How Can the World Bank Group Improve Its Private Sector Projects in African Fragile States?

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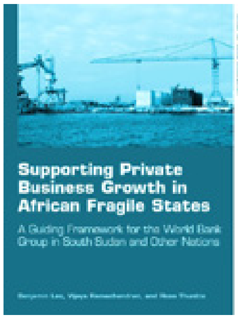
In recent years, the World Bank Group has made increasingly strong and explicit commitments to fragile and conflict-affected states, putting them at the top of the development policy agenda. These commitments are promising, but give rise to significant operational challenges for the various arms of the World Bank Group, including the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The bank also faces steady pressure from shareholders to scale up involvement in fragile states while also improving absorptive capacity and project effectiveness.

In this brief, we assess the bank's private sector interventions in African fragile states. We summarize and analyze project-level data from IDA, IFC, and MIGA, and introduce a new framework which may assist in the design and implementation of projects in fragile states. We argue that to improve its private sector interventions, the World Bank must align its projects with three principal criteria:

1. The constraints that businesses cite as the most binding limitations to growth.
2. The host governments' priorities for business climate improvements or strategic economic sectors.
3. The sectors in which World Bank Group projects have been most effective over time.

The World Bank Group faces significant operational changes over the near to medium term. More than half of poor countries are projected to graduate from the World Bank's International Development Association (IDA) concessional assistance over the next 15 years. As a result, IDA's country client base is projected to become dominated by African fragile states. To its credit, the World Bank Group recognizes these coming changes and the unique needs and constraints present in fragile environments. It has publicly expressed a plan to develop an organization-wide strategy tailored specifically for fragile and conflict-affected situations.



This brief is based on the report *Supporting Private Business Growth in African Fragile States: A Guiding Framework for the World Bank Group in South Sudan and Other Nations* by Benjamin Leo, Vijaya Ramachandran, and Ross Thuotte. CGD is grateful for contributions from the Royal Danish Embassy in support of this work.

The report is available for download and in full text at www.cgdev.org /content/publications/detail/1426061.

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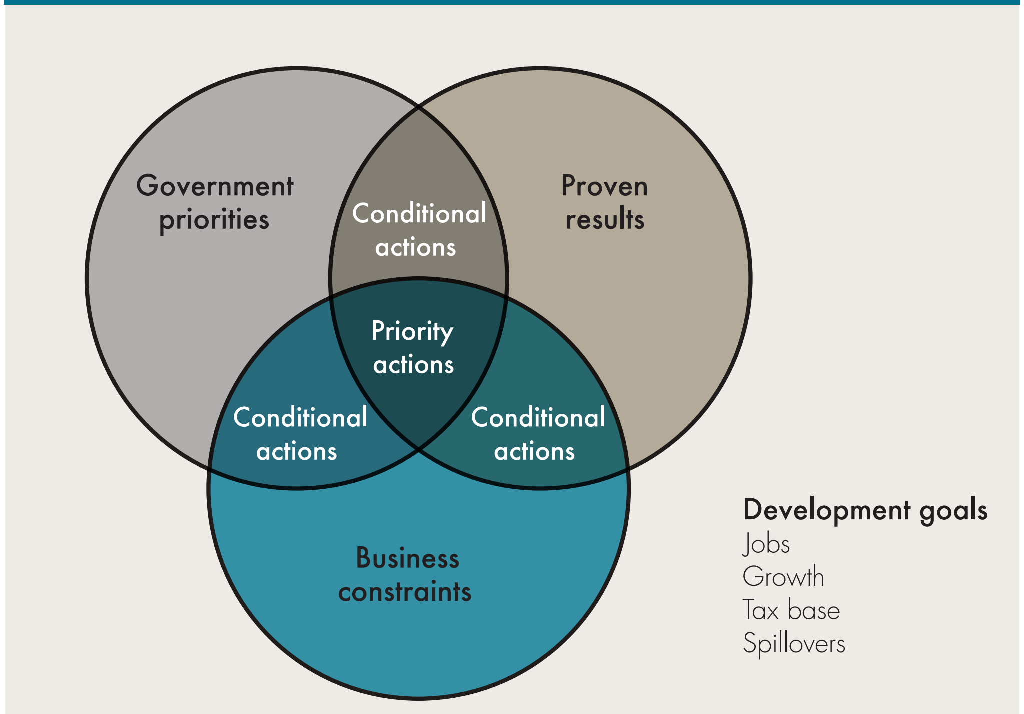
At the same time, private businesses often are able to operate in the absence of stable, well-established governments and therefore can present donor organizations with an attractive pro-growth opportunity in fragile states. The overwhelming majority of African jobs come from the private sector, and private businesses are responsible for some of the most dramatic improvements in the African economic landscape over the past decade. Perhaps most impressive, the mobile telecommunications sector, comprised almost entirely of private firms, generated more than 300 million mobile phone subscribers between 2000 and 2008. Recognizing these issues, the World Bank Group must make business growth a central objective of its future strategy for fragile and conflict-affected states.

Figure 1: Policy design framework for fragile states



The 2012 World Development Report and its subsequent implementation report partially reflect this sentiment. They argue that the organization must "position fragility, conflict, and violence at the core of its development mandate" and that the Bank must "significantly adjust its operations model" to reflect this priority shift. Currently, the World Bank Group is devising a new strategy that will set the tone for Group-wide strategic changes.

Scope and key findings

First, we examine three key private sector–related factors in African fragile states: what businesses cite as the most binding constraints to private sector growth; what government priorities are for business climate improvements or strategic economic sectors; and what types of projects have been more effective over time. This analysis draws upon World Bank Enterprise Survey data, a newly assembled database of African fragile state government priorities, and World Bank Independent Evaluation Group project outcome rating data. Our summary findings include the following:

- Business constraints. On average, the most frequently cited business constraints in African fragile states include electricity (68 percent of survey respondents), access to finance (56 percent), political instability (56 percent), corruption (48 percent), and tax rates (40 percent). See figure 2.

- Government priorities. African fragile state governments have prioritized the following issues: regulatory framework reforms (100 percent of sample countries), transport infrastructure (100 percent), electricity (92 percent), access to and cost of finance (83 percent), and macroeconomic stability (75 percent).

- Project outcome performance. The private sector–related subsectors with the highest project outcome ratings include: telecommunications, oil and gas, transport infrastructure, and trade policy reform. At least half of IDA projects had at least "satisfactory" outcome ratings in these subsectors. The worst-performing subsectors include: port infrastructure; banking; micro, small, and medium enterprise finance; rail infrastructure; and mining.

Table 1: Criteria to build roads in the Republic of Congo

Component	Rationale
Constraints	According to a 2010 World Bank Business Enterprise survey, 57 percent of Congolese businesses cite transport as a "major constraint" to growth
Government priorities	Transport infrastructure is cited as a major constraint to business by the Republic of Congo's most recent Poverty Reduction Strategy Paper
Track record	Between 1980 and 2006, road projects in fragile and conflict-affected countries received an average rating of 2.4 of 5—a relatively high score for projects in these countries
Development goals	Building roads would create near-term jobs for workers while providing a public good for other sectors over the medium to long term. Eventually, the tax base could be strengthened if tax-paying businesses benefited from the road network improvements

See table 1 for an example of the framework's application.

Subsequently, we assess the alignment of World Bank Group operations within these three areas over the last decade. For this analysis, we have assembled a new database covering all World Bank Group operations in fragile states since 1980, which includes current and past fragile states (both African and non-African). Overall, we find that project alignment varies widely across the World Bank Group's three largest subsidiaries—IDA, the IFC, and MIGA. Despite several bright spots, our analysis suggests that strategic changes in the World Bank Group's operations are needed—particularly for the IFC and MIGA. Our summary findings include the following:

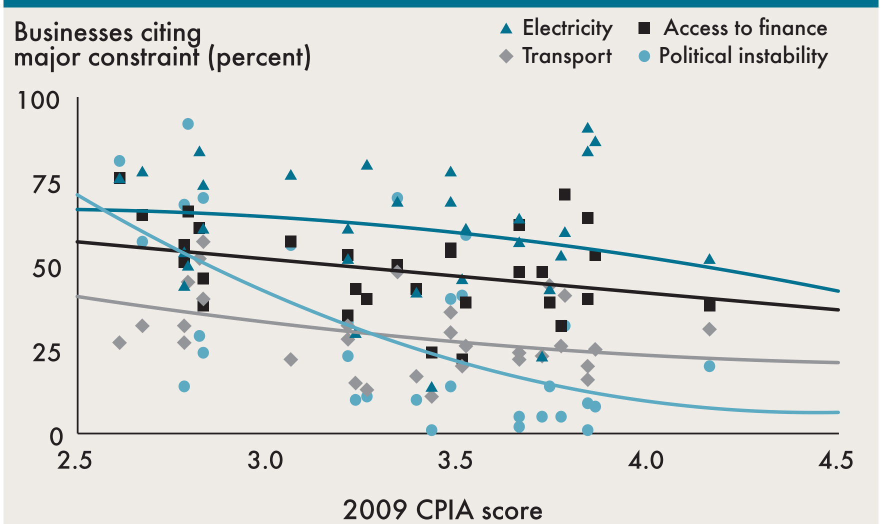
IFC and MIGA alignment performance. IFC and MIGA projects are only modestly aligned with the private sector's most binding constraints or government priorities. Instead, projects have been heavily concentrated in low-risk sectors, such as the extractive sector (between 1980 and 2000). In recent years, this concentration has shifted toward the financial sector (on a project count basis) and the telecommunications sector (on a project value basis). Taken together, IFC activities over time suggest that the organization chooses its investments on a project-by-project basis, rather than implementing a comprehensive, systematic strategy in African fragile states.

IDA alignment performance. IDA exhibits very strong alignment with government priorities and reasonably good prioritization in sectors with higher project outcome ratings. But it has a more mixed performance with respect to focusing on what businesses cite as the most binding private sector–related constraints. By illustration, it has focused a disproportionate share of private sector–related projects on transport infrastructure, which businesses cite less frequently as a "major constraint." On the other hand, IDA has pursued fewer projects focusing on the most binding constraints, such as electricity and access to finance.

Recommendations

Based on this analysis, we propose a new guiding framework for the World Bank Group and other donor institutions for prioritizing private sector–related projects in fragile states. We recommend that private sector promotion policies make three key issues priorities: addressing the most severe constraints to private sector growth; matching the host government's stated priorities; and targeting sectors and subsectors with proven track records, relative to other sectors (figure 1). Moreover, donor policies and projects should also contribute to broader development goals, including job creation, economic growth, broadening and strengthening of the tax base, and positive spillover effects into other economic sectors.

Figure 2: Most frequently cited business constraints in African countries



Source: World Bank Business Enterprise surveys.

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