs in the Departments of the Treasury, Commerce, and State assist partner countries with technical advice on legal and financial issues. The U.S. Agency for International Development (USAID) has a $200 million African Global Competitiveness Initiative (AGCI), which primarily aids firms seeking to export goods to U.S. markets and provides some limited technical assistance and data collection on barriers to business.[5] Of particular note, USAID has collected information on bribes, checkpoints, and delays along African transport routes.[6]

Efforts to improve African business have made some progress but are hampered by lack of selectivity, prioritization, or strategic focus. Something better is needed.

Private business and philanthropic efforts also assist in these areas. Some NGOs, such as Endeavor, help private firms build their management skills. The World Economic Forum (WEF) ranks the world's economies each year, using 110 indicators.[7] The Investment Climate Facility (ICF), launched in 2006 with support from official donors and private companies, is an independent organization that helps countries remove obstacles to foreign and domestic investment.[8] The ICF's innovation is to be demand-driven and receive requests for projects from governments.

While many of these efforts are helping to make progress, their utility is too often limited by many of the same problems that affect other types of aid: lack of selectivity, prioritization, or strategic focus. Donors do not have a systematic method for identifying where to focus attention and resources. This is further complicated because business climate reforms are especially vulnerable to politicization. Most countries claim they want to improve, but powerful colluding interests may prevent any reforms that threaten a privileged position or ulterior purpose. (Someone benefits when a firm is required to collect 35 signatures before exporting.) Yet donors seeking to allocate limited resources for business climate reforms have few ways to know ex-ante how serious a government may be about tackling these problems.

Another shortcoming of current approaches is that the "prize" for countries that do well on the indicators is not immediate enough to create meaningful

5. USAID, "African Global Competitiveness Initiative (AGCI)," http://www.usaid.gov/locations/sub-saharan_africa/initiatives/agci.html.

6. USAID, "Road Transport Corruption Reports," West Africa Trade Hub, http://www.watradehub.com/index.php?option=com_content&task=view&id=727.

7. World Economic Forum, "The Global Competitiveness Network," http://www.weforum.org/en/initiatives/gcp/index.htm.

8. See www.icfafrica.org.

incentives. While in theory an enhanced private sector should be inducement enough, in reality political expectations are on a faster timeline than economic responses. The benefits of business climate reforms may simply be too slow to induce politicians working on a short electoral cycle to act boldly. The countries that do well on the WEF rankings can tout their achievement on their investment promotion propaganda, but they frequently complain that any investment reaction is not immediate enough. Similarly, the IFC announces its "top reformers" and holds a public event to highlight their progress each year (in April 2009, for example, Senegal, Burkina Faso, and Botswana were invited to celebrate their success during a "Reformers Club" dinner and press conference in Vienna), but the concrete benefits of such identification are not always evident.

In April 2009, the Center for Global Development began convening a working group on Investment Climate Reforms as part of the Advancing Africa's Private Sector series of working groups.[9] After examining the problems facing African business and current approaches to promoting investment climate reforms, we propose a new model to overcome some of these shortcomings and to make donor efforts more strategic and impactful—a new Doing Business Facility.

Guiding Principles for a New Model for Business Climate Reforms

Our discussions identified several guiding principles that helped to shape the proposal. In particular, participants drew on lessons learned from the experience of the Millennium Challenge Corporation (MCC) (see annex 1) in using indicator-based eligibility criteria to create competition among countries for qualification. The group agreed on several necessary aspects:

We propose a new model to overcome these shortcomings and to make donor efforts more strategic and impactful—a new Doing Business Facility.

- **Create clear incentives.** Donors should generate clear incentives for government officials to address binding barriers to business creation and successful operations.

- **Be objective.** Utilizing existing and publicly-available third-party data would support continued collection and encourage independent judgment of performance.

9. For more see the Center for Global Development's topic page for Africa, http://www.cgdev.org/section/topics/regions/africa.

- **Identify the serious.** Donors need some signal of the intentions of governments beyond rhetorical support for reforms. Many of the changes required to free up entrepreneurs are low-cost administrative changes that should be easily implemented, which allow governments to show real progress before major aid programs are launched to support other more costly or complex reforms.

- **Allocate selectively.** For the sake of taxpayer value and efficient use of limited resources, programs for financial and technical assistance should be targeted to identified reformers.

The Proposal: A Doing Business Facility

We propose that one of the major players in business climate reforms (the World Bank Group, the U.S. Government, the Investment Climate Facility, or others) create a facility that allocates reform programs based on indicator performance. Like the MCC—which uses performance in 16 categories to determine eligibility, followed by a specific compact agreement—the Doing Business Facility would determine a small number of countries that qualify for assistance each year. Countries that meet the threshold would then (borrowing from the ICF's model) identify additional reforms they would like to pursue, negotiate assistance from the donor, and agree on benchmarks. This approach has several benefits for host governments and donors:

We propose that one of the major players in business climate reforms create a facility that allocates reform programs based on indicator performance.

For host governments

- clarity on eligibility and metrics
- concrete and immediate benefit of improved performance
- direct connection between data assessments and reform strategy
- demand-driven programs for specific assistance

For donors

- strategic allocation of limited resources
- clear and dispassionate identification of reformers
- lower chance of wasting resources on countries resistant to reform
- positive dynamics beyond assistance programs even for non-qualifiers created by competition for eligibility

Proposed Eligibility Methodology Options

We propose using the World Bank's *Doing Business* indicators to measure government reforms and performance–either on an absolute or a relative basis. The *Doing Business* indicators are a quantitative evaluation of the regulations countries impose on local small and medium enterprises. The indicators cover ten components and include two different types of indicators: written laws and regulations; and efficiency measures, such as time and cost to complete a business-related action (tables 1 and 2, next pages). Data is collected by surveying expert "informants" about a hypothetical business with simplifying assumptions made about its form, location, and sector.

Table 1. Doing Business Indicators

starting a business	paying taxes
dealing with construction permits	trading across borders
employing workers	enforcing contracts
registering property	getting credit
protecting investors	closing a business

Table 2. Selected Doing Business 2009 indicators for selected countries

Indicator	*Ghana*	*Mauritius*	*Nigeria*	*Tanzania*
Hours to pay taxes	224	161	938	172
Days for construction permits	220	107	350	308
Documents needed to import	7	6	9	7
Percentage of income/capital needed to start a business	32.7%	5%	90.1%	41.5%

We outline three ways of using the Doing Business indicators—the most credible and comprehensive data available—to select countries for Facility assistance.

The *Doing Business* indicators have a few widely recognized shortcomings. Some indicators measure laws as they are written, not necessarily as they are applied in practice. As with many indices, each type of reform is counted equally, regardless of its relative benefits. Specific questions about the way particular indicators are calculated have sparked significant criticism and review.[10]

Nonetheless, the *Doing Business* indicators are the most credible and comprehensive dataset currently available. They cover 183 economies and have used roughly the same methodology for the last six years (see annex 2 for recent rankings of all sub-Saharan African countries). Research has suggested that they are linked to actual business performance.[11]

10. The labor and taxation indicators have come under particular criticism; as a result, the labor indicator was suspended in April 2009. A consultative group is currently reviewing possible changes to the indicators to respond to shortcomings, but the conclusions of their work are, at the time of this writing, still unknown. Any new Doing Business Facility may want to consider either altering these indicators or simply excluding them. For more information see Daniel McGlinchey, “Frank Praises Changes to World Bank ‘Doing Business’ Report,” Bank Information Center (April 30, 2009, http://www.bicusa.org/en/Article.11123.aspx), and the Bank’s explanation available at http://www.doingbusiness.org/MethodologySurveys/EmployingWorkers.aspx .

11. Simeon Djankov et al., “The Regulation of Labor,” *The Quarterly Journal of Economics* 119(4):1339–1383; Simeon Djankov et al., “The Effect of Corporate Taxes on Investment and Entrepreneurship,” *American Law & Economics Association Annual Meetings* No. 80 (2008); Ben Eifert, “Do Regulatory Reforms Stimulate Investment and Growth? Evidence from the Doing Business Data, 2003–07,”

There are countless options for operationalizing these indicators as a basis for determining a country's eligibility for proposed Doing Business Facility assistance. Policymakers will ultimately determine the selection method based on their precise objectives and country targets. We outline three general options below: (1) overall performance level, (2) annual improvement in performance, and (3) a hybrid using both levels and changes.

Option 1: Level-based thresholds (the MCC model)

Option 1 measures countries against their peers, using median Doing Business scores as benchmarks.

Under this option, we apply the MCC's general methodology to the Doing Business Facility.[12] To qualify, each country must score above the median—either the global median (option 1a) or the median within income groups (1b)—in the majority of the 10 examined indicators *and* in the World Bank Institute's control-of-corruption indicator. Judging countries against their competitors creates a moving bar that continues to get higher as the median rises, more accurately mirroring global competition. But this approach does not directly recognize and reward any government's ongoing commitment to implement new reforms, only the overall attractiveness of the business climate. It would, almost by definition, skew the results toward the middle-income countries that already have stronger business track records.

Using the global median of all 183 countries examined by the World Bank *Doing Business* indicators would exacerbate the bias toward middle-income countries. Each African country would compete head-to-head against 182 others. While this approach captures the global environment in which these countries compete to attract international investment and promote international trade, it would disadvantage countries that start with very poor business climates. Option 1b would mitigate this risk. The medians for low-income (LIC), lower-middle-income (LMC), and upper-middle-income (UMC) countries would be calculated separately, as the MCC does. Using the most recent indicators for 2009, the following countries would qualify for assistance:

- **Option 1a**: Better than the global median in at least six of ten indicators plus corruption
    - o LIC: Rwanda
    - o LMC: none
    - o UMC: Namibia, Seychelles, Botswana, South Africa, Mauritius

CGD Working Paper 159 (Center for Global Development, 2009), http://www.cgdev.org/content/publications/detail/1420894.

12. For greater detail see Millennium Challenge Corporation,"Selection Criteria," http://www.mcc.gov/mcc/selection/index.shtml.

- **Option 1b:** Better than the income group median in at least six of ten indicators plus corruption
  - o LIC: Ethiopia, Rwanda, Zambia, Uganda, Ghana, Tanzania, Gambia, Malawi, Burkina Faso
  - o LMC: none
  - o UMC: Mauritius, Botswana, South Africa, Namibia

Option 2: Annual changes (the "Top Reformer" model)

Option 2 measures countries against their past performace, rewarding those that improve.

Under this option, we determine eligibility based on annual improvement instead of ranking, with two possible variations: (2a) improvement in the overall Ease of Doing Business ranking from the previous year,[13] or (2b) improvement in the greatest number of individual *Doing Business* indicator scores from the previous year.[14] (For illustrative purposes in this report, we use six improvements as the eligibility threshold.)

This approach is attractive since it should provide the strongest incentives for reform in the poorest, worst-performing countries. The reputational boost and technical assistance would also likely have the largest marginal impact in these countries. However, this option could disqualify some of the strongest-performing middle-income economies while it generally rewards those starting from the lowest performance base. This tradeoff may be appropriate given that the proposed Doing Business Facility's greatest potential impact rests in countries that are poor performers but committed reformers. Six countries would qualify under option 2a; three would qualify under 2b:

- **Option 2a:** Top reformers based on changes in global rankings
  - o LIC: Rwanda, Liberia, Madagascar, Zambia, Sierra Leone, and Burkina Faso (tied for fifth)
  - o LMC/UMC: none

- **Option 2b:** Countries with improved scores in at least five indicators

---

13. The Ease of Doing Business ranking is an aggregated benchmark index of the *Doing Business* indicators. Each country is assigned a specific ranking, which reflects the attractiveness of their overall business climate relative to all global economies.

14. The model could also look at changes over multiple years; for simplicity, we use year-to-year changes.

- o LIC: Rwanda, Mali[15]
- o LMC/UMC: Cape Verde

Option 3: Hybrid using both levels and annual changes (the "No Excuses" model)

This option applies a hybrid methodology to reward both strong overall performance and continued improvement. Under this scenario, to qualify each country must score above its income group median in at least five of ten indicators, show positive improvement in five of ten indicators, score above the income group median in the control of corruption measure, and show positive improvement in its control of corruption indicator. This methodology is the most complex, but it best captures the spirit of the proposal to provide incentives for a broad range of countries while still identifying the most serious reformers.

Option 3 rewards strong performance and continued improvement.

- **Option 3:** Countries above the median and showing improvement in both five of ten indicators and corruption
  - o LIC: Rwanda[16]
  - o LMC/UMC: none

Full results for all sub-Saharan African countries are available in annex 3.

Institutional and Programmatic Options

The Doing Business Facility would not require a new institution. Several options for housing the facility in existing institutions are explored below:

The Doing Business Facility would not require a new institution. Options within the U.S. government include MCC and USAID.

United States Government

The most obvious U.S. government option would be for the Millennium Challenge Corporation to establish a new performance-based assistance window dedicated to motivating and supporting business climate reforms. Under this option, the MCC and recipient governments would pursue two-year program agreements that target specific indicators for reforms. This option mirrors the MCC's current Threshold Program, which provides finan-

15. If we lower the threshold to improvements in just four of ten indicators, Mauritius, Zambia, Uganda, Madagascar, Sierra Leone, Liberia, and Togo would also qualify.

16. If we lower the threshold to improvements in just four of ten indicators, Zambia and Mauritius also qualify.

cial assistance to help countries improve their MCC eligibility indicator scores. USAID typically acts as the implementing agency of these threshold programs. The MCC's current selection criteria include the *Doing Business* "Starting a Business" indicator, reflecting its existing institutional focus on business climate issues and familiarity with applying the dataset. Also, the proposed Doing Business Facility would support the MCC's central objective of promoting private-sector-led growth in developing countries. At the same time, the MCC may have mission creep concerns about expanding into this new area—both for fear of diluting its organizational focus and opening itself up to other sector-specific, earmarked programs.

USAID is another possible institutional home. The African Global Competitiveness Initiative (AGCI) expires at the end of 2010, and USAID could seek to replace it with a Doing Business Facility–type window in 2011. Perhaps as importantly, USAID could use a Doing Business Facility to coordinate and rationalize U.S. government efforts to promote business climate reforms. Currently, the AGCI operates more like an umbrella for individual country-team activities, with little coordination or strategy across countries or regions. Similarly, different agencies (Treasury, Commerce, U.S. Trade and Development Agency, U.S. Trade Representative, etc.) pursue their own programs with little consideration for overlapping or complementing others. In other words, USAID could use the facility model to establish itself as the home for business climate reforms. The lack of coordination and focus in government agencies could, however, argue against housing the Facility within USAID. Similar rationalization efforts have been attempted in the past but were met with strong internal resistance. Entangling a Doing Business Facility with upcoming efforts to reform USAID may therefore be overly complicating.

World Bank

Under the World Bank, the Facility could exist as a stand-alone trust fund, as part of the IFC, or as part of IDA.

There are several options for a World Bank–led approach. First, the World Bank could provide secretariat services for a stand-alone trust fund. Under this option, the World Bank could provide modest seed capital out of net-income proceeds along with contributions from bilateral donor agencies. There are many precedents for this approach, such as the Education For All–Fast Track Initiative and the Global Environment Facility.

Second, the IFC, the World Bank's private finance window, could create and implement the proposed facility. The IFC has strong business climate expertise and provides advisory services to developing-country governments targeting critical regulatory issues affecting private businesses. Moreover, the IFC currently collects, analyzes, and disseminates the *Doing Business* indicators.[17] Like the trust fund option, the IFC could provide modest funding from net-income proceeds or seek additional financing from shareholders.

Third, IDA, the World Bank's concessional finance window, could house the Doing Business Facility. Like the IFC, IDA has extensive experience implementing business climate reform programs. It also uses an internal performance-based allocation of its regular credits, skewing resources via a formula that allocates more to countries that score higher. Moreover, IDA shareholders will begin negotiating a new replenishment agreement in 2010, which presents an opportunity to pursue funding and a shareholder mandate for such a facility. Under this scenario, shareholders (donor governments) would agree to earmark a modest portion of IDA-16 replenishment contributions to establish and operate the new facility.

African Development Bank

Similar to the World Bank, the AfDB could host the Doing Business Facility either out of its regular or concessional finance (African Development Fund, or ADF) windows. The ADF will begin replenishment negotiations in 2010, which presents an excellent opportunity for donor countries to pursue this option. Under this scenario, donors could agree to carve out a modest portion of new ADF-12 replenishment resources for dedicated business climate reforms. Alternatively, the AfDB could house the facility under its Vice Presidency for Infrastructure, Private Sector, and Regional Integration, in the AfDB complex focused on, among other things, addressing constraints to private-sector-led growth. Seed capital could come from the AfDB's net income or contributions from donor governments. The AfDB already houses secretariat functions for several regional infrastructure programs (such as the Infrastructure Consortium for Africa), which are oriented toward removing impediments to trade and business activity. The Doing Business Facility would significantly complement those ongoing efforts.

The AfDB could host the Facility as it does for similar, complementary programs to improve business and trade.

Investment Climate Facility (ICF)

The ICF is perhaps best suited to apply the Doing Business Facility model to its current operations. It already uses an informal filter to identify the reform-minded countries and then works with them to determine feasible projects to

17. If the IFC used its own data, its claim to objectivity might arguably be more questionable, but sufficient firewalls should be able to guard against such concerns.

The ICF could add add a transparent quantitative filter to its decision-making process.

improve the investment climate. The ICF could simply add a transparent quantitative filter along the lines of this proposal to its decision-making process.

Conclusion

African policymakers have made great strides improving macroeconomic conditions over the past two decades, but progress on fixing microeconomic barriers to business growth has been much less impressive and has, rightly, attracted growing attention from international donors. So far, however, assistance to enhance business climates has not been allocated strategically enough and has been prone to well-known shortcomings of the aid business in general. Our proposal for a Doing Business Facility is one way to bring clarity and align incentives to business climate reforms assistance. Regardless of the precise selection model chosen, using transparent third-party data to allocate help to those countries most serious about reform not only improves the chances of project success but is also less likely to waste scarce taxpayer-funded resources.

Annex 1: The Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC) model is based on the premises that good policies make aid more effective and that aid can be used to incentivize policy reform. The MCC creates an incentive for governance reform by giving large, country-owned foreign assistance packages to countries that meet transparent, objective governance standards. The most significant aspects of the MCC model are third-party monitors, relative rankings, public information, and country ownership. Each of these components is necessary to create incentives for reform and increase the effectiveness of aid.

> **Qualification based on data:** Countries qualify for the program based on their performance relative to their income peer groups on 17 objective governance indicators. To qualify for aid, countries must perform above the median on half of the indicators in each of the three categories (Ruling Justly, Investing in People, and Economic Freedom), including without exception the measure of corruption (see table 1, next page).
>
> **Third-party, public information:** The MCC uses third-party monitors that collect objective and quantifiable data to evaluate policy performance. MCC indicators are collected by third parties such as the Freedom House or the World Bank Institute. Indicators must have broad country coverage, cross-country comparability, and broad consistency in results between years. Each country's scorecard is made public to build incentives for reform in the candidate country and minimize politicization.
>
> **Competition for performance:** Candidate countries compete with each other to qualify for aid from the MCC. Because qualification is based on relative rankings, countries must not only strive to meet a baseline of policy performance, but must continue to improve as the median rises.

To date, 20 countries have signed MCC compacts, and 15 currently qualify for threshold funding (see table 2, next page). As of the end of 2009, the MCC had approved over $7 billion in compact programs.

Table 1. MCC Indicators

Ruling Justly	*Investing in People*	*Economic Freedom*
civil liberties	immunization rates	natural resource management
political rights	public expenditure on health	business start-up
voice and accountability	girls' primary education completion rate	inflation
government effectiveness	public expenditure on primary education	trade policy
rule of law		fiscal policy
control of corruption		land rights and access

Table 2. MCC Countries

Threshold Countries		*Countries with Compacts*	
Albania	Peru	Armenia	Moldova
Guyana	Philippines	Benin	Mongolia
Indonesia	Rwanda	Burkina Faso	Morocco
Jordan	Sao Tome and Principe	Cape Verde	Mozambique
Kenya	Uganda	El Salvador	Namibia
Kyrgyz Rep.	Ukraine	Georgia	Nicaragua
Malawi	Zambia	Ghana	Senegal
Paraguay		Honduras	Tanzania
		Lesotho	Vanuatu
		Mali	

Annex 2: Sub-Saharan African Rankings on *Doing Business* Indicators, 2009

Ease of Doing Business Rankings (out of 183 countries)

Mauritius	17	Sudan*	154
South Africa**	34	Mali	156
Botswana**	45	Senegal	157
Namibia**	66	Gabon**	158
Rwanda	67	Zimbabwe	159
Zambia	90	Comoros	162
Ghana	92	Togo	165
Kenya	95	Mauritania	166
Ethiopia	107	Côte d'Ivoire*	168
Seychelles**	111	Angola*	169
Uganda	112	Equatorial Guinea***	170
Swaziland*	115	Cameroon*	171
Nigeria*	125	Benin	172
Lesotho*	130	Guinea	173
Tanzania	131	Niger	174
Malawi	132	Eritrea	175
Madagascar	134	Burundi	176
Mozambique	135	Chad	178
The Gambia	140	Congo, Rep.*	179
Cape Verde*	146	São Tomé and Principe*	180
Burkina Faso	147	Guinea-Bissau	181
Sierra Leone	148	Dem. Rep. Congo	182
Liberia	149	Central African Republic	183

* lower-middle-income
** upper-middle-income
*** high-income

Annex 3: Full Results for Three Eligibility Options

Scenario 1 – The MCC Approach

Option b: Better than the income group median in at least six of ten indicators plus corruption

Economy	*Indicators Passing Median*	*Control of Corruption Score*	*Starting a Business*	*Construction Permits*
Low-income median		**–0.79**	**126**	**134.5**
Benin	3	–0.42	155	134
Burkina Faso	6	–0.36	115	80
Burundi	3	–0.97	130	172
Central African Rep.	0	–0.90	159	147
Chad	2	–1.45	182	73
Comoros	4	–0.75	168	66
Congo, Dem. Rep.	0	–1.31	154	146
Eritrea	4	–0.38	181	183
Ethiopia	9	–0.66	93	60
Gambia, The	7	–0.78	114	79
Ghana	7	–0.06	135	153
Guinea	3	–1.35	179	170
Guinea-Bissau	3	–1.16	183	114
Kenya	9	–1.01	124	34
Liberia	3	–0.60	57	135
Madagascar	5	–0.10	12	108
Malawi	6	–0.59	128	163
Mali	4	–0.47	139	94
Mauritania	2	–0.80	149	154
Mozambique	5	–0.55	96	159
Niger	1	–0.82	157	166
Rwanda	8	+0.03	11	89
Senegal	4	–0.45	102	124
Sierra Leone	4	–1.07	58	171
Tanzania	7	–0.51	120	178
Togo	2	–0.98	170	152
Uganda	7	–0.79	129	84
Zambia	8	–0.48	94	151
Zimbabwe	4	–1.37	145	178

Indicator Rank							
Employing Workers	*Registering Property*	*Getting Credit*	*Protecting Investors*	*Paying Taxes*	*Trading Across Borders*	*Enforcing Contracts*	*Closing a Business*
119.5	**125.5**	**135**	**132**	**129.5**	**150.5**	**127.5**	**134.5**
139	126	150	154	167	128	177	133
82	114	150	147	144	176	110	112
88	118	167	154	116	175	172	183
144	138	135	132	179	181	171	183
118	136	150	132	133	169	170	183
164	96	167	132	41	133	153	183
174	157	167	154	157	165	172	152
86	171	177	109	110	164	48	183
98	110	127	119	43	159	57	77
85	117	135	172	176	81	67	123
133	33	113	41	79	83	47	106
79	163	167	172	171	130	131	111
175	177	150	132	129	115	143	183
78	125	4	93	164	147	126	79
121	174	135	147	85	112	166	148
152	152	167	57	74	111	155	183
92	101	87	73	24	172	142	130
100	99	150	147	158	156	135	117
125	74	150	147	175	163	83	150
156	151	127	41	97	136	129	136
173	85	150	154	141	173	138	141
30	38	61	27	60	170	40	183
172	166	150	165	172	57	151	80
166	175	127	27	160	137	144	147
131	145	87	93	119	108	31	113
159	155	150	147	155	87	154	97
7	149	113	132	66	145	116	53
116	94	30	73	36	157	87	83
142	84	113	119	130	167	78	156

Scenario 1, continued

Economy	*Indicators Passing Median*	*Control of Corruption Score*	*Starting a Business*	*Construction Permits*
Low-middle-income median		**–0.61**	**118.5**	**105.5**
Angola	2	–1.22	165	123
Cameroon	1	–0.90	174	164
Cape Verde	3	0.75	136	83
Congo, Rep.	1	–1.16	166	69
Côte d'Ivoire	1	–1.17	172	167
Lesotho	4	0.04	131	155
Nigeria	6	–0.92	108	162
São Tomé and Principe	1	–0.44	140	116
Sudan	3	–1.49	118	139
Swaziland	5	–0.38	158	24
Upper-middle-income median		**–0.10**	**85.5**	**91.5**
Botswana	8	1.00	83	122
Gabon	1	–1.07	152	63
Mauritius	9	0.53	10	42
Namibia	6	0.59	123	38
Seychelles	5	0.23	81	56
South Africa	7	0.30	67	52
High-income median		**n/a**	**n/a**	**n/a**
Equatorial Guinea	n/a	–1.07	152	63

Indicator Rank							
Employing Workers	*Registering Property*	*Getting Credit*	*Protecting Investors*	*Paying Taxes*	*Trading Across Borders*	*Enforcing Contracts*	*Closing a Business*
93.5	**98.5**	**100**	**109**	**108.5**	**98.5**	**106.5**	**108**
178	173	87	57	139	171	181	144
126	143	135	119	170	149	174	98
167	126	150	132	112	58	38	183
169	169	135	154	180	178	159	120
129	145	150	154	152	160	127	71
67	142	113	147	63	143	105	72
37	178	87	57	132	146	94	94
180	156	167	154	160	90	179	183
153	37	135	154	94	142	146	183
55	158	43	180	53	158	130	68
74	**89**	**61**	**57**	**93**	**92**	**86.5**	**87**
71	44	43	41	18	150	79	27
165	130	135	154	107	135	150	137
36	66	87	12	12	19	66	73
43	134	15	73	97	151	41	55
130	59	150	57	34	93	70	183
102	90	2	10	23	148	85	76
n/a	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
165	130	135	154	107	135	150	137

Scenario 2 – Top Reformers. (a) Top reformers based on changes in global rankings, 2008–09 (column 2). (b) Countries that improve in at least five indicators, 2008–09 (column 3).

Economy	*Rank Change (a)*	*Indicators Improved (b)*	*Starting a Business*	*Construction Permits*	*Employing Workers*
Angola	–1	2	7	–3	0
Benin	0	1	4	2	1
Botswana	6	3	0	–1	1
Burkina Faso	–8	2	0	–42	3
Burundi	–1	3	–2	3	5
Cameroon	4	1	0	10	2
Cape Verde	–1	5	–28	4	–1
Central African Rep.	0	3	–9	9	–1
Chad	2	0	0	3	2
Comoros	9	0	5	1	1
Congo, Dem. Rep.	0	1	1	5	3
Congo, Rep.	0	2	7	1	–1
Côte d'Ivoire	5	0	2	8	1
Equatorial Guinea	1	0	2	4	0
Eritrea	0	1	1	0	2
Ethiopia	–4	3	–29	4	4
Gabon	7	1	5	3	–1
Gambia, The	5	1	12	3	4
Ghana	5	3	–1	9	–1
Guinea	2	0	1	7	5
Guinea-Bissau	0	1	0	5	0
Kenya	11	1	14	21	6
Lesotho	2	0	3	6	6
Liberia	–10	4	–5	–44	3
Madagascar	–10	4	–48	5	0
Malawi	1	2	4	7	6
Mali	–6	5	–18	–16	2
Mauritania	5	1	9	13	2
Mauritius	–7	4	2	7	–29
Mozambique	–5	3	–47	7	0
Namibia	12	2	7	1	4
Niger	0	2	–4	6	–1
Nigeria	4	0	13	9	2
Rwanda	–76	7	–53	0	–83

Change in Indicator Rank (2008–09)						
Registering Property	*Getting Credit*	*Protecting Investors*	*Paying Taxes*	*Trading Across Borders*	*Enforcing Contracts*	*Closing a Business*
–2	3	4	5	1	0	0
4	3	3	0	–2	0	1
17	2	3	0	–1	–15	0
–49	3	4	0	1	1	0
–2	2	3	–1	2	0	0
1	4	5	–2	2	1	0
1	19	5	–4	–2	–2	0
1	4	5	–1	4	0	0
0	3	5	1	7	0	0
1	2	5	3	0	1	0
0	2	3	3	2	–1	0
2	4	3	–1	1	0	1
3	3	3	2	2	1	0
6	4	4	0	1	3	0
2	3	4	4	0	–3	0
–9	2	5	7	4	–9	0
7	4	3	3	4	3	1
2	4	1	–1	2	3	1
2	4	3	13	3	–3	0
2	2	1	1	4	0	0
4	3	5	7	–1	2	0
4	0	5	5	–2	16	0
3	4	4	6	0	2	0
2	4	4	6	–5	–1	0
2	–7	4	–21	–2	2	0
1	3	3	–36	3	2	–7
1	3	–4	1	–10	–20	1
12	3	4	–1	2	1	0
–65	3	1	1	–5	–13	0
–3	2	3	5	–2	1	1
1	3	3	4	–1	–3	0
8	3	3	19	1	2	1
0	3	4	12	2	2	0
–21	–86	–144	2	–1	–8	0

Scenario 2, continued

Economy	*Rank Change (a)*	*Indicators Improved (b)*	*Starting a Business*	*Construction Permits*	*Employing Workers*
São Tomé and Principe	0	0	4	5	0
Senegal	5	3	8	3	–1
Seychelles	6	1	12	1	0
Sierra Leone	–8	4	0	3	–1
South Africa	2	0	22	3	3
Sudan	5	1	7	4	–2
Swaziland	1	1	4	2	3
Tanzania	5	1	9	3	–2
Togo	–1	4	–11	7	11
Uganda	6	4	0	4	–1
Zambia	–9	4	22	5	–13
Zimbabwe	–1	3	1	2	–2

Change in Indicator Rank (2008–09)						
Registering Property	*Getting Credit*	*Protecting Investors*	*Paying Taxes*	*Trading Across Borders*	*Enforcing Contracts*	*Closing a Business*
3	2	3	7	2	0	0
2	3	1	–1	–7	1	0
4	3	4	–9	1	6	0
10	–20	–26	–2	2	0	0
1	0	1	0	0	3	0
2	4	3	4	0	0	0
–1	2	0	1	4	0	0
0	3	5	6	3	0	0
–3	3	4	–5	–3	3	0
–7	4	5	–5	0	–2	0
0	–38	3	–3	0	–1	0
–3	4	5	–28	2	4	0

Scenario 3: Hybrid Approach. Countries above the median and showing improvement in five of ten indicators and in corruption, 2008–09.

Economy	*Indicators Above Median*	*Indicators Improved*	*Corruption Median*	*Corruption Change*
Angola	2	2	−1.12	−0.11
Benin	3	1	−0.49	0.01
Botswana	8	3	0.90	0.08
Burkina Faso	6	2	−0.40	0.04
Burundi	3	3	−1.06	0.10
Cameroon	1	1	−0.93	0.05
Cape Verde	3	5	0.76	0.00
Central African Rep.	0	3	−0.90	0.00
Chad	2	0	−1.22	−0.22
Comoros	4	0	−0.69	−0.06
Congo, Dem. Rep.	0	1	−1.04	0.00
Congo, Rep.	1	2	−1.27	−0.10
Côte d'Ivoire	1	0	−1.09	−0.07
Equatorial Guinea	n/a	0	−1.37	−0.24
Eritrea	4	1	−0.60	0.21
Ethiopia	9	3	−0.70	0.04
Gabon	1	1	−0.85	−0.20
Gambia, the	7	1	−0.78	−0.01
Ghana	7	3	−0.17	0.03
Guinea	3	0	−1.33	−0.01
Guinea-Bissau	3	1	−1.11	−0.04
Kenya	9	1	−0.94	−0.05
Lesotho	4	0	−0.19	0.27
Liberia	3	4	−0.41	−0.18
Madagascar	5	4	−0.16	0.07
Malawi	6	2	−0.74	0.18
Mali	4	5	−0.43	−0.07
Mauritania	2	1	−0.50	−0.30
Mauritius	9	4	0.41	0.10
Mozambique	5	3	−0.59	0.07
Namibia	6	2	0.19	0.38
Niger	1	2	−0.89	0.06
Nigeria	6	0	−1.01	0.10
Rwanda	8	7	−0.09	0.13
São Tomé and Principe	1	0	−0.48	0.04

Scenario 3, continued

Economy	*Indicators Above Median*	*Indicators Improved*	*Corruption Median*	*Corruption Change*
Senegal	4	3	–0.51	0.05
Seychelles	5	1	0.04	0.19
Sierra Leone	4	4	–1.02	–0.04
South Africa	7	0	0.32	–0.03
Sudan	3	1	–1.25	–0.23
Swaziland	5	1	–0.47	0.08
Tanzania	7	1	–0.45	–0.06
Togo	2	4	–0.98	0.01
Uganda	7	4	–0.76	–0.01
Zambia	8	4	–0.60	0.12
Zimbabwe	4	3	–1.25	–0.05

A DOING BUSINESS FACILITY

A Proposal for Enhancing Business Climate Reform Assistance

The Supporting Business Climate Reforms Working Group

Advancing Africa's Private Sector Series

ISBN 978-1-933286-46-4

Center for Global Development
1800 Massachusetts Ave. NW
Washington DC 20036

www.cgdev.org