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Independent Evaluation

The Role and Effectiveness of SECO

Cooperation in Business Environment Reform

Economic Cooperation and Development Division
Evaluation and Controlling

Bern, Juli 2011



Independent Evaluation

The Role and Effectiveness of SECO Cooperation in Business Environment Reform

*Commissioned by the Evaluation and Controlling Section (WECO),
Economic Cooperation and Development Division at the State Secretariat for Economic
Affairs (SECO)*

Bern, July 2011

Content:

- I. Foreword*
- II. Management Response to the Evaluation Report*
- III. Position of the Evaluation Committee*
- IV. Evaluation Report*

Foreword

With the purpose of learning and accountability, the Economic Cooperation and Development Division at the State Secretariat for Economic Affairs (SECO) undertakes regular and systematic evaluations of on-going and/or completed projects, programs or policies in order to identify and to disseminate results about achievements. The aim is to determine the relevance, the development effectiveness, the efficiency, the impact and the sustainability of its different modalities of interventions in partner countries. Based on credible and useful information, evaluations should also enable the incorporation of lessons learned into the decision-making process of both recipients and donors, in order to foster continuous improvements of development support.

The Economic Cooperation and Development Division distinguishes and undertakes three different types of evaluations, namely internal reviews, external evaluations and *independent evaluations*. While internal reviews and external evaluations are under the direct responsibility of the operational units, independent evaluations are commissioned and managed by the Evaluation Function – an independent unit from the operations - and are submitted for discussion to an external Committee on Evaluation, composed of 5 members external to SECO. Independent evaluations are focusing on assessment of sectors, programs, strategies, instruments, country assistance strategies, cross-cutting issues or themes and impact evaluations. On average, the Evaluation Function commissions one to three independent evaluations per year, which can be undertaken jointly with other donors or partner organizations, in line with our commitment to the Paris Declaration. SECO expects evaluations of its development interventions to adhere to the DAC/OECD standards and to the Swiss Evaluation Society (SEVAL) standards.

This report presents the results of the independent evaluation of *the Role and Effectiveness of SECO Cooperation in Business Environment Reform*. In private sector development, SECO focuses its activities on the mobilization of private sector resources in partner countries, with a particular emphasis on SMEs. The work of SECO is organized around three main pillars: i) business enabling environment (BEE), ii) financial sector deepening and access to finance and iii) sustainable management for SMEs. This evaluation concentrates on the first field of intervention, which comprises around 20 projects with a yearly budget of ~10 million CHF. The report evaluates the relevance, effectiveness, efficiency, and sustainability of SECO's support to partner countries. Besides the accountability function, this evaluation shall provide an input to the development of the BEE portfolio in SECO priority countries. This evaluation was conducted as a meta-evaluation, by relying on existing project evaluations and end-of-project reports. Serbia was used as case study country to complement the overall assessment.

The evaluation report was used as reference for the formulation of SECO management response. The results, including recommendations, as well as the management response were then presented to and discussed with the Evaluation Committee, who formulated its position. The management response and the position of the Evaluation Committee are published jointly with the final evaluators' report on SECO website and on the DAC/OECD Evaluation network.

Process:

<i>Conduct of the evaluation and elaboration of the Report</i>	<i>Jan. – June 11</i>
<i>Discussion of the Report with the Evaluation Committee</i>	<i>June 11</i>
<i>Management Response</i>	<i>June 11</i>
<i>Position of the Evaluation Committee</i>	<i>July 11</i>



Management Response

to the

Meta Evaluation of the Role and Effectiveness of SECO Cooperation in Business Environment Reform

By DEVFIN Advisors (Sweden)

June 2011

1) Report structure and methodology

- a) The Report is generally very well structured along a logical table of contents; it addresses most domains and questions of the approach paper.
- b) The Report explains the approach of the consultant team as well as the methodology applied; it is also explicit about the limitations of a meta-evaluation.
- c) The Report provides a very interesting and exhaustive presentation of the current thinking of and on-going international discussion regarding business environment reform (BER) as well the reflections among the donor community active in BER. This is very well documented with abundant references which will be useful for SECO.

2) Report Findings

- a) The Report provides a comprehensive, informed, realistic and balanced opinion about SECO's performance in BER.
- b) We are especially pleased about the evaluators' judgment of our role as "one of the most professional bilateral donors in BER". We have come a long way to achieve this and consider it a recognition of our conscious efforts to focus on BER and make a difference in this field.
- c) We are, overall, satisfied with the assessment regarding effectiveness. The ratings on the different evaluation criteria are a reflection of the complexity of BER which by itself is a challenging undertaking, is relatively difficult to measure and requires considerable expertise and experience on the part of the implementing partners. At the same time, we accept that there is room for improvement, not least in demonstrating the achievement of higher-level results.



3) Report Recommendations

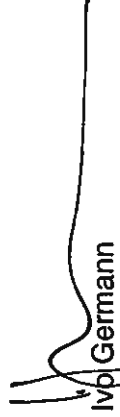
Recommendation	Management response	responsibility	date
a) Promote a stronger results-based management	<p>WE has during the past years continuously strengthened and built up capacities with regard to its M&E system in view of a coherent reporting that allows for results measurement. One important additional measure was the building up of local project-follow-up-structures.</p> <p>This process is challenging and ongoing – in the process of the approbation of the frame-credit 2013 - 2016 discussions for further strengthening the RBM through additional human resources are taking place.</p>	WECO	Ongoing / autumn 2011
b) Enhance Knowledge Management and learning	<p>As the Report points out, SECO's BER work is strongly aligned with the principal policy and donor guidelines in BER, notably the reference work of the Donor Committee for Enterprise Development (DCED). Whilst we have repeatedly considered but until now hesitated to become an active member of the DCED's Business Environment Working Group (BEWG) for lack of capacity, we are aware of the need to strengthen our knowledge management in BER and will re-consider a membership in the DCED-BWEG.</p>	WEIF	2011
c) Deepen the IFC partnership	<p>SECO has a long-standing partnership notably with the International Finance Corporation (IFC), both at the strategic and operational levels and across regions, which we are actively and continuously nourishing by way of developing the BER portfolio and through an open dialogue on outstanding</p>	WEIF	on-going

	<p>and evolving issues, including those mentioned by the evaluators. In this regard</p> <ul style="list-style-type: none"> • We have since long pushed the Corporation and finally been promised that the IFC's accounting systems will allow activity-based budgeting and costing which is not only a requirement to assess projects in terms of efficiency but also an important tool for their steering. • We have repeatedly signaled our desire to move beyond a project approach towards more programmatic approaches which address a specific BER thematic sub-area across countries/regions (e.g. tax simplification) or different BER sub-areas simultaneously in a specific country. The latter is currently being tested in Egypt. • We are constantly seeking to fill a pipeline of IFC-implemented BER projects in the different regions. However, there are limits as to how far we can get because the IFC's regional priorities and resource allocation vary greatly (as of late, there is a very strong focus on Sub-Sahara Africa and Southeast Asia) or because there is a certain strategic mismatch with the IFC focussing on IDA countries and SECO prioritizing middle income countries which has become apparent particularly in the Western Balkans. 	
<p>d) Diversify the network of international implementing partners</p>	<p>In an effort to reduce our dependency on the IFC, we have tested a number of other implementing agencies during the last years, but - as the Report indicates - with mixed results. In the meantime, we have started a collaboration with UNIDO and will try to reach out to DfID, GIZ or USAID, as the evaluators propose. It is noteworthy, however, that such a diversification has trade-offs, most importantly with the goal of strengthening results-based management in BER where the IFC is, and will likely remain, the unmatched leader.</p>	<p>WEIF</p> <p>2012 onwards</p>
<p>e) Try out local implementers ("going alone")</p>	<p>We are also open to explore working directly with local BER experts and implementers and will shortly discuss such a proposition with the</p>	<p>WEIF</p> <p>2011 (Serbia)</p>

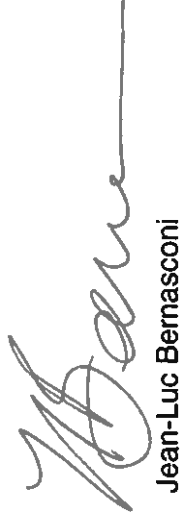
	management of our Cooperation Office in Serbia. However, we will have to carefully consider this option and on a case-by-case basis only. In fact, whilst we agree that the monetary costs of such a delivery model will certainly be lower, the evaluators may underestimate the overall transactions costs. For one thing, the qualifications made above with regard to trade-offs are particularly valid in this case. Moreover, identifying, selecting and supervising local consultants and to discuss, agree on and formalize a BER project with the host government requires a <i>considerable</i> bigger time effort for both SECO headquarters and the concerned field office than to help design, formalize and monitor the same project with an international implementer.		
f) Strengthen cross-cutting issues	We agree on the need to better reflect the contribution of BER projects to economic governance and the fight against corruption in particular by way of dealing with these issues in the progress and results-reporting. In fact, an important aspect of systemic BER is to foster a transparency and accountability culture across the public administration, for instance through access to information regulations. We also concur that we must aim to mainstream climate change and environment issues into BER projects. Efforts to this end are already underway, for instance in the case of Peru where a SECO-funded project will help to establish and apply green building codes and thus increase the energy efficiency of the housing sector.	WEIF	on-going
g) Test new approaches in BER	<p>We recognize that BER is a rapidly evolving area. In this context,</p> <ul style="list-style-type: none"> • we are prepared to push beyond the 'level-playing field' agenda and also support competitive industry growth jointly with the private sector by way of business environment reforms at the sub-national and sector levels. • We will increasingly focus on more complex and demanding BER endeavors which address pressing issues for the private sector simultaneously across the business cycle (business entry, operations, exit) 	WEIF	2011 onwards

	<ul style="list-style-type: none"> We will seek, to the extent possible, to also valorize specific Swiss know-how and expertise in BER (a promising avenue is alternative dispute resolution), although we believe that increased efforts to this end will more likely succeed in other domains of private sector development such as financial intermediation, corporate governance, etc. 		
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Berne, July 8, 2011


Ivo Germann

Head, Private Sector Development Division


Jean-Luc Bernasconi

Head of Operations

**Position of the External Committee on Evaluation on the
Independent Evaluation: The Role and Effectiveness of SECO Cooperation in
Business Environment Reform and
SECO/WE Management Response**

During its sixth meeting on June 24, 2011 the External Committee on Evaluation (the Committee) discussed the Independent Meta Evaluation: The Role and Effectiveness of SECO Cooperation in Business Environment Reform (BER) prepared by Devfin Advisers from Sweden as well as the accompanying Response by SECO/WE Management to its findings and recommendations.

The evaluation report focuses on the role and effectiveness of SECO's cooperation in the challenging BER area. The latter is defined as *"the complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate."* SECO's cooperation over the last ten years reflects the rapid growing interest in the development community, academic institutions and media in the issue of Business Enabling Environment and its influence on economic growth and poverty reduction. International donors have been working under the leadership of the World Bank Group (WBG), in particular the International Finance Corporation (IFC). Today the Doing Business Report prepared each year by the WBG assesses and ranks the reform willingness and performance of 183 countries in the BER area. Such willingness strengthens the prospects for growth as sensible regulations not only make it easier for new firms to get started, but also helps established firms change direction and not profitable enterprises declare bankruptcy.

The Committee welcomed the overall quality of the evaluation report. The report is well structured, is based on a solid methodology in assessing the SECO/WE's portfolio including through the Serbia case study, provides a

comprehensive presentation of the current international discussion and experience on BER, recognizes its own limitations, and comes to relevant findings and commendations for the future. The constructive criticism has been appreciated by SECOWE's staff and will increase their commitment and motivation. Like SECO/WE's Management the Committee appreciated the strong focus on the emerging lessons from the international support of BER and the well documented experience of the most important multilateral and bilateral donors in the BEE area.

One of the conclusions from the evaluation is that *"SECO stands out as one of the most professional bilateral donors in BER"*. *"In spite of its smallness SECO can act as a good partner to organizations such as the World Bank and IFC"*. Beyond any intent of complacency and being aware that there is room for further improvement, the Committee considers that these are important messages in view of the upcoming parliamentary debates for a new framework credit for development cooperation during the period 2013-2016.

At the same time the Committee considered that there is room for further improvement in the quality of independent evaluations in two specific areas. First of all the main strategic orientations and features of the Swiss development cooperation policy in general and of SECO/WE activities in particular should be better incorporated in the reports. This could lead to even more pertinent, updated and practicable recommendations for the future. This aspect is especially challenging for evaluations made by foreign consultants. Second the challenging area of political economy needs to be analyzed in-depth as businesses in developing countries struggle with twice the burden of regulation as those in high-income countries. Almost two-thirds of the world's workers are still employed in the informal sector. This is just a reminder of how far there is still to go in getting business regulations right. Against this background the voice of the private sector has to be especially sought and considered.

The Committee was pleased to see that SECO/WE's Management generally agrees with the main findings and recommendations. The Committee broadly agreed with the main findings and recommendations.

Nevertheless the Committee expressed some caveats or different views with respect to four main aspects included in the evaluation report. First, on the recommendation to diversify the network of international implementing partners, the Committee did not see any valid reason for reducing the dependency on the IFC.

IFC remains the unmatched leader in the BEE area and SECO/WE is well advised to continue its fruitful collaboration with this institution. Second, the evaluation report assesses positively the sustainability of several reforms in the BEE area. This is a welcome result. At the same time one should not forget that the main focus of initial reforms in many developing countries is on improving legislation and that does not lead necessarily to improved outcomes and sustainable results at the implementation level. Third, some important cross-cutting issues related to governance, endemic corruption and environment have not been analyzed in the evaluation because of their intrinsic complexity. Such aspects remain of key importance for the sustainability of BEE reforms. Fourth, many findings and recommendations are relevant not only for SECO's priority countries but also for low-income countries, including for SDC's priority countries. This aspect should be highlighted in the drafting of the next SECO/SDC Message to the Parliament and concrete actions should be proposed to ensure implementation by SECO/WE of certain BER activities based on its expertise in selected SDC's priority countries.

In conclusion the Committee recommends the disclosure of the independent evaluation report on the Role and Effectiveness of SECO Cooperation in Business Environment Reform as well of SECO/WE Management Response and the Position of the Committee on SECO internet website.

Chairman of the External Evaluation Committee:



Pietro Veglio

Committee Members:

Gilles Carbonnier

Susanne Grossman

Felix Gutwiller

Christoph Stückelberger

META EVALUATION

THE ROLE AND EFFECTIVENESS OF SECO COOPERATION IN BUSINESS ENVIRONMENT REFORM

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June 9, 2011

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ACRONYMS

ADA	Austrian Development Agency
AfDB	African Development Bank
APDF	African Project Development Facility
AsDB	Asian Development Bank
BEE	Business Enabling Environment
BER	Business Environment Reform
BEWG	Business Environment Working Group
BiH	Bosnia & Herzegovina
CCS	Compliance Cost Savings
CHF	Swiss Franc
DAC	Development Assistance Committee of the OECD
DB	Doing Business
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development (UK)
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ETCF	Early Transition Country Fund
ES	Enterprise Survey
FIAS	Facility for Investment Climate Advisory Services
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
GOS	Government of Serbia
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labour Office
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MPDF	Mekong Private Sector Development Facility
NAED	North Africa Enterprise Development
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PENSA	Program for Eastern Indonesia SME Assistance
PEP	Private Enterprise Partnership
POVNET	Poverty Reduction Network
PSD	Private Sector Development
QRW	Quick Response Window
RIA	Regulatory Impact Assessment
SCM	Standard Cost Model
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium Enterprises
SCTM	Standing Conference of Towns and Municipalities (Serbia)
TA	Technical Assistance
ToR	Terms of Reference
USAID	United States Agency for International Development
WBG	World Bank Group
WDR	World Development Report
WEIF	Private Sector Development Division (of SECO)

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EXECUTIVE SUMMARY

The evaluation and its purpose

This report is about a meta-evaluation carried out in the spring of 2011 of the role and effectiveness of SECO's cooperation in Business Environment Reform (BER). In line with the Donor Committee on Enterprise Development (DCED), BER is here defined as "the complex of policy, legal, institutional, and regulatory conditions that govern business activities. It is a sub-set of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate."

As defined in SECO's Approach Paper (Annex 1), the purposes of the study are:

- accounting for results and achievements of SECO projects, in the form of (i) contributions to reducing the main costs of doing business for the private sector as well as barriers to competition (i.e. barriers to entry, barriers to exit); and (ii) supporting partner countries in their sustainable and environmentally friendly economic development;
- reviewing the strategic orientation of SECO in the area, incl. learning lessons and providing recommendations regarding the future SECO Business Enabling Environment portfolio in the priority countries.

The methodology

The evaluation is based on four approaches:

- a literature review with the purpose of identifying current trends in the theory of BER;
- a review of the experience of support for BER by selected other donor agencies and current *best practices* in the donor community;
- assessment of a portfolio of 19 SECO financed business environment reform projects carried out during the 2000s in terms of results and achievements according to the DAC criteria (relevance, effectiveness, efficiency, sustainability); and
- a case country study in Serbia with the focus on SECO funded BER projects, analysed in the context of on-going business environment reforms in the country, other donors activities in this field, and the Switzerland's Cooperation strategy for Serbia.

The assessment of the SECO portfolio is based on secondary sources in the form of results-reporting from the selected projects. This includes external evaluations, mid-term reviews, implementing organisations' progress reporting and final reports, as well as SECO's Decision and Completion Notes. A meta-evaluation of this type opens up interesting opportunities for cross-portfolio comparisons. At the same time, the available reporting sets some constraints especially considering that there are quality variations between evaluation reports and that there are important aspects which most evaluation reports do not look into, for example SECO's cross-cutting themes economic governance, environment and climate.

We have used a rating system for each of the OECD/DAC criteria on *relevance*, *effectiveness*, *efficiency* (defined as the ratio between inputs and outputs) and *sustainability*, using SECO's rating system of four grades (from highly unsatisfactory to highly satisfactory). In addition, we have assessed the projects in terms of *cost-effectiveness* (defined as the ratio between

inputs and outcome), and SECO's *additionality*, i.e. what is SECO's specific contribution to the projects.

The conclusions from the emerging 'theory of BER'

In the early 2000's there was a rapidly growing interest in the issue of Business Enabling Environment (BEE) and its role in economic growth and poverty reduction. The World Bank Group (WBG) played a decisive role for setting BEE on the development agenda, e.g. by dedicating two World Development Reports to this topic. In 2002 the WBG launched the Doing Business (DB) Project which provides objective measures of business regulations and their enforcement relating to small and medium-size companies. The annual DB reports, country rankings and indicators are frequently cited in both developing and industrialised countries. The Doing Business work by the World Bank and IFC has defined much of the focus in BER. The DB annual reports constitute a bench-mark for countries and the donor community. They often stir media debates on Governments' willingness or lack thereof to reform business environments. The DB has also paved the way for a flow of projects in business environment reform implemented by IFC and other organisations, a flow in which also SECO participates.

The importance of the ranking and performance in DB is, however, disputed by some influential economists in terms of its impact on business competitiveness, and even more so with regard to broader development objectives such as job-creation, economic growth and poverty reduction. There is, for example, an issue of the impact of business environment reform on the informal sector, in some countries accounting for the majority of jobs especially for the poor. Added to this, a debate is on-going on the relative merits of policies that underline the importance of improving the investment climate for all firms (i.e. creating "a level playing field") versus policies targeted at specific sectors or firms (often called an "industrial policy" approach). The WBG has responded to this criticism by economic research giving evidence of the linkages, and also by developing increasingly more sophisticated methods to measure impact, for example in terms of cost-savings for the private sector resulting from reforms. Recently the WBG has also become much more open to considering industrial policy approaches as part of its support to private sector development.

A generic results chain

Results chains are part of the logical framework approach and play a central role in results based management and results measurement. In order to facilitate our review and assessment of individual projects in SECO's BER portfolio, we designed a generic results chain defining *outputs* as the delivery of proposed new laws, standards, procedures, etc; *outcome* as the results as actual changes in a country's regulation and reduction of the administrative burden on businesses, reflected in, for example, private sector cost-savings. *Intermediate impacts* are defined as job creation, new investments etc while *ultimate impacts* are economic growth, economic opportunities for poor people etc. Key indicators have been identified for each level as described in Annex 6.

Best practices and donor experience of BER

Support for BER is dominated by a few donors. Besides the World Bank and IFC which are the clear leaders, the EU, USAID, GTZ and DFID also play essential roles among large donors. While belonging to the group of smaller donors, SECO has a relatively broad and active engagement in BER. The experience in the donor community in BER indicates the importance of the political economy of reform. Difficulties in achieving lasting impact are often due to vested interest, rent-seeking, etc by government officials. Public-private sector

dialogue is one means of overcoming resistance. Through the work of the WBG and the Business Environment Working Group (BEWG), a sub-group under the Donor Committee on Enterprise Development, *best practices* are systematically developed for BER in the donor community. Such best practices are used in our evaluation to assess SECO's performance. It shows that SECO is performing quite well against these practices. We note, however, that SECO is not part of the BEWG.

SECO's BER portfolio

The SECO portfolio comprises entirely of projects implemented by partner organisations. IFC dominates among these with 13 of the selected 19 projects. Other implementing organisations are EBRD, UNCTAD, GTZ and FUNDES, a Latin American NGO. The portfolio to which SECO contributes is characterized by considerable heterogeneity. For example:

- there is a range from smaller single country projects over a few years to programs which have lasted for decades with budgets of several hundred million USD;
- SECO's share of the funding of the projects/programs ranges from 2% to 100%;
- there is a mixture of projects in the portfolio from those entirely focussed on BER to multi component PSD projects/programs with small BER interventions, and
- the portfolio contains global projects as well as regional, national and sub-national.

Assessment of SECO's portfolio

SECO's portfolio has, overall, shown good results in delivering *outputs* in the form of new laws, elimination of unnecessary regulations, streamlining of procedures, modernisation of regulations and their implementation, providing training and capacity building. With few exceptions, the SECO projects deliver what they are set out to do.

In terms of *outcome* – implemented reforms – the results have been reasonable in the portfolio as a whole. For example, in terms of ranking in the Doing Business, countries with SECO BER projects have with few exceptions done better than the average for all countries. In terms of outcome in the form of *cost savings by the private sector* due to easing of the administrative burden and overall reduction of red tape, there are clear attempts in many of the portfolio projects to quantify such results. The portfolio includes projects which claim savings of over USD 200 million annually as in Serbia, to projects with minimal savings such as in Indonesia. These results seem more to depend on methodology in results-measuring than the performance of the projects, indicating that the underlying methodologies are problematic for comparison. On-going work is taking place in IFC to create a more streamlined approach for such assessments.

In terms of *intermediate impact* of the portfolio projects, e.g. *job-creation and investments* which can be attributed to the projects, only two projects have a result-reporting attempting to assess this (IFC projects in Burkina Faso and Egypt). The most elaborate of the evaluations reviewed - a comparative study of IFC projects in four African countries including a SECO supported Burkina Faso project - attempted to quantify job-creation and investments triggered by the reforms. While the results were positive in Burkina Faso, the contributions in a national context were marginal. Overall, we cannot from this meta-evaluation make any generalised statement on impact on job-creation, new registration of firms or investments. This is disappointing, but probably a reflection of the fact that attribution challenges increase the further we move along the results chain.

There is a total absence of analysis of *ultimate impacts* on economic opportunities, improved livelihoods for poor people, integration in regional and global markets and sustained economic growth in all the result-reporting from the projects. Hence, no statement can be made by us on this.

Assessment according to the OECD/DAC and other criteria

The evaluation concludes that there is overall a good degree of *relevance* in SECO's work in business environment reform. In our assessment we found that 75% of the projects in the portfolio can be considered satisfactory or highly satisfactory in terms of relevance. Such relevance is assured by a several factors: pre-project work by, for example, the WBG, identifying needs and problems at country level; usually a clear demand of support for reform by governments; considerable experience in business environment reform built up over the years especially by IFC and indirectly by SECO; and a flexibility in project design with a continuous learning while doing. The projects which were rated less than satisfactory had either a marginal BER element in a multi-component project, or were implemented in a sub-standard fashion.

If *effectiveness* is measured against expected outcome in terms of institutionalised reforms, the portfolio has, overall had a mixed result with slightly over half of the projects rated satisfactory or highly satisfactory. This category is dominated by IFC implemented projects, indicating that IFC is a professional organisation in BER, while SECO's experience with most other partners has been disappointing.

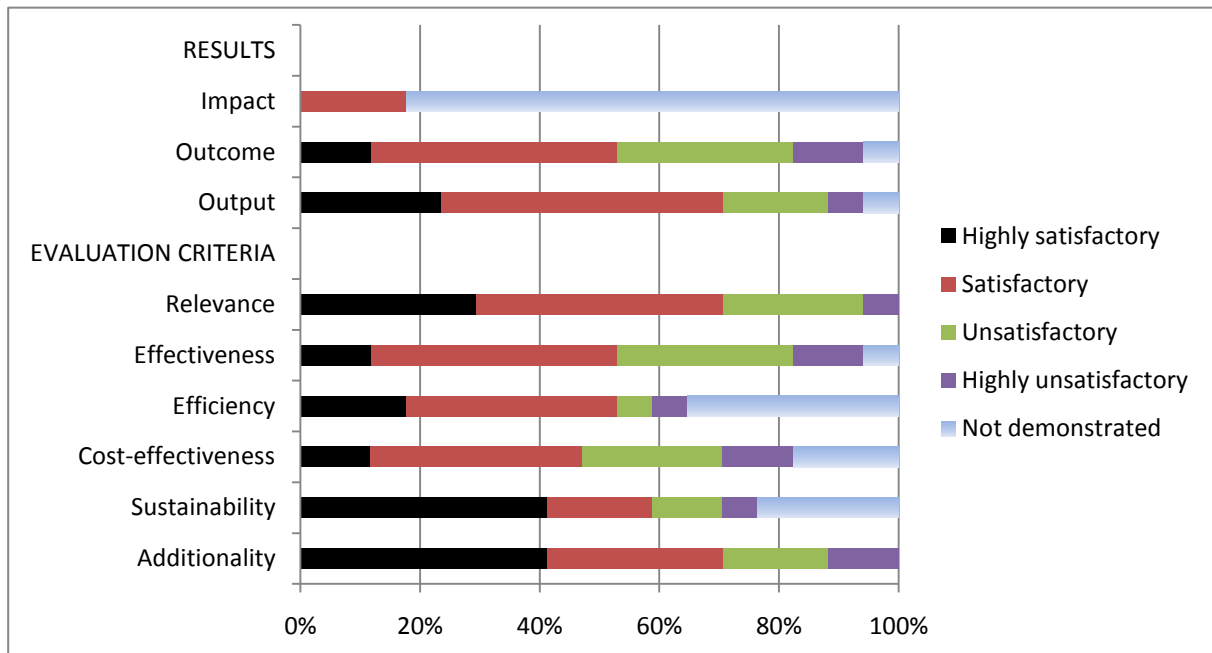
Existing result-reporting indicates that the portfolio is overall *efficient*, with over 80% of the rated projects judged as satisfactory or highly satisfactory in this respect. However, we often must question such statements due to lack of evidence. Although the quality of management of projects, reporting standards etc. are usually found to be satisfactory, costs are rarely analysed and possibilities to undertake comparisons between different projects and approaches are not available.

Sustainability is overall likely to be good for the SECO projects. In our assessment nearly 80% of the projects had a satisfactory or highly satisfactory rating in this respect. Strong political pressure on reform in most countries assures that results will be maintained. The DB reports contribute to this by creating transparency on performance. With the caveat that the cost-dimension of the portfolio tends to be poorly assessed, we have nevertheless rated slightly more than half of the portfolio as reasonably *cost-effective*. One criteria used is the ratio between overall cost of the project and the expected costs-savings by the private sector due to reforms.

The *additionality* of SECO to the portfolio appears to be significant for 80% of the projects. While there are a few projects for which SECO's additionality probably is near zero (the projects would have been carried out at the same scope and format anyway), many projects would probably not have taken place without the Swiss support. The additionality in terms of inputs into design, supervision, quality control etc. is difficult to determine due to lack of reporting on this, but at least for some projects this can be assumed to be substantial. SECO has been an active and engaged partner especially with the IFC and the World Bank.

Our rating of the portfolio in terms of results (output – outcome – impact) and various evaluation criteria are summarised below.

Results at each level of the results chain according to our assessment based on results reports on SECO's BER portfolio¹



Result of the Serbia case study

SECO's involvement in business environment reform in Serbia was relevant given the government's on-going reform program triggered by competitiveness concerns as well as for future EU membership. The three projects in Serbia (Commercial law in cooperation with GTZ; Insolvency law and standards in cooperation with EBRD and a Sub-national competitiveness project implemented by IFC), all produced good results in terms of outputs and outcome. However, SECO can only take credit in one of these, the sub-national competitiveness project. For the other two SECO either had a minor and short role in a large and long-term project (GTZ); or left at the stage when not much had been achieved (EBRD) to claim any real value for its funding in terms of achieving results. The sub-national competitiveness project, on the other hand, was a success and heralded as such by national and local authorities, as well as the donor community. It will, if implemented properly, provide considerable savings to the private sector and enhance regional competitiveness.

The Swiss office in Belgrade plays a strong role in BER and there appears to be good synergies with other Swiss projects, for example the M4P program undertaken by SDC. There was also clear conformity to the Swiss Cooperation strategy for the period.

Lessons learned

Our conclusions from the meta evaluation is that SECO is a *professional organisation* which today has strong insight into various dimensions of business environment reforms vested in its key staff. In spite of its smallness SECO can act as a good partner to organisations such as the World Bank and IFC. In our experience, SECO stands out as one of the most professional bilateral donors in BER. The management procedures of SECO as reflected in decision and completion notes, the active participation in donor meetings, report requirements from partners, etc. are indication of a *good management culture* in BER. However, SECO can do more to assure 'value for money' by applying better results-based management techniques.

¹ The details of our assessment are described in chapter 5 and annex 7

Learning in SECO in BER has been effective as a result of project experience and through the cooperation with the WBG. However, SECO has a low profile in other donor learning mechanisms. For example, SECO is not a member of DCED-BEWG, a key international platform for policy coordination and knowledge management in the field of BER. Notwithstanding, SECO is overall applying current *best practices* in BER, mainly as a result of its reliance on professional partners such as IFC and the World Bank, which themselves are leading in developing such practices. SECO is sufficiently informed of the practices being developed in BER.

The desire for *visibility* is a strong feature in SECO's work, triggered by demands on the organisation from its constituency, the Swiss parliament. Visibility has been and continues to be a problem in BER, however, as SECO relies on other organisations for project implementation. SECO appears not to have drawn upon *the Swiss business sector* as a resource base in its business environment work, nor the operations of SIFEM. In this context, on-going work by DCED-BEWG on innovative approaches to engaging the international private sector in BER may provide SECO with interesting ideas.

SECO's strategic orientation – suggestions for the future

We recommend that SECO continues and if possible deepens the good cooperation with the World Bank Group, the clear leader in BER today. Such deepening might include that SECO:

- engages IFC to deliver better analysis of actual costs of outputs which can lead to operative standards and project comparisons on efficiency.
- takes a stronger position on external and independent evaluations of supported projects, also including 'smaller projects' and with a stronger involvement in the design of such evaluations, for example in the formulation of Terms of References;
- develops a joint strategic framework for long-term cooperation, for example by defining thematic sub-areas in BER that SECO wants to focus upon given an analysis of SECO's own and Swiss comparative strengths (in this context it might e.g. be interesting to consider the field of sub-national reforms); and
- jointly with IFC develops a more extensive pipeline of projects fitting SECO's prioritising of countries. The orientation of such BER projects must be based on sound needs assessments.

Dependency on IFC has drawbacks, however. IFC's direction might not coincide with SECO's country and subject matter focus, and visibility is an issue. In order to reduce the dependency on IFC as an implementing organisation, we suggest that SECO broadens partnerships and explores possible cooperation with other leading BER organisations such as USAID, DFID and – in spite of the mixed record in Serbia – also GTZ. We suggest also that SECO on a trial basis should initiate its 'own' business environment reform projects through working directly with local organisations and using local (and other) resources. This will add visibility, provide clear additionality and possibly provide better *value for money* through lower costs. We have outlined a concept note for such a 'new-style' SECO-BER project in Serbia, building on the successful sub-national project, focusing on deepening and spreading these reforms at municipality level; utilising SECO's competence both centrally and locally, and implemented directly by SECO using the extensive local expertise. For obvious reasons such an approach will put demands on SECO's human capacity and administration budget, but not necessarily at a much higher level than the approaches which previously have been applied.

SECO should also, as a funder, promote overall stronger results-based management. Thus, we suggest that SECO:

- establishes a mechanism by which all of its funded projects are subject for an external review or evaluation, and that financial resources for this is allocated at the decision stage;
- takes a stronger position in implementing agency organised reviews and evaluations in terms of including assessment of cost-effectiveness and *value for money*;
- periodically initiates independent evaluations (in co-financed projects jointly with other donors) of more substantial projects implemented by partner organisations;
- in its own reporting (Decision notes for new phases and Completion notes) makes a critical assessment of SECO's *additionality* to the projects; and
- includes assessment of the 'societal' impact of the BER support as a complement to the business perspective in terms of potential effects on the regulatory effectiveness, revenue streams to the public sector, impact on *rent-seeking*, etc. Especially environmental impact and impact on corruption are essential in line with SECO's policy, issues today rarely dealt with in existing reporting.

In terms of the *strategic orientation* within business environment reform this must clearly be based on sound needs- and problem analysis from country to country and case to case. However, in terms of own specialisation, three areas stands out where SECO both has a record and a comparative advantage: taxation, financial policy and regulation, and sub-national reforms.

Finally we suggest that SECO should seek new approaches in business environment reform and more broadly in private sector development. This might include:

- focusing on 'resistance to change' and 'change mechanisms', exploring the opportunities to use techniques and systems today used in management and corporate governance, and overall add focus on the longer-term implementation of reform;
- as an alternative to the '*levelled playing field*' approach exploring different avenues, more based on identifying potential competitiveness edges of nations and overall support countries in identifying their niches in a global economy; and
- drawing more strongly upon Swiss unique competences as a model, for example its decentralised governance, unique competencies in specific industrial sectors such as in pharmaceuticals, engineering, food, etc. Exploiting such uniqueness would be most effective means to achieve visibility and additionality in Swiss development cooperation in addition to add value in the donor context.

A SECO strategy for business environment reform is not required. However, SECO might consider drafting a broader PSD strategy taking into account most recent learning in PSD as well as exploring SECO's and Switzerland's unique competence and comparative advantage in this field. If such a strategy would focus on the new 'industrial policy' trend in PSD, it could contribute to SECO's future work, and possibly also to the thinking in the donor community. We believe that as much as poor countries can learn from the successful emerging economies in the East, there is to learn from the European economic history pursued by the smaller states characterised by a private sector development based on human rights and respect.

1. INTRODUCTION

1.1 Purpose of the report

In March 2011 the Swiss State Secretariat for Economic Affairs (SECO) commissioned the consultancy group Devfin Advisers to undertake a Meta Evaluation of the Role and Effectiveness of SECO Cooperation in Private Sector Development (PSD) – Business Environment Reform (BER).

The purposes of the study were, according to SECO's Approach Paper (**Annex 1**):

- 1) Accounting for results / achievements, i.e. assessing the extent to which:
 - i. SECO interventions in the partner countries have contributed to the objectives of reducing the main costs of doing business for the private sector (i.e. the burden of regulations, the burden of taxes, and the cost of finance) as well as barriers to competition (i.e. barriers to entry, barriers to exit);
 - ii. SECO interventions in PSD-Business enabling environment have contributed to SECO's overall aim of supporting partner countries in their sustainable and environmentally friendly economic development.

- 2) Reviewing the strategic orientation of SECO in the area, incl. learning lessons and providing recommendations regarding the future SECO Business Enabling Environment (BEE) portfolio in the priority countries. The second purpose relates among others to the following questions, discussed in the context of private sector development:
 - i. What is a functional demarcation between 'overall business environment framework' and other areas of PSD, such as access to finance, investment climate or corporate governance, and (accordingly)
 - ii. What are the best / most relevant approaches to supporting BER?

1.2 Methodology

The evaluation comprises four elements in line with the Approach Paper:

- A review of a portfolio of SECO financed Business Environment Reform projects carried out during the 2000s utilising existing results-based reporting from these projects such as evaluations and mid-term reviews. Nineteen such projects were identified for the evaluation as further elaborated below.
- A case country review with the focus on all recent BER-related projects with SECO funding. Serbia was chosen as the country because it benefitted from several SECO supported BER projects. Serbia also belongs to the priority countries for Swiss assistance.
- A literature review with the purpose of identifying current best practices and trends regarding PSD-BER support; and
- A review of the experience of BER by selected other donor agencies.

The evaluation was carried out between March and May 2011. Besides the review of documents and interviews by phone, skype or e-mail with various stakeholders, the evaluators have met with SECO staff in Bern three times, and participated in the PSD Forum in April in Washington DC which gave an opportunity to discuss selected SECO-funded IFC projects. The evaluators also undertook a one-week mission to Serbia in early May. In **Annex 2** persons interviewed are listed, **Annex 3** includes documents and literature consulted and **Annex 4** provides a list of all documents concerning the portfolio projects consulted.

We constructed at the outset of the evaluation an Assessment Sheet to be used for all the projects reviewed. This sheet provides basic projects data, information of the OECD/DAC key indicators for evaluations, evidence of results along the list of indicators common for BER interventions, etc. for each of the projects. All the Assessment Sheets for the projects which are part of the evaluation were submitted to SECO for review as a means of quality control. These assessments are provided as a separate working paper file to this Evaluation. See **Annex 5** for the structure of the Assessment Sheet.

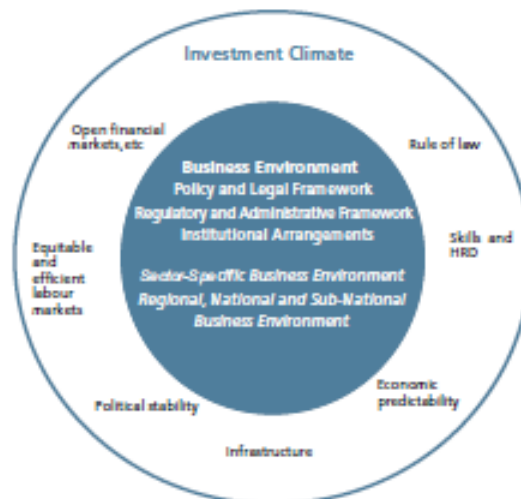
1.3 Definition of some key terms

The concepts of Business Environment, Business Enabling Environment and Business Environment Reform are today well established in the donor community through the work of organisations such as the Donor Committee for Enterprise Development (DCED), IFC and other the World Bank. A commonly accepted definition of **Business Environment** is as follows:

“The complex of policy, legal, institutional, and regulatory conditions that governs business activities. It is a sub-set of the **investment climate** and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate (e.g., government agencies, regulatory authorities, and business membership organisations including businesswomen associations, civil society organisations, trade unions, etc.)”²

DCED illustrated the distinction between - on the one hand - the Business Environment and - on the other - Investment Climate as shown below.

Figure 1: Business environment as a sub-set of the investment climate concept



Business Environment Reform is defined, for example by IFC, as “efforts to create a more effective environment for investment and business development, to create what is frequently termed a **Business Enabling Environment**”.³ BER interventions are intended, in the view of IFC, to:

² Donor Committee for Enterprise Development, DCED (2008), *Supporting Business Environment Reforms: Practical Guidance for Development Agencies*

³ IFC (2008): *The Monitoring and Evaluation Handbook for Business Environment Reform*; Washington DC

- Support a more stable operating environment - creating a market-oriented economy where the private sector (whether small or large firms) can operate efficiently and effectively without unnecessary hindrance.
- Influence policy and legal reforms – to reduce the direct and opportunity cost of doing business without removing protections necessary for human health and safety of the environment.
- Strengthen institutions - to ensure that reforms in the business environment are properly designed, implemented and enforced in a transparent and equitable manner.⁴

In this evaluation we have used the definitions above, including seeing *business environment reforms* as a means to establish an *enabling business environment*, an objective. We also pay attention to the fact that BER should not only be seen as a means to improve market conditions, stimulate investments, etc, but that the functions and the effectiveness of the legal and regulatory institutions governing business from a societal point of view (for example environmental protection) should be an integral part of BER.

1.4 Defining key evaluation terms

In line with OECD/DAC's terminology and with SECO's Approach Paper, we have assessed the portfolio projects in terms of *relevance*, *effectiveness*, *efficiency* and *sustainability*. In addition to the standard terms, we have also assessed the projects in terms of *cost-effectiveness* and (SECO's) *additionality*. Efficiency is here defined as the ratio between cost of inputs and outputs delivered, while cost-effectiveness is the ratio between cost of inputs and the delivered outcome. For a definition of terms, see chapter 5. We have used a *rating system* for the criteria above, using SECO's four degree scale. See further chapter 5.

1.5 Reliability and validity of findings

The Evaluation depends on secondary sources in the form of available results-reporting from the selected projects. This includes external evaluations, mid-term reviews, the implementing organisations' progress reporting and final reports, and SECO's Completion Notes.⁵ The quality of such reporting determines the robustness of our findings. The content and quality of the result-reporting varies greatly. While some of the results-reporting available for the chosen projects are of good quality and based on sound methodologies, there are also examples of the reverse. Furthermore, some projects have no external results-assessment and available information is produced by the implementing organisation with its risk of bias. In general, the results-reporting is a key issue for a donor such as SECO which entirely depends on intermediaries for its support in BER. This is further discussed in the concluding chapters of this report.

1.6 Limits of the evaluation

This evaluation is dealing with SECO's support for Business Environment Reforms only. In some projects reviewed, BER is one of several components in a Private Sector Development context. While not always easy, we have in such cases made an effort to single out the BER work and not reviewed the performance of other elements of the project.⁶

⁴ IFC (2008)

⁵ In order to construct the objectives and assumed results-chains, SECO's Decision notes have also been consulted, i.e. the memorandum which SECO prepare as a basis for deciding on funding a project.

⁶ A project reviewed by us might be effective and relevant overall by an evaluator, while the BER component might be neither in our assessment.

2. SWISS SUPPORT FOR PRIVATE SECTOR DEVELOPMENT

2.1 The overall picture

Two agencies are responsible for carrying out Switzerland's aid program: the Swiss Agency for Development and Cooperation (SDC) of the Federal Department for Foreign Affairs and the State Secretariat for Economic Affairs (SECO) of the Federal Department of Economic Affairs. Switzerland's Official Development Assistance (ODA) stands currently at about CHF 2,4 billion per annum (2010) or about 0,4% of GDP.⁷ Of this, about CHF 250 million is channelled through the State Secretariat for Economic Affairs.⁸ SECO is Switzerland's competence centre for all issues relating to economic policy. Thus, SECO deals with economic policy, labour issues, promoting Swiss businesses abroad, world and foreign trade, Switzerland's relation with the EU and business services such as accreditation. The organization is mainly focusing on such issues concerning Switzerland, but has also a department⁹ for Economic Cooperation and Development under its Foreign Economic Affairs Directorate. The responsibilities, objectives and focus of the department are

“...planning and implementing economic development cooperation with developing countries in the South, transition countries in Eastern Europe and Central Asia and the new EU states (enlargement contribution). The Division's main aim is to support the sustainable integration of these countries into the world economy and to promote their economic to help reduce poverty. The priorities include strengthening competitiveness, trade diversification, mobilising domestic and foreign investment, improving basic infrastructure and promoting stable economic conditions. Particular emphasis is placed on energy, environmental and climate issues. Good governance is a basic requirement for cooperation.”¹⁰

2.2 SECO's priority countries

For the period 2002-08 SECO defined 26 countries/regions as priority for its operations. These were reduced to 16 in a new priority list for 2009-12. These are indicated in the Figure 2 below:

Figure 2: SECO priority countries

“South”	“East”
SS Africa: (Burkina Faso) Ghana, (Mozambique), South Africa, (Tanzania), North Africa and Middle East: Egypt, (Jordan, Morocco, Tunisia)	Europe: Albania, Bosnia-Herzegovina, Macedonia, Kosovo, Serbia
Asia: (China), Indonesia, (India) Vietnam	Asia: Azerbaijan, Kyrgystan, Tajikistan, Ukraine
Latin America: (Bolivia, Central America) Colombia, Peru	

Countries in bracket were priorities 2002-08, but lost this status in 2009 with a new priority list. From 2012, SECO will define new priorities. These are not ready yet, but might mean a further reduction of countries in the East.

⁷ Data from Swiss Agency for Development and Cooperation's (SDC) official homepage, www.sdc.admin.ch

⁸ SDC is the main channel with a budget of about CHF 1,5 billion

⁹ The terms department and division are sometimes used with the same meaning in the official documents.

¹⁰ SECO (2008), *The State Secretariat for Economic Affairs. A portrait*. Bern

2.3 SECO's Private Sector Development and Business Environment Reform support

Private Sector Development is one of the tasks of the Economic Cooperation and Development department, handled by its Private Sector Development Division (WEIF).¹¹ This division defines its mandate as mobilisation of private sector resources in partner countries, primarily Small and Medium Enterprises (SMEs), in order to create jobs, introduce new technologies, broaden the tax base and play a key role in the process of economic integration at the global and regional level through commercial flows.¹² WEIF divides its work in three 'business lines':

- 1) Business Enabling Environment;
- 2) Financial Sector Deepening and Access to Finance; and
- 3) Sustainable Management for SMEs and Financial Intermediaries.

This evaluation is limited to the operations of WEIF concerning business line 1. Thus, we are dealing with a fairly small segment of SECO's operations, and even smaller part of the Swiss ODA in general. According to SECO's Approach Paper, the annual volume of BER support is in the order of CHF 10 million. Of SECO's total allocation for development co-operation this is about 7%. Of the total Swiss aid budget it is only 0,4%.

2.4 SECO's Business Environment Reform portfolio

SECO identified 23 projects as its BER portfolio in the Approach Paper for this evaluation.¹³ As a result of a consultation process, this portfolio was modified and eventually 19 projects were identified for the evaluation.¹⁴ It was agreed that all these projects would be included in the evaluation and also that the full project cycle to the extent possible would be covered if there were several phases with SECO funding. The final portfolio with key data is given in table 1 below.

Table 1. The SECO portfolio of Business Environment Reform projects and programs

Project	Impl. org.	Period	Country coverage	Funding SECO share	BER share
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¹¹ Other functions of the department are policy formulation for development cooperation, monitoring and evaluation, macroeconomic support, infrastructure financing, trade promotion, cooperation with multilateral organisations, and the Swiss contribution to the enlarged EU.

¹² SECO (2010), *Private Sector Development: Towards Better Access to Finance and Business Conditions for the Private Sector*

¹³ This list included several phases of the same project in a few cases

¹⁴ In this modified list different phases were combined of the same projects, a few projects were excluded as poorly fitting the criteria BER, and a few more were added.

1. African Project Development Facility (APDF)	UNDP/IFC	1986 - 2005	Sub Sahara Africa (40) countries	Total USD 124 million; 12 donors SECO 7,2 mill. (6%)	< 5%
2. Simplification of Administrative Processes for Business Regulation Phase 1-2	FUNDES	1995-2010	Regional Latin and Central America	Total: USD 3,1 mill (2002-10) SECO: USD 3,1 mill (2002-10) 100%	100%
3. Mekong Private Sector Development Facility (MPDF)	IFC	1996 - 2013	Vietnam, Lao, Cambodia	Total: USD 50 mill (2008-13); 5 donors SECO: USD 4 mill (2008-13) 8%	14%
4. North Africa Enterprise Development (NAED)	IFC	2002-04	Algeria, Egypt, Morocco	Total: USD 20 mill; 4 donors SECO: approx. USD 3.25 mill (16%)	16%
5. Program for Eastern Indonesia SME Assistance Phase I and II PENSA	IFC	2003-ongoing	Indonesia	Total USD 40 mill (2003-2008), 7 donors SECO: CHF 4 mill ≈ 8% (presently 10%)	17% (presently 30%)
6. Advisory Services on Investment and Training	UNCTAD	2000 - 12	Global	Total: USD 8,4 mill. 15+ donors SECO: USD 4,1 mill (25%)	100%
7. UNCTAD Advisory Services on Investment and Training – Quick Response Window (QRW)	UNCTAD	1997-2008	SECO priority countries	Total: USD 1,8 mill SECO USD 1,8 mill (100%)	100%
8. Foreign Investment Advisory Services (FIAS)	IFC/IBRD	1989 - ongoing	Global	Total: USD 33 mill (2009) 15+ donors SECO: USD 1,8 mill (2009) 5%	100%
9. Early Transition Country Fund (ETCF)	EBRD	2004-ongoing	Eastern Europe and Central Asia	Total: EUR 46 mill (as of 2008) 12 donors SECO: EUR 1 mill, (2%)	7% +
10. Private Enterprise Partnership (PEP Africa)	IFC	2005 - 15	Sub Sahara Africa	Total: USD 149 mill (by 2008) 15 + donors SECO: No core funding	10% ?
11. Investment Climate Africa Program in Burkina Faso	IFC	2006-10	Burkina Faso	Total USD 2,8 mill SECO: USD 2,0 mill. (71%)	100%
12. Private Enterprise Partnership Advisory Services Program (PEP-ECA)	IFC	2000- 15	Eastern Europe and Central Asia	Total: USD 87 mill. (as of 2008) 25 donors SECO No core funding	
13. Investment Climate Project Azerbaijan	IFC	2008- 13	Azerbaijan	Total: USD 10,3 mill SECO: USD 5,6 mill (54%)	10% ?
14. Sub-national Competitiveness Project Bosnia & Herzegovina	IFC	2008–11	Bosnia & Herzegovina	Total: USD 3,0 mill SECO: USD 0,4 mill (13%)	100%
15. Sub-national Competitiveness Project Serbia	IFC	2007-10	Serbia	Total: USD 1,1 mill SECO: USD 0,5 mill (50%)	100%
16. Business Enabling Environment Uzbekistan	IFC	2001-08	Uzbekistan	Total: USD 1,8 mill. SECO: USD 1,7 mill (94%)	100%
17. Business Start-up Simplification project in Egypt	IFC	2008-ongoing	Egypt	Total: USD 0,8 mill.(08-09) SECO: USD 0,5 mill (08-09) (63%)	100%
18. Commercial law reform	GTZ ¹⁵	2001-2010 2005-07 (SECO)	Serbia	Total: EUR 8 mill SECO: EUR 0,15 mill (2%)	100%
19 Technical Cooperation Fund Concerning Secured Transactions and Creditors' Rights	EBRD	2004-07	Albania, Azerbaijan, Moldova, Serbia	Total: EUR 1,5 mill. SECO EUR 0,3 mill. (20%)	100%

Several of the identified projects above are part of larger programs. This is the case with the projects in Azerbaijan (13), Bosnia & Herzegovina (14), Serbia (15) and Uzbekistan (16). These projects are under the umbrella of the IFC program Private Enterprise Partnership Advisory Services (12), a large scale multi-donor PSD program which was started in 2000

¹⁵ The German aid organisation GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) has recently been merged into GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit). This report uses the GTZ acronym throughout, however.

and in its current phase will end 2015. SECO has a framework agreement with IFC for this program under which no core funding takes place, but SECO is funding a number of specific PSD projects including the four BER projects mentioned above.¹⁶

The same format applies to the project in Burkina Faso (11) which is a project under a SECO framework agreement for IFC's Private Enterprise Partnership Program in Africa (PEP Africa) (10). The latter program is a continuation of an earlier IFC program with SECO funding, the African Project Development Facility APDF (1), a program started already in the mid 1980s. Taken together APDF and PEP Africa constitute a three decade technical assistance effort for Private Sector Development in Sub Sahara Africa with a total budget in the order of near USD 300 million, efforts which SECO has been part and parcel of since the beginning.

2.5 A heterogeneous portfolio

As shown in table 1 above the SECO portfolio is characterised by:

- Considerable heterogeneity, from single country projects over a few years to regional or global projects/programs which have lasted for decades with budgets of several hundred million USD; 11 of the 19 projects are regional or global.
- SECO's share of the funding of the projects/programs ranges from 2% percent to 100% funding; for 7 of the 19 projects SECO is the dominant funder.
- There is a strong dominance of IFC as the implementing organisation, accounting for 13 of the 19 projects in the portfolio.
- The portfolio is a mixture of projects entirely focussed on BER, and multi component PSD projects/programs with smaller BER interventions. 11 of the 19 projects are fully BER projects.

¹⁶ Further examples of these linkages are the two IFC sub-national competitiveness projects in Bosnia Herzegovina and in Serbia, indicated above. These projects are part of the IFC Western Balkan Investment Climate Programme, which in turn is a part of the IFC PEP ECA programme. The Western Balkan Programme comprises six projects in total, all of which are co-funded by SECO. Besides BiH and Serbia, the program includes also similar projects in Albania and Montenegro, and a Doing Business sub-national project.

3. THE EMERGING LESSONS FROM SUPPORT OF BUSINESS ENVIRONMENT REFORM – THEORY AND PRACTICE

3.1 An evolving concept

In the early 2000's there was a rapidly growing interest in the development community and in academia for the business enabling environment and its role in economic growth and poverty reduction. The World Bank Group played a decisive role for setting BEE on the development agenda, e.g. by dedicating two World Development Reports (WDR) to this topic. The WDR 2002 was titled "Building Institutions for Markets", while WDR 2005 once more highlighted the subject in "A Better Investment Climate for Everyone". In 2006 the OECD/DAC confirmed the broad donor interest for BER in its document "Promoting Pro-Poor Growth" in which it described the evolving pro-poor growth agenda moving from "target firms and sectors directly" to "promote enabling environments for pro-poor growth, focusing on market outcomes."¹⁷ The UN-initiated Commission on Legal Empowerment of the Poor contributed to putting the emphasis on the importance of the legal system for poverty reduction.¹⁸

In 2002 the WBG launched the Doing Business (DB) Project¹⁹ which provides objective measures of business regulations and their enforcement relating to small and medium-sized companies through their life cycle. The DB measures differed from most previously available indicators which to large extent were based on perceptions among firms rather than hard facts. The annual DB reports have become flagship media products for the WBG and its rankings and indicators are frequently cited in both developing and industrialised countries. They often stir media debates on Governments' willingness (or lack thereof) to reform business environments. Today the DB project reports annually on 183 economies and also covers selected cities at the sub-national and regional level. There have been substantial internal discussion within the WBG, and some member countries have raised criticism against various aspects of the DB project. After an evaluation by the WBG Independent Evaluation Group some indicators were revised.²⁰

In parallel with this development, prominent academics like Joseph Stiglitz and Dani Rodrik as well as multilateral institutions like UNCTAD and UNIDO criticised what they saw as an exaggerated focus on improving the business environment for all firms and argued that in all fast-growing countries the state has played a much more active role than merely the creator of a "level playing field".²¹

Since the financial crisis in 2008-09 there seems to be an emerging consensus to move beyond debates on whether or not governments should apply "industrial policy", and instead focus on what kind of economic policies that work and in what circumstances. In its "Growth Report"²² and subsequent publications, the prestigious Growth Commission contributed to such knowledge by analysing the experience of the 13 countries which since 1950 have grown at an average rate at more than 7% a year or more for 25 years or longer.

¹⁷ Box 5.1 in OECD (2006); *Promoting Pro-Poor Growth: Key Policy Messages*.

¹⁸ Commission on the Legal Empowerment of the Poor (2008), *Making the Law Work for Everyone*

¹⁹ www.doingbusiness.org

²⁰ Independent Evaluation Group (2008), *Doing business: An Independent Evaluation, Taking the Measure of the World Bank-IFC Doing Business Indicators*, The World Bank

²¹ See for example Rodrik, D. (2008); *Second-Best Institutions*; American Economic Review, Papers and Proceedings, May 2008

²² The Commission on Growth and Development (2008), *The Growth Report Strategies for Sustained Growth and Inclusive Development*

3.2 Dimensions of BER

SECO has identified the following focus areas for support to BER:²³

- business laws and regulations
- simplification of company registration
- contract enforcement laws
- insolvency & bankruptcy laws
- property laws and land titling
- labour laws & regulations

In addition SECO pays special attention to measures that affect the *commercial financial sector* (creditor's property rights, collateral enforcement, credit information systems and the regulation of financial products).

This way of describing BER is well in line with DCED's description of "functional areas" in its guidance document on support to BER.²⁴ However, it should be observed that DCED includes the following additional areas:

- improving tax policies and administration
- public-private dialogue processes
- improving access to market information.

In its description of the functional areas DCED clearly emphasises that BER support does not only include the elaboration of new laws and regulations, but also the development of the procedures and administrative structures required for a well-functioning BEE. DCED also emphasises that BER interventions may be carried out on *different levels of the economic system*: (i) the regional, (ii) the national and (iii) the sub-national level. The need and relevance of BER interventions at specific system levels obviously vary depending on the governance system in each country and region. Given the fact that many policies and institutions are sector-specific, some BER interventions are *focussed on specific sectors*. One example is agriculture where the pro-poor impacts are likely to be substantial.²⁵

3.3 How can the results of BER interventions be measured?

The last decade has seen a rapidly growing interest in the development community in the measurement of results of donor interventions. Several major actors in the field of private sector development have launched ambitious initiatives to improve the basis for results measurement. Among the most important initiatives is "The DCED Results Standard for Measuring Achievements in Private Sector Development" which provides a basic framework for quality assurance of result measurement.²⁶ The standard underlines the central role that *results chains* play in results measurement.

The DCED Results Standard illustrates the measurement challenges that face BER interventions. It states that "some programs (for example improving the business environment) are creating pre-conditions for development outcomes, rather than stimulating

²³ SECO (2010)

²⁴ Donor Committee for Enterprise Development, DCED (2008)

²⁵ Donor Committee for Enterprise Development, DCED (2008)

²⁶ See www.enterprise-development.org/page/measuring-and-reporting-results. The background to the launching of DCED's results standard is described in Tanburn, J. (2008); *The 2008 Reader on Private Sector Development: Measuring and Reporting Results*

actual change.” Although this standpoint may be exaggerated, it seems indisputable that “attribution (and measurement of impact) may be more difficult in such cases.” It is also obvious that BER programs may have difficulties measuring the three “universal impact indicators” (i) *scale*, measured in terms of number of target enterprises, (ii) *net income* accrued to target enterprises and (iii) *net additional jobs created* defined in the Results Standard in a rigorous way. These impact indicators are usually easier to apply to other types of PSD interventions like e.g. value chain interventions or provision of business services.

Against this background it is interesting to take account of the recent initiatives taken by the World Bank/IFC to improve results measurement in general and more specifically for BER programs. These initiatives are documented at IFC’s “Results Measurement Portal”²⁷ and described in detail in a handbook which contains a wealth of information on BER results measurement.²⁸

Interesting elements of this initiative include

- the “Standard Core and Supplemental Indicators for Business enabling Environment Projects” which were introduced by IFC in 2008.²⁹ To judge from our review of recent progress IFC reports, mid-term reviews and evaluations, these indicators have been applied to all BER programs and contributed to a clear improvement of IFC’s results measurement.
- the development of a methodology to track and aggregate the number of “significant results/reforms” generated by BER projects
- the introduction of a standardised model to estimate the cost savings³⁰ accruing to the private sector as a result of reforms
- the recent launching of a project aimed at improving the assessment of the economic impact of BER projects³¹, and
- the continued development of the Doing Business and Enterprise Surveys data bases.

It could also be mentioned that the last few years have seen an increasing availability of data at the sub-national level produced by the Doing Business project as well as by others like e.g. the Asia Foundation.³² We will revert below to how such tools can be applied in practice to assess results of projects within SECO's BER portfolio.

3.4 A generic results chain

Results chains are part of the logical framework approach and play a central role in results based management and results measurement. The OECD/DAC defines a results chain as follows: “The causal sequence for a development intervention that stipulates the necessary sequence to achieve desired objectives beginning with inputs, moving through activities and outputs, and culminating in outcomes, impacts and feedback.”³³

²⁷ www.ifc.org/results

²⁸ IFC/GTZ/DfID (2008)

²⁹ www.ifc.org/ifcext/rmas.nsf/content/home

³⁰ The “Compliance Cost Savings” (CCS) model developed by IFC provides a standard impact measure to demonstrate project results and aggregate across a broad range of products and countries.

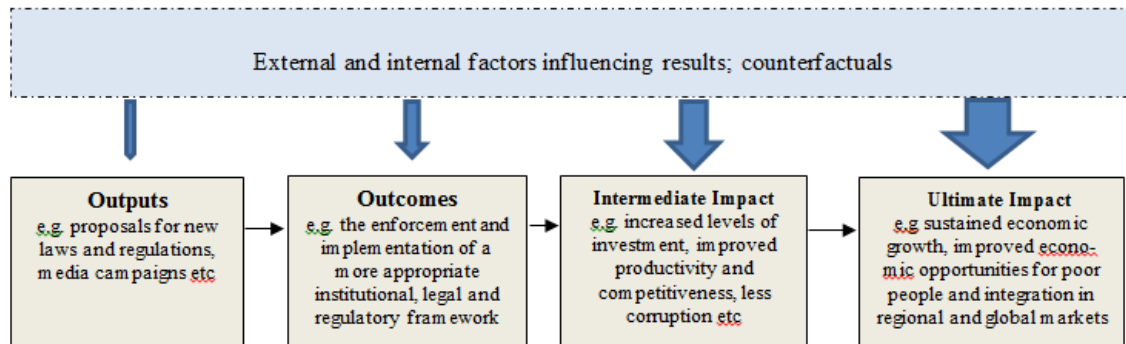
³¹ Information provided during a presentation by representatives of FIAS to the BEWG in April 2011

³² Asia Foundation (2007), *Local economic governance in Indonesia; a survey of businesses in 243 regencies/cities in Indonesia*

³³ OECD/DAC (2002); Glossary of Key Terms in Evaluation and Results Based Management

Our review of SECO’s BER portfolio during the last decade demonstrates certain problems in the application of a logical framework and results chain’s methodology. Only during the last few years a consistent application of such approaches has been noted. This problem is not unique to SECO. Donors frequently seem to experience problems in defining impact logic. In order to facilitate our review and assessment of individual projects in SECO’s BER portfolio, we have designed a generic results chain. See **Annex 6** which includes examples of indicators at output, outcome and impact levels and the simplified in Figure 3 below.

Figure 3: The generic result chain



This results chain principally follows the structure of IFC’s standard core indicators referred to above. One difference is that at the impact level we have made a distinction between *intermediate impacts* on the behaviour and performance of firms and *ultimate impacts* on macro-economic growth and economic opportunities for poor people.

3.5 What do we know today of the assumed linkages?

For obvious reasons it is not realistic to expect that impacts of BER interventions on poor people could be assessed in the framework of this Evaluation based on the type of rigorous experimental methodology that is increasingly applied to some types of interventions, e.g. microfinance programs. Instead we have to “open the black box”³⁴ and assess each link in the results chain between the BER intervention and its ultimate plausible impact on poor people. When we move along the results chain towards the ultimate impact level, the measurement and attribution of the results of a donor intervention becomes more and more complex.

From activities and outputs to outcomes

Outcomes of support to BER are described in terms of changes in institutional, legal and regulatory frameworks at regional, national or sub-national level. E.g. proposals for new legislation elaborated within the frame of a BER project are supposed to result in changes in the BEE which may be measured by Doing Business or other types of indicators. This part of the result chain could be seen as reasonably unproblematic and easy to measure. However, two issues arise. First, the actual implementation of policy proposals is not always “an easy drive”. The political economy including actors with vested interests in the status quo often creates huge challenges. We will revert to this issue below.

The second issue is about the way changes in the BEE are measured and assessed. The Doing Business indicators today play a prominent role as targets for BER projects. However, as

³⁴ Reference is made to Bourguignon, F. and Sundberg, M. (2007); *Aid Effectiveness – Opening the Black Box*, World Bank paper

pointed out in a recent working paper by i.a. Hallward-Driemeier and Pritchett,³⁵ there are large discrepancies between the *de jure* situation as measured by the DB indicators and the *de facto* situation, i.e. way things actually work out for individual enterprises. E.g. the DB indicators say that it takes 65 days to start a business in Ecuador, whereas the 265 firms responding to an Enterprise Survey (ES) show a *large variation* in their responses to a question on the time needed for getting an operating license: with the 10th percentile reporting 1 day, and the 90th percentile reporting 60 days. The authors also found *little cross-country association* between the ES distributions and the DB numbers and little association over time between *changes* in the DB indicators and the ES averages. While it should come as no surprise that there are differences between the *de jure* and *de facto* measurement of the BEE, the findings by Hallward-Driemeier and Pritchett raise issues about the relevance of the BER interventions with a strong focus on the country's DB ranking.

From outcomes to intermediate impacts

Improvements in the BEE are expected to impact on the behaviour of firms and lead to higher productivity, more investments, increased competitiveness, more jobs etc. Due to the problems of defining plausible counterfactuals, i.e. describing what would have happened without the donor intervention, assessments usually seem to be limited to *before and after comparisons*.

The difficulties are illustrated in a recent study on IFC support to reforms in four countries in Africa.³⁶ In respect of the impact of reforms on business registration the study comments that all four countries “experienced an increase in business registration during the period of implementation of IFC projects.” However, it was shown that “the positive trend sometimes pre-dates the launch of IFC operations” and “is influenced by a host of other factors, such as the more or less buoyant conditions of the economy”. In many cases it does not seem realistic that evaluations of donor interventions should be able to measure the extent to which observed changes in firm behaviour could be attributed to this specific intervention.

In such cases, donors rather have to look for what the growing body of ***economic research based on firm-level evidence*** can say about the average causal effects of changes in the business environment. A recent overview of research on the impact of business entry reforms³⁷ states that “evidence from both micro-econometric and cross-country studies as well as from firm demographics studies shows that reforms to ease business entry are associated with increases in the number of new firms and sustained gains in economic performance, including improvements in employment and productivity.”

Another study³⁸ provides a broader overview of the impact of changes in the business environment. This study underlines that the effects of BER are heterogeneous; “they vary across industry, complementary institutions and initial conditions.” It also mentions that “most research using investment climate data cannot establish causality convincingly.” However it finds that some elements of the business environment, “such as basic protection of property rights against government expropriation, labour flexibility, and low entry and exit

³⁵ Hallward-Driemeier M., L. Pritchett and G. Khun-Jush (2010); *Deals versus Rules: policy implementation uncertainty and why firms hate it*; NBER Working Paper 16001. A related paper with a similar discussion is Hallward-Driemeier M. and L. Pritchett (2010); *How Business is Done and the 'Doing Business' Indicators: The Investment Climate when Firms have Climate Control*; CID Working Paper No. 211

³⁶ Economisti Associati srl (Italy); (2011); *Investment Climate in Africa Program, Four Country Assessment*

³⁷ Motta, M et.al. (2010), *An open door to firms* The World Bank Group, Viewpoint, Note Number 323

³⁸ Xu, C. (2010), *The effects of business environment reforms on development*, World Bank Policy Research Working Paper 5402

barriers are found invariably to be important in explaining economic performance in various economic contexts.”

From immediate to ultimate impacts

Ultimate expected impacts of BER interventions include higher economic growth, enhanced economic opportunities for poor people (leading to reduced income poverty) as well as increased economic integration in regional and global markets. Although there is a huge field of econometric research and discussion on the linkages between economic growth, income distribution and poverty reduction, not much of this work deals with the direct and indirect impacts of BER on poverty reduction.

A recent evaluation³⁹ by IFCs Independent Evaluation Group assessed the poverty impact of IFCs investment operations as well as its advisory services. The evaluation highlights that “growth is good for the poor, but the impact of growth on poverty reduction depends on both the pace and pattern of growth.” The report states that “IFC needs to adopt a more strategic approach to assessing poverty, including sharpening the definition and shared understanding of poverty and poverty impact” and that “IFC needs to make explicit in its interventions the underlying assumptions about how projects can contribute to growth and patterns of growth that provide opportunities for the poor.”

We have previously referred to the criticism by parts of the international research and development community against a one-sided focus on regulatory reforms for creating “a level playing field”. One example is a paper from 2008, commissioned by GTZ, BMZ and UNIDO, which claimed that “there is no evidence that policies aimed at establishing a ‘level playing field’ are pro-poor and appropriate to lift the workforce in the informal economy out of poverty.”⁴⁰ This paper focussed at Sub-Saharan Africa and highlighted five distinctive structural deficits of the region’s enterprise structure: a) widespread and rising informality; (b) a “missing middle” and lacking upward mobility of enterprises; (c) weak inter-firm linkages; (d) low levels of export competitiveness; and (e) lack of innovation capabilities.

One important dimension of poverty is the high degree of ***informality and the barriers to formalisation*** in most low-income countries. This issue has attracted increasing interest in recent years, e.g. by influential actors such as the High Commission on the Legal Empowerment of the Poor⁴¹ and OECD-DAC’s Poverty Reduction Network (POVNET).⁴² Both have high-lighted the fact that around 80% of employment in the least developed countries is informal, and that consequently the various dimensions of informality are of huge importance for poverty reduction. Informality was also the topic for the major conference organised by DCED in Cape Town 2010 (“Business Environment reform and the Informal Economy”). The background document to that conference gives a good overview of measures that may contribute to increasing the poverty impact of BER interventions.⁴³

³⁹ Independent Evaluation group (2011), *Assessing IFC’s Poverty Focus and Results*, International Finance Corporation (IFC)

⁴⁰ UNIDO, GTZ, BMZ (2008), *Creating an enabling environment for private sector development in sub-Saharan Africa*

⁴¹ Commission on the Legal Empowerment of the Poor (2008), *Making the Law Work for Everyone*

⁴² OECD-DAC (2007), *Promoting Pro-Poor Growth: Policy Guidance for Donors* contains a section on private sector development with recommendations on “removing barriers to formality” and on “implementing competition policy in developing countries”

⁴³ Zinnes, C. (2009), *Business Environment Reforms and the Informal Economy*, DCED

A recent case study financed by SECO on the impact of a business licensing reform on a baseline of 600 informal firms in Lima provides an interesting illustration of the complexities of formalisation.⁴⁴ The study showed that formalisation had no significant impact on the performance of the firms which had acquired an operating license within the frame of the licensing reform. This illustrates the observation in other studies that a change in one variable within the business environment could not in isolation be expected to have a strong impact on firm behaviour.

3.6 Lessons from theory for the evaluation

The following remarks can be made from the discourse on the emerging theory of BER which are of relevance for the Evaluation:

- The Doing Business work by World Bank and IFC has set much of the agenda for BER, and the DB annual reports make a strong bench-mark for countries and the donor community;
- The importance of a country's ranking and performance in DB is disputed in terms of business behaviour and competitiveness, and its link to a country's economic performance in general;
- The linkages between DB performance and broader development objectives such as economic growth and poverty reduction cannot be established in evaluations of individual projects due to counterfactual and attribution issues;
- There is an issue of the impact of business environment reform on the informal sector, in some countries accounting for the majority of jobs especially for the poor;
- There is an on-going debate between the 'level playing field' proponents and 'industrial policy' champions, with a current shift towards the latter.

⁴⁴ Alcázar et.al. (2010), *Panel/tracer Study on the Impact of Business Facilitation Processes on Enterprises and Identification of Priorities for Future Business Enabling Environment Projects in Lima, Peru*, Group for the Analysis of Development (GRADE)

4. EXPERIENCE OF OTHER DONORS

4.1 The donor landscape in BER

In the previous chapter we have described the growing interest in the development community and academia for the role of the business enabling environment in economic development. This interest was reflected in the initiative in 2001 by a group of bilateral and multilateral donors to create a “Working Group on SME Enabling Environment”. Although its name was changed in 2004 to the “Business Environment Working Group” (BEWG), this group remains today as one of the most active sub-groups under the Donor Committee on Enterprise Development. The BEWG functions as an international knowledge platform in the BER field. It has made major efforts to document and disseminate donor experiences from support to BER. All this is published on DCED’s web site (www.businessenvironment.org). Well-documented international conferences on BER were organised in 2006, 2008 and 2010. Based on a thorough analysis of donor experiences the BEWG published in 2008 a guidance document for donors on BER.⁴⁵ A central part of this document was the *key principles* for donor support to BER, which are listed in Box 1. These principles may be regarded as the most recent expression of established *good donor practise* in the BER field.

Box 1: Key Principles of Business Environment Reform Support

1. Adopt a systemic approach to reform
2. Understand and respond to the political economy of reform
3. Respond to and stimulate the demand for reform and drivers of change
4. Ensure domestic ownership and oversight of reform efforts
5. Strengthen the role and capacity of key stakeholders
6. Focus on what the private sector needs through public-private dialogue
7. Focus on the binding constraints to business growth and scope reforms accordingly
8. Sequence business environment reforms and allow time
9. Address the implementation gap
10. Formulate a communication strategy and use media strategically
11. Work with government as the lead agent
12. Align business environment reforms with national development plans
13. Ensure good donor coordination
14. Balance international and national expertise
15. Promote quality assurance in development agency support of business environment reform.

Source: DCED Practical Guidance for Development Agencies, 2008

Since the publishing of this document, BEWG has initiated a process of mapping and reviewing donor policies and practise in the field of BER. An in-depth mapping of four BER donors - IFC, ILO, GTZ and the Netherlands - was presented in 2009.⁴⁶ Although some agencies were later added, it is still not quite easy to get a full overview of the “donor landscape” regarding support to BER. This is partly because many agencies do not describe BER as an aid sector, but rather see it as an integral part of support to private sector development.

Dominance of the World Bank Group

⁴⁵ Donor Committee for Enterprise Development, DCED (2008)

⁴⁶ DCED Business Environment Working Group (2009), *Reviewing the Policies and Practice of Donor-Supported Business Environment Reform*

Although hard data are difficult to find, our clear impression is that BER stands out as an area where one agency, i.e. the World Bank Group with IFC as the main actor, exercises a more dominant role than in most other aid areas. This position is based on the combined strength of IFC in knowledge generation, including generation of major knowledge products such as Doing Business and Business Survey reports, and in the provision of advisory services with substantial in-house technical resources. It is not surprising that all this gives IFC a strong role in policy formulation and coordination of donor support to BER.

A major evaluation in 2009 by IFC's Independent Evaluation Group⁴⁷ mentioned that IFC's staff for advisory services (covering all Technical Assistance areas) had expanded from 168 persons in 2001 to 1,262 in 2008. The evaluation provided a "high level comparison" of IFC's delivery approach with that of other development institutions. It pointed out IFC's cost-sharing principles as well as its monitoring & evaluation systems including standardised performance indicators as areas of comparative strength.

Besides IFC there are three bilateral donor agencies, USAID,⁴⁸ DFID⁴⁹ and GTZ, which stand out as agencies with internal capacity for knowledge generation as well a capacity to run major bilateral projects in BER. The smaller bilateral agencies in countries such as the Netherlands, Sweden, Norway and Denmark often rely upon IFC for implementation of BER projects. Taking the example of Sweden, Sida is today involved in only three major BER interventions of which two are implemented by the IFC. In addition Sida finances a number of projects focussed at specific BER dimensions, such as trade policy, land tenure, labour markets etc, involving other partners than IFC.

UN agencies like UNIDO, ILO and UNCTAD usually integrate BER activities in larger programs in their respective areas of competence. Finally, it should be mentioned that regional development banks like EBRD, EIB, IDB, AfDB and AsDB finance BER activities and, in some cases such as EBRD, are also directly involved in the provision of advisory services for BER.

4.2 Selected project experiences

Country-level reviews of donor support to BER are presently being carried out in three pilot countries (Kenya, Rwanda and Bangladesh). So far only the report from the Kenya review is available.⁵⁰ This review provides good illustrations of institutional and political challenges to business environment reforms in developing countries. The post-election political upheavals in Kenya in 2009 slowed down the pace of reforms, but also helped donors to position BER in a broader framework of democracy and governance. The Kenya Private Sector Donor Group provided a valuable platform for exchange of information and coordination between donors. Little evidence was found of impact measurement. Institutional incentives within donor agencies seemed to be much more geared towards preparing for new phases of support than towards measuring the impact of previous phases.

⁴⁷ Independent Evaluation group (2009), *Independent Evaluation of IFC's Development Results, Knowledge for Private Sector Development*; International Finance Corporation (IFC)

⁴⁸ USAID (2007), *Policy Reform Lessons Learnt: A Review of Economic Growth Related Policy Reform Activities in Developing Countries*

⁴⁹ White, S. and P. Fortune (2005), *Review of DFID Activities in the Enabling Environment*

⁵⁰ White, S., L. Winton and S. Engels (2010), *Review of Donor-Supported Business Environment Reforms Programmes and Practices in Kenya*, DCED

The BEWG has identified the *political economy* as a critical success factor to BER projects and is presently elaborating a guidance document aimed at giving an overview of donor experience. The political economy is described by the BEWG as “the system of accountability and governance exercised within and on the state, the extent to which the state is open or captured, and the extent to which its policy-making processes are open to influence”.⁵¹ BER is seen as a highly political act which alters the *status quo* and, sometimes, undermines entrenched interests and long-established local norms. Donors and implementing agencies need to have a clear understanding of a country’s political economy and systematically address political economy issues. BEWG is presently preparing a guidance paper on the political economy of BER aimed at providing illustrations of how such challenges may be tackled.⁵²

The multi-donor BEST program in Tanzania is an example of a project where an apparent lack of political will has been found to be a major cause of poor performance (see Box 2).

Box 2: The BEST story

In December 2003 Tanzania launched a cross-cutting multi-donor BER program: the Business Environment Strengthening Programme for Tanzania (BEST) with a budget of 19 million USD. Four bilateral donors supported BEST from its start: Denmark, DfID, the Netherlands and Sida. The World Bank joined BEST in 2006 and added 40 million USD to the budget. BEST manages a large number of complex and comprehensive reform processes involving many different government ministries and agencies. The start-up of BEST was very difficult and the program has since then progressed very slowly. Support missions have repeatedly rated the performance of BEST as “marginally satisfactory”. BEST has generated few tangible results in terms of improvements in the business environment. One example is business registration where the time and number of procedures for starting a business has decreased only marginally (from 31 days and 13 procedures in 2006 to 29 days and 12 procedures in 2011). Among the factors which may explain these disappointing results are (i) unclear government commitment, (ii) limited private sector engagement, (iii) weak and complex governance mechanisms and (iv) program management weaknesses.

Sources: Mid-Term Implementation Support Mission Aide-memoire, 2009 and joint donor memorandum from 2008: “DP concerns on BEST performance, challenges and way forward”.

The donor community has responded to the political economy challenge, inter alia by increasing their support to promoting *public-private dialogue* to the benefit of BER. Support to such dialogue is seen as a mechanism for creating drivers of change and stimulating demand for reforms without which reform processes easily become stalled. A concrete demonstration of the broad interest in public-private dialogue is the website⁵³ which has been set up jointly by IFC, OECD Development Centre, DFID and GTZ. Several donor agencies including DFID⁵⁴ and IFC have documented their positive experience from supporting public-private dialogue. At the same time the OECD Development Centre (Pinaud, 2009)⁵⁵ points out that public-private dialogue is no panacea, especially not in the least developed countries and that there are risks, complexities and transaction costs involved in such dialogue.

⁵¹ Donor Committee for Enterprise Development, DCED (2008)

⁵² BEWG’s paper “The Political Economy of Business Environment Reform: An Introduction for Practitioners” is expected to be published during 2011.

⁵³ www.publicprivatedialogue.org

⁵⁴ Bannock Consulting (2006), *Reforming the Business Enabling Environment Mechanisms and Processes for Private-Public Sector Dialogue*, International Workshop on Public-Private Dialogue; Paris 2006

IFC (2009), *Stakeholder management in business registration reforms: lessons from 10 countries*, World Bank

⁵⁵ Pinaud, N. (2007), *Public-Private Dialogue in Developing Countries: opportunities and risks*, Development Centre Studies

In line with the growing recognition of the role of the private sector in BER, a number of initiatives have been taken during the last few years to establish implementing agencies *involving private sector partners*. Examples of such initiatives include (i) the Investment Climate Facility for Africa which executes programs in a number of African countries, (ii) Trade Mark East Africa which is focused on trade policy and trade development, (iii) the Financial Sector Deepening (FSD) Trusts in Kenya and Tanzania⁵⁶ and (iv) the Bangladesh Investment Climate Facility. Documentation provided on the FSD programs⁵⁷ shows that the interaction with local private actors in the financial sector has generated some impressive results. It may be more challenging to find ways for constructive involvement of private sectors partners in BER programs. We will revert to this issue later in the report.

⁵⁶ The FSD programs are market development programs, which include certain components focused on the business environment dimensions.

⁵⁷ See the web site published by the respective FSD project: www.fsdkenya.org and www.fsdt.or.tz

5. ASSESSING SECO'S BER PORTFOLIO

This chapter starts by assessing the *results* achieved by each project in SECO's portfolio presented in a summary table for the 19 selected projects. This is followed by assessments against the standard OECD/DAC criteria: *relevance*, *effectiveness*, *efficiency* and *sustainability*. We also apply the additional criteria: *cost-effectiveness* and *additionality*. For each of these criteria the chapter includes a figure showing the frequency of ratings. Tables with brief comments on each project are found in **Annex 7**. We have applied a rating according to SECO's four degree scale for the projects according to each criterion. It should be stressed that the rating only concerns the BER component in multi-component projects.

5.1 Results of the SECO supported BER projects

As indicated in the result chain model in chapter 3, results of projects in the SECO BER portfolio can be assessed at different levels of the generic results chain. Below is our summary of results based on our review of the results-reporting from the 19 projects in SECO's BER portfolio. **Output** here is to what extent the projects have delivered what was expected and planned in terms of training, new laws, reduced regulation, etc., sometimes expressed as client satisfaction; **outcome** refers changes in the business enabling environment, including institutional capacity, cost-savings for the private sector, etc. and **impact** is limited to creation of new firms and generation of jobs and investments. In none of the projects have any attempts been made to assess ultimate impact on growth or poverty.

Table 2: The results of the SECO BER projects

*) Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4; N.d. = not demonstrated or assessed

Project	BER results reported	Our BER rating*		
		Outputs	Out-come	Impact
1. IFC: African Project Development Facility (APDF)	Meagre BER results due to the orientation of the project (focussing at enterprise level). Project unable to re-orient towards BER	1	1	N.d.
2. FUNDES: Simplification of Administrative Processes for Business	Low quality of reporting with several inconsistencies. Lack of ownership among beneficiaries (national governments and municipalities). Almost no positive outcomes reported.	2	1	N.d.
3. IFC: Mekong Private Sector Development Facility (MPDF)	High level of client satisfaction with the quality of the advisory services. Important role in processes leading to new company laws. Clear improvements recorded in some pilot municipalities. Highly important role in emerging public-private dialogue.	4	3	N.d.
4. IFC: North Africa Enterprise Development (NAED)	Outputs are well documented, while it does not seem possible to document any outcomes. NAED was terminated prematurely, but laid the ground for PEP-MENA and (successful) Egypt simplification project	3	2	N.d.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	Mixed results. Business entry procedures improved in four municipalities, but not possible to replicate these reforms due to high cost level. Potential influence on the industrial law process. Unclear results of the One stop shop guide and training.	3	2	N.d.
6. UNCTAD: Advisory Services on Investment and Training	Results-reporting claims significant 'enhanced capacity' by participants and institutions to participate in international investment policy negotiations.	3	3	N.d.
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	Results-reporting focussed on delivery of outputs (generally weak). Limited evidence on outcome (such as changes in institutional behaviour, regulations, etc.), some on political intentions, and none on of impact on investment climate	2	2	N.d.
8. IFC: Foreign Investment Advisory Services (FIAS)	78% of FIAS clients reported that recommendations were fully or partly adopted. A vast majority of stakeholders believe that adoption of FIAS recommendations will lead to increased investments. Few projects have documented impacts.	4	3	N.d.

9. EBRD: Early Transition Country Fund (ETCF)	Projects implemented at high standards. Unclear results in relation to BER and partner country challenges, as prime purpose of ETCF is to enable EBRD to expand its activities in early transition countries.	3	2	N.d.
10. IFC: Private Enterprise Partnership (PEP Africa)	Framework agreement with no SECO core funding. In the overall program, BER is about 10%. Evaluation of the program provides no basis for judgement of results of BER, nor is it relevant due to SECO's funding arrangement	N.d.	N.d.	N.d.
11. IFC: Investment Climate Project Burkina Faso	Results-reporting positive on outcome, providing quantitative results on business cost savings, increased business registrations, investments and jobs.	3	3	3
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)	Framework agreement SECO-IFC. SECO finances 17 projects of which 6 can be considered mainly BER. No assessment of the overall results made here due to the construction of SECO's funding	N.d.	N.d.	N.d.
13. IFC: Investment Climate Project Azerbaijan	Concrete IFC results-report on institutional change (one-stop shop), quantitative results in changes in the legal burden for businesses, cost savings USD 23 mill; new registrations of business up 40%;	3	3	3
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	Results-reporting limited due to no evaluation. Promising performance in terms of commitments by local authorities to reduce red tape with potential reduction in costs for business of USD 10 million. No assessment of impact on jobs, investments, increased formality etc.	3	3	N.d.
15. IFC: Sub-national Competitiveness Project Serbia	Well performing project in 10 municipalities where significant change in local regulation taking place. Claimed aggregated cost-savings, direct and indirect of over USD 200 mill per annum	4	4	N.d.
16. IFC Business Enabling Environment Uzbekistan	IFC's results-reporting claims substantial success in affecting changes to the regulatory climate for entrepreneurship, despite operating in a very difficult policy environment. 60% of recommendations accepted by government. Cost savings for business estimated to USD 47 million.	3	3	N.d.
17. IFC: Business Start-up Simplification Project Egypt	Clearly documented outputs and outcomes. The project appears to have played an important role in Egypt's rapid improvements especially regarding DB entry indicators. IFC reported cost savings for businesses at USD 226 mill.	4	4	3
18. GTZ Commercial law reform Serbia	SECO's participation so small and short in a 10 year EUR 8 million project that no attribution of outputs, outcome and impact is possible in an otherwise well performing project	N.d.	N.d.	N.d.
19. EBRD Technical Cooperation Fund Concerning Secured Transactions and Creditors' Rights	SECO participated in the first stage in a longer term project which today is seen as having produced good results in the form of standards. Output and outcome when SECO left in 2007 was at that time sub-standard	2	2	N.d.

*) Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4; N.d. = not demonstrated or assessed

Delivering outputs

Outputs delivered by the BER projects in SECO's portfolio include e.g. the provision of advisory services, surveys, drafting of new laws and regulations, recommendations for improved procedures, media appearances, training events etc. Our ratings indicate that 12 of the 16 projects in SECO's portfolio for which an assessment is possible, have delivered outputs of satisfactory or highly satisfactory quality and quantity. In projects where surveys of client satisfaction have been documented, these surveys usually show a fair or high degree of satisfaction with the outputs delivered by SECO's BER projects.

Unsuccessful projects

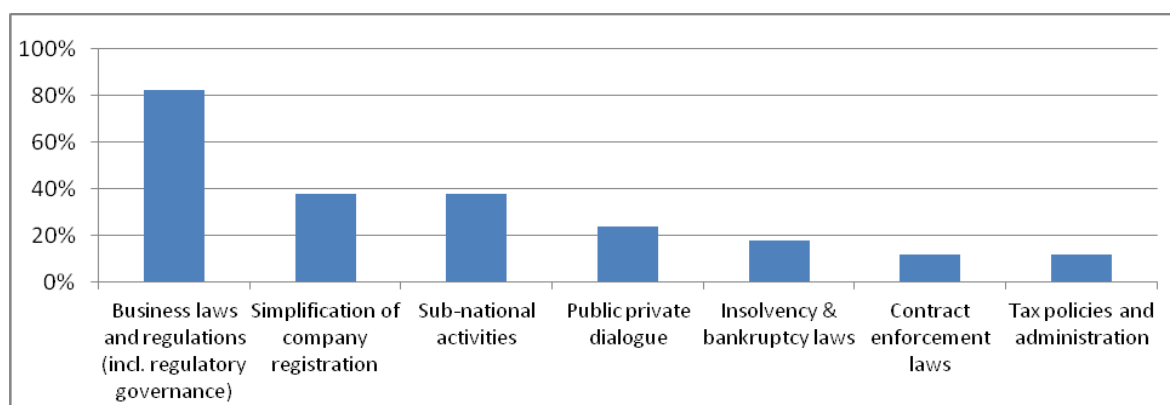
There are 4 exceptions to the satisfactory output delivery as shown above. These include IFC APDF which was a transition project from 'old-style' company focused support to also include business environment. This transformation was not taking place as envisaged (but was carried out in the follow-up PEP Africa program). Another poor performer is FUNDES, an

NGO implemented project which is further discussed below. The UNCTAD Quick Response Window was unsatisfactory primarily as it failed to live up to its mandate of being a flexible, rapid response project. The failure of the EBRD project, further discussed in chapter 6 on Serbia, is mainly due to the fact that SECO pulled out mid-term from a project which eventually delivered good outputs (and outcome), but at that time had not delivered sufficiently.

The structure of SECO's portfolio on subject matters in BER

The figure below shows the occurrence of the most common focus areas in SECO's BER portfolio. Due to the heterogeneous character of SECO's BER portfolio, it has not been possible to assess if there are any systematic differences in the achievement of output objectives between specific focus areas. However, we will revert to this issue below in our discussion on the effectiveness criterion.

Figure 4: Share of SECO projects which include a specific BER focus area



Three features are noticeable: first a fairly high share of sub-national projects, which overall is not a common approach in BER. This might reflect an (implicit) strategy in SECO to focus on sub-national projects. Second, tax administration, to which SECO has recently given priority in FIAS, did previously not have not a strong presence in the portfolio. Third, the SECO priority area *commercial financial sector* (creditor's property rights, collateral enforcement, credit information systems and the regulation of financial products) is an uncommon component in the BER portfolio (but may appear more frequently in connection with Access to Finance projects).

Delivering outcomes

Our review of the extent to which SECO's portfolio has delivered improvements in the business enabling environment show a great diversity of results. Our ratings indicate that slightly more than half of the projects have delivered satisfactory or highly satisfactory results at the outcome level (out of those for which a rating is possible), leaving almost half with unsatisfactory outcome. Besides the 4 projects above which failed in providing satisfactory outputs, 3 other projects have been rated unsatisfactory in outcome. These are IFC North Africa Enterprise Development (NAED); IFC's Program for Eastern Indonesia SME Assistance (PENSA phase I) and EBRD: Early Transition Country Fund (ETCF). NAED is explained by the fact the project was ended prematurely and transformed into a new program, IFC PEP MENA. The failure of PENSA phase I in Indonesia is discussed below, while EBRD's ETCF has been rated unsatisfactory in outcome in spite of good outputs, the reason being that the project to such extent was designed to fit EBRD's investment interests.

5.2 Doing Business as performance indicator

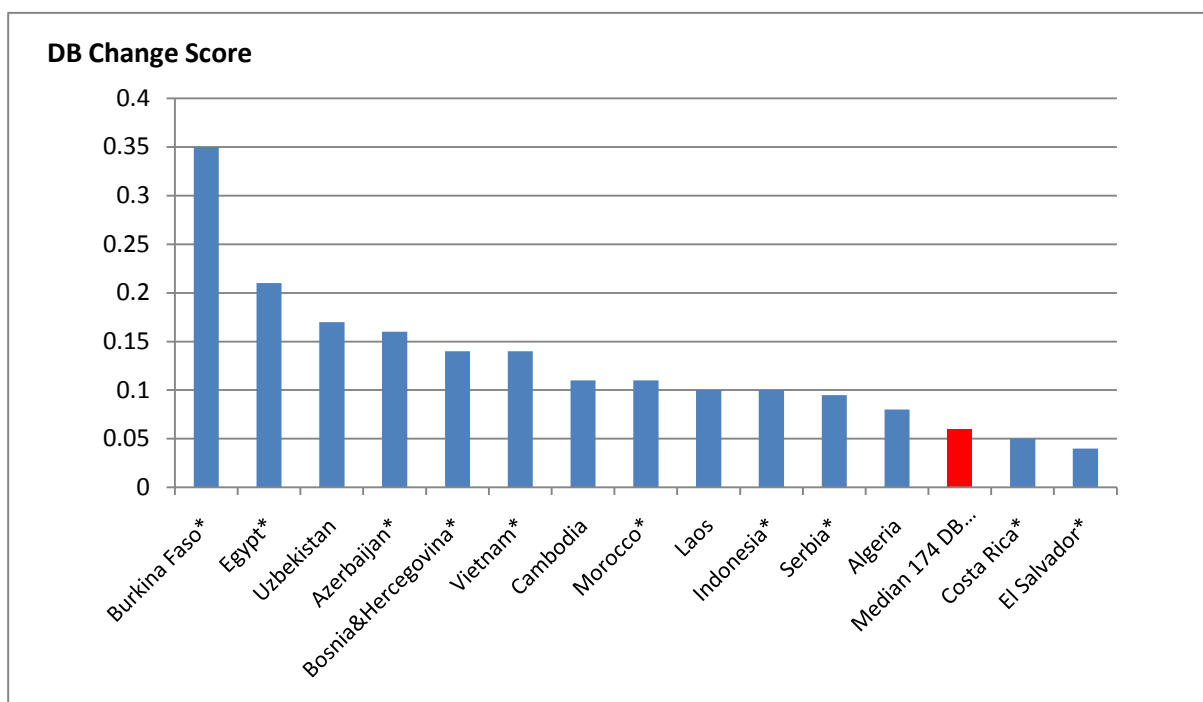
Measuring relative change

Several projects in SECO's BER projects are driven by a strong political will to improve the partner country's Doing Business ranking. The annual Doing Business reports have since 2004 provided rankings for key dimensions of the business environment. In 2006 an aggregate "ease of doing business" was added. For the following reasons, these rankings do not lend themselves easily to the assessment of the changes over time in the business environment in SECO's partner countries: (i) the measurement criteria are subject to frequent changes over time and more indicators are gradually being added; and (ii) most countries are gradually improving their absolute performance, implying that if a country does not continuously reform its business environment, its ranking will deteriorate. Both Serbia and Bosnia & Herzegovina saw this happening during the last few years of the 2000's.

Measuring absolute change

The 2011 DB report introduced a new indicator providing a *Five-year measure of cumulative change in Doing Business indicators between DB2006 and DB2011*. This indicator offers an interesting opportunity to assess *absolute changes* over time at country level. The measure illustrates for each economy how much its regulatory environment has changed compared to 5 years ago. Economies that have achieved the biggest cumulative change in the past 5 years are assigned with the highest DB change score.

Figure 5: A five year change in DB Indicators for 16 countries in SECO's BER portfolio⁵⁸



Source: Doing Business Report 2011; Five-year measure of cumulative change in *Doing Business* indicators between DB2006 and DB2011

The figure above illustrates that all countries in SECO's BER portfolio (excluding global projects) have improved their regulatory environment during the past five years. If we

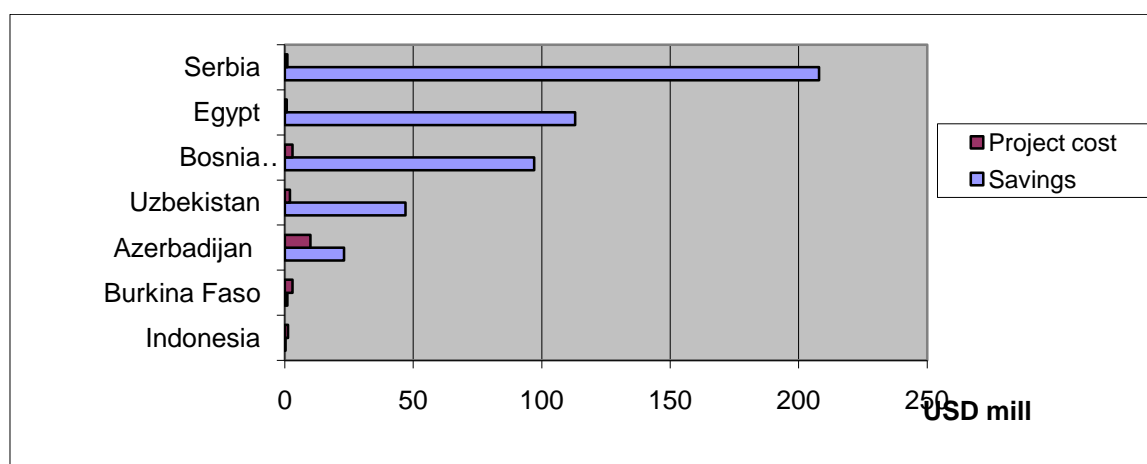
⁵⁸ SECO's present priority countries are marked with asterisks

compare with the change scores for all the 174 economies covered by this measurement, only two of SECO's partner countries have a lower change score than the median of all countries. This indicates that SECO has selected BER partner countries which have had the ability to reform their regulatory environment. Although causality is obviously hard to assess, there is concrete evidence at least in the case of Burkina Faso and Egypt that SECO projects have contributed to the positive development of DB change scores.

5.3 Measuring private sector cost savings

The measurement of private sector cost savings due to changes in the business environment offers another avenue to quantify and aggregate the outcomes of IFC implemented BER projects. Below is a sample of projects which in their result-reporting have made estimates of cost-savings for the private sector which can be related to the projects. It should be noted that these figures are hypothetical, i.e. are based on the reduction of fees, time, etc from a *before* to an *after* situation under the assumption that the companies and the authorities follow the rules. These are not figures derived from actual savings, for example evident from broad business surveys etc.

Figure 6: Annual private sector cost savings compared to project costs for BER projects (or BER project components)



Source: Results-based reports on the SECO BER portfolio

The figure above shows the total project cost and the estimated annual private sector costs savings due to BER reforms as reported by IFC and/or evaluations. The discrepancy between savings in different projects is, as evident from the figure, astonishing, ranging from less than USD 1 mill per annum in Indonesia and Burkina Faso to over USD 200 million in the IFC Sub-national competitiveness project in Serbia.⁵⁹ These results neither can be explained by the project size in financial terms (for example, Serbia and Egypt are small projects), nor by the performance in terms of their claimed change of the business environment in respective countries. It is also not a matter of focusing on the national or sub-national levels as both the project with the highest cost savings (Serbia) and the one with the lowest savings (Indonesia) are focused at the sub-national level.

⁵⁹ It should be noted that IFC in its performance reporting uses two sets of cost-saving figures. One is called 'annual aggregate private sector cost savings', estimated in 2011 to USD 208 million, and one is 'Cost compliance savings', estimated to USD 9 million per annum.

The wide difference seems almost entirely to be a matter of different methodologies applied in calculating cost savings. One important factor seems to be whether estimates include *indirect costs* such as opportunity costs of investment income forgone for businesses waiting for authorisations. Such costs are part of the “Balkan Standard Cost Model” which is an adaptation to the sub-national level of the International Standard Cost Model first developed in the Netherlands and used by IFC. Such indirect costs constitute a large part of the cost savings in Serbia. In the case of Indonesia, the evaluation report by Nexus in 2008 raised several critical points regarding the cost savings estimates presented for the sub-national components of the IFC-PENSA phase I project. Nexus developed their own estimate which was only a fraction of the previous estimates by IFC.

As mentioned in Chapter 3, IFC has recently published guidelines for a standardised cost savings model, the so called “Cost Compliance Savings (CCS)” model, which is limited to *direct cost savings*. This model is being rolled out within IFC’s organisation since September 2010. An enhanced model incorporating *indirect costs* is reported to be under development. This will hopefully help to create a better basis for using cost models as a tool for comparing outcomes. As the situation is now, IFC reporting on cost-savings is misleading.

5.4 Delivering intermediate impacts

Triggering the creation of additional investments and new jobs

Out of the 19 projects in the reviewed portfolio, only in two cases - Burkina Faso and Egypt – estimates have been presented on the generation of intermediate impacts in the form of new jobs and additional investments. The presented estimates rely solely on “before-after” observations. This makes it highly challenging to construct counterfactuals which could provide a solid basis for estimating the extent to which observed changes could be attributed to the specific SECO project.

There is only one case where a comprehensive analysis based on empirical data has been presented of the underlying forces that determine the generation of such impacts. This is the impact assessment of the Burkina Faso IFC Investment Climate Project. This project was recently part of a comparative evaluation of BER projects in four countries in Africa.⁶⁰ In addition to the Burkina Faso project, the study covers similar projects in Liberia, Rwanda and Sierra Leone (which were not financed by SECO). The summary report for this evaluation mentions that “efforts were made to control for exogenous factors through the development of ‘counterfactual’ scenarios, but this was possible in only a few circumstances, and using rather crude extrapolation techniques. As virtually all the variables analysed display a rising trend, the adoption of a ‘before and after’ approach inevitably tends to overstate the impact of IFC interventions.” It also mentions that “the reforms promoted by IFC projects were in several cases also supported by other donor initiatives” and that “efforts were made to isolate the effects of IFC-supported reforms from concomitant factors, but, in general, this was possible only in the case of private sector cost savings, for which the linkage between cause and effect is easier to determine”.

Given these caveats, the report finds that roughly 700 “truly new” enterprises, 5.5 million USD of additional investment and 1,800 – 2,400 jobs had been created in Burkina Faso as a result of the improvements in the business environment. The number of newly registered firms per 1,000 inhabitants is 10-15 times higher in the other three countries (projects not

⁶⁰ The countries were besides Burkina Faso, Liberia, Rwanda and Sierra Leone. Economisti Associati: *Investment Climate In Africa Program - Four-Country Impact Assessment*, 2011

supported by SECO) than in Burkina Faso and a similar difference was also claimed for investments (in comparison to total private sector investment). For job-creation as share of the labour force, the average impact was 25 times higher in the three countries than in Burkina Faso. To a small extent, the difference might be explained by the fact that the project in Burkina Faso was smaller (USD 2.8 million) than the other three, averaging USD 6.4 million. The analysis in the report, however, points at other factors. First, the base line conditions in the countries in terms of the administrative burden. Thus, the ‘worse’ the condition, the more scope for reforms, and hence for impact – a reason where especially Liberia according to the evaluation showed high positive impact. Second, the report hinted at possible design differences in the sense that three out of four projects combined the provision of policy advice and support for investments with an institution building/strengthening element which was not the case in Burkina Faso.

The most plausible explanation of the differences offered in the report, however, were factors related to other, broader dimensions of the investment climate: Post conflict conditions, with the ensuing need to rebuild the economy, clearly fuel the enterprise formation process, which in turn drives up investment, (and presumably jobs) as witnessed by the high results in relative terms achieved in Liberia and Sierra Leone. Therefore, the post conflict status, while certainly making projects’ operating conditions more difficult, also provides significant opportunities for improvement.

5.5 Impact on cross-cutting issues

Economic governance and fight against corruption

SECO has defined economic governance and fight against corruption as a cross-cutting issue and sees this as a core of SECO’s work, including business environment reform. The discussion on economic governance and corruption does not feature much in any of the results-reporting from the portfolio projects, and is not addressed at all in the majority of the projects. We see the weak assessment of this in the reporting and limited follow-up as a weakness in SECO’s portfolio management, in view of the priority given to the topic in SECO’s official statements.

Environmental and climate impact

SECO has climate change, energy and environment as its second cross-cutting theme in its work. In none of the results-reporting from the portfolio reviewed has these topics been assessed or discussed. While SECO considers this dimension mostly relevant for its second business line – access to finance – standards and regulations concerning environment is, or should, feature in an effective business environment as seen from a societal point of view. We see also the lack of assessment of this in the reporting and neglect of follow-up as a clear weakness in SECO’s portfolio management.

We will revert to the cross-cutting issues in chapter 8 and provide recommendations based on the observations described in this section.

5.6 Economic growth and poverty reduction

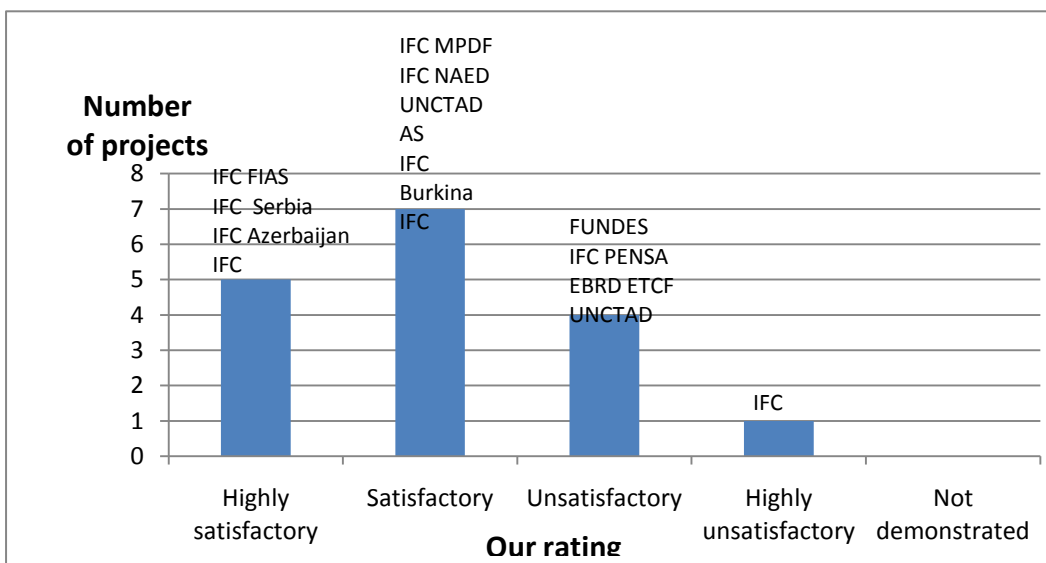
In none of the projects in the portfolio has the result-reporting attempted a discussion whether the projects have had or are likely to contribute to the overriding objectives of economic growth and poverty reduction. The problems of time-lag and the small size of the interventions and attribution prevent a meaningful discussion of this at project level. As already mentioned in chapter 3, such a discussion has to be done at a more general level, based on existing theory.

5.7 Relevance

Relevance is defined by OECD/DAC as “the extent to which the objectives of a development intervention are consistent with beneficiaries’ requirements, country needs and priorities, partner and donor policies.” Relevance can be judged *ex-ante* and *ex-post*. In the *ex-post* assessments which are the subject of the meta-evaluation, the actual results will also determine relevance.

Below is our assessment of the relevance of SECO’s BER portfolio. It is based on a mixture of the results-reporting and, to a more limited extent, our own judgements.⁶¹ As already mentioned, the analysis of the relevance of the multi-component PSD programs is strictly focussed on the BER component. For details, see **Annex 9**.

Figure 7: The relevance of the SECO BER projects



The positive rating of the relevance of a clear majority of SECO’s BER-projects may be seen against the background of the increasing importance given by politicians during the last few years to their country’s Doing Business ranking. There is no doubt that many of these projects respond to political priorities and perceived needs to improve the business environment as measured by the Doing Business indicators. At the same time, our review in chapter 3 of the BER literature raises important questions whether the projects in SECO’s BER portfolio are actually “doing the right things”. For example:

- are possibly other dimensions in the investment climate (as defined in Figure 1 in Chapter 1), such as infrastructure, access to finance and corruption, creating more serious constraints to economic growth than the deficiencies in business environment?
- Are the on-going reforms of the formal regulatory systems really crucial to the few large enterprises which constitute a large part of the formal private business sector in most low income countries?
- To what extent are BER projects relevant to the small informal businesses which constitute a large part of the private sector in low income countries?

⁶¹ The only projects for which we have a base for assessment other than existing secondary sources are in Serbia

- How relevant are the DB indicators as a measure of the actual performance and constraints in the business environment compared to other types of indicators such as the World Bank Enterprise Surveys, the Global Competitiveness Report etc?

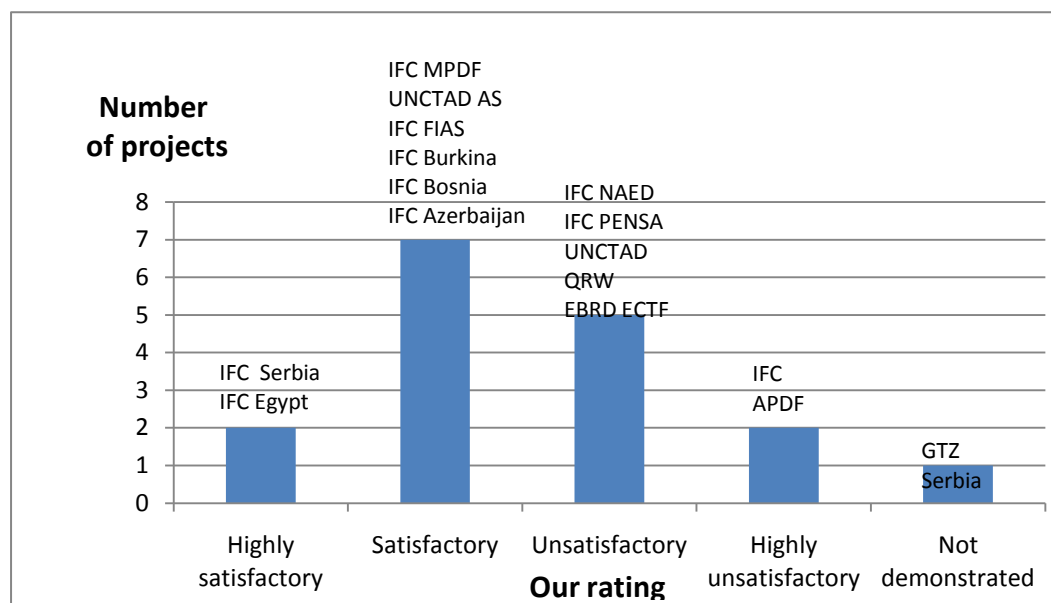
Unfortunately we have not found many answers to these questions in the documentation on SECO's BER portfolio. It appears that evaluations often take the relevance of Doing Business-focussed BER projects for granted. One concrete example is the issue of informality and the impact of BER on the informal economy which is only rarely discussed in evaluation reports.

Projects which are not solely focussed on BER but instead apply a broader PSD perspective offer opportunities to compare the relevance of support to BER with other types of PSD interventions. This is the case with the MPDF project which supports private sector development in the Mekong region (covering Vietnam, Laos and Cambodia). The recent mid-term evaluation of MPDF⁶² rates the relevance of current BER interventions as clearly higher (3.8 on a 0-4 scale) than interventions in the field of Access to Finance (3.5) and Sustainable Business Advisory (3.1). Interestingly, the MPDF project has chosen to gradually allocate a larger share of its resources to the BER component during the past decade.

5.8 Effectiveness

Effectiveness is defined as the extent to which the development intervention's objectives were achieved or are expected to be achieved. Effectiveness can be assessed at different levels of effectiveness for the SECO BER portfolio. For details, see **annex 9**.

Figure 8: The effectiveness (reaching stated objectives) of the SECO BER projects



The table shows that effectiveness is rated as satisfactory or highly satisfactory for a slight majority of the projects in SECO's portfolio. Overall, the specialised BER projects carried out by IFC are all rated as effective in achieving their stated objectives concerning the reduction of red tape and simplification of regulations, hence the creation of an enabling business

⁶² Dalberg Global Development Advisors (2011), *Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)*, Final DRAFT Report

regulatory environment. Some of these projects had established quantitative targets as benchmarks and the projects even exceed these. Not the same can be said about the other specialised BER projects implemented by other organisations such as FUNDES or UNCTAD. In terms of effectiveness in reaching higher objectives, such as competitiveness, job-creation, etc. the underlying reporting tends to be insufficient to provide an evidence-based assessment, except in a few cases.

Relative outcome performance of BER focus areas

Although, as we described earlier, there are methodology issues related to the private sector cost savings estimates presented for some of the projects, these estimates still provide an interesting opportunity to quantify and compare the outcomes generated by SECO's BER focus areas. In Burkina Faso, the main areas in which private sector cost savings were generated were real estate transactions (40%), business registration (15%), trade logistics (15%), business taxation (11%) and construction permits (9%). The cost savings from business licensing and labour market reforms were negligible. In Egypt on the other hand, as much as 97% of the estimates cost savings were generated by a reform of construction permits, while the contributions by business registration and industrial licensing reforms were negligible. These examples demonstrate that there are large variations in the relative importance of different focus areas which probably to large extent depend upon the specific pre-reform setting in each country.

The outcomes of sub-national projects

A fairly large group of projects in SECO's portfolio are focussed on the sub-national level or contain components with such a focus. We have already noted the poor results of the FUNDES project in Central America, where the final evaluation⁶³ stated that

"Even among the relatively small number of municipalities that implemented proposed changes in procedures, the average reduction in the time required to process a business registration was on the order of three days. A reduction of this magnitude is unlikely to influence an entrepreneur's decision to start a business or induce an informal business to comply with all legal and regulatory requirements to become formal".

In the case of the sub-national BER component of the IFC SME program in Eastern Indonesia (PENSA phase I), an evaluation found that costs for the business registration reform in cities in eastern Indonesia were too high to justify replicate of these reforms in other cities. On the other hand, interventions at the sub-national level in Serbia and Bosnia Herzegovina have been reported as highly successful. Due to the methodological problems in results-analysis, it is difficult to determine how much of these differences are due to different conditions and/or project design, or if it is mainly a matter of measurement. There is clearly a need to subject the 'success stories' of the Western Balkan sub-national projects for an external evaluation to determine the validity of IFC's reporting on this.

The implementation challenge of reforms

One reason why sub-national projects may be demanding is that this is often where the implementation challenges arise and where the needs of capacity-building become especially demanding. When reviewing the documentation on SECO's BER portfolio, we have not found many examples where such implementation challenges are highlighted. One exception though

⁶³ Nexus Associates, Inc. (2010) , *Evaluation of the Business Registration Simplification Project in Central America*, Final Report

is the evaluation of MPDF in 2007⁶⁴ which commented on the implementation challenge in the following way:

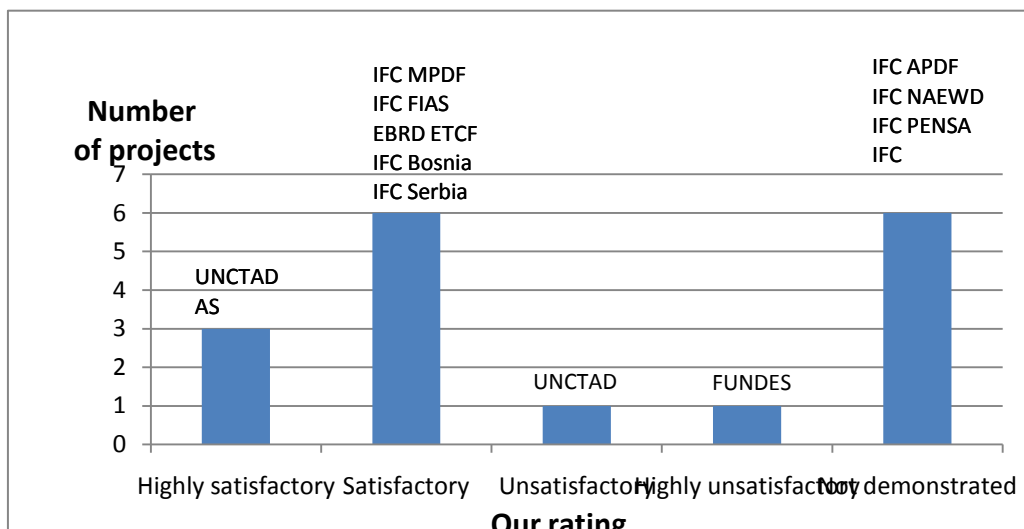
"It is often said that 'the devil is in the details', and it is often in the drafting of the implementation regulations that feuding between opposing visions of the legislation within the administration erupts. While MPDF can provide technical advice and advocacy services, in the end, the speed and degree of implementation depends on the political will of political authorities. MPDF does not content itself with having legislation passed but ensures that a follow-up is conducted to set the conditions for effective implementation. Whether the implementation will be effective in many ways depends on the political will of the authorities".

5.9 Efficiency

Efficiency is a measure of how economically resources and inputs are translated into outputs. Measuring inputs in relation to results at outcome or impact level is defined as cost-effectiveness (see below). Efficiency is a relative term, and should, ideally, compare similar approaches and strategies to determine the most efficient approach to deliver a certain output. For BER, assessment of efficiency is, for example, project costs in relation to what the project has produced in terms of training, proposed new laws and regulations, etc. The available information in evaluations and mid-term reports for the SECO portfolio provides a varying picture to what extent efficiency assessments have been carried out. In general, the term is not used in a stringent way. Rather, efficiency is often used in a somewhat impressionistic way comparing results in general terms to the overall donor inputs.

With this caveat, below is a summary for the portfolio. For details, see **annex 9**.

Figure 9: The efficiency of the SECO BER projects



The ratings presented in the table indicate that outputs have been delivered in a reasonably efficient way according to available reviews and evaluations. At the same time we note that for only for few of the projects in the portfolio systematic attempts have been made to address efficiency by critically analysing delivered outputs versus actual project cost, and/or

⁶⁴ Maxwell Stamp (2007), *Final Evaluation of the Mekong Private Sector Development Facility*

comparing different cost alternatives for delivering the same amount of outputs. The costs of projects are rarely analysed in these reports. In some cases the overall project costs are not even made explicit in the evaluations and mid-term reviews. As a result, we are unable to make a judgement whether the delivered outputs could have been achieved at much lower costs or if in fact the efficiency is high as claimed in most reports.

There are exceptions, however. The recent mid-term evaluation⁶⁵ of the MPDF project arrived at a positive assessment of MPDF's efficiency based on a well-structured evaluation approach. It includes an analysis of the following four factors:

- i. cost-efficiency based on a comparison between the administration and program management cost ratio of MPDF and those of other agencies, both public and private, providing similar types advisory services
- ii. fiscal discipline and organisational efficiency
- iii. cost-sharing (“pricing”) policy and subsidy levels
- iv. organisational effectiveness including the strength of the local team, access to broader knowledge and relationship networks, the value added by supporting functions, the ability to learn and grow through robust M&E processes, and an organization structure that facilitates rapid and effective decision-making.

5.10 Cost-effectiveness

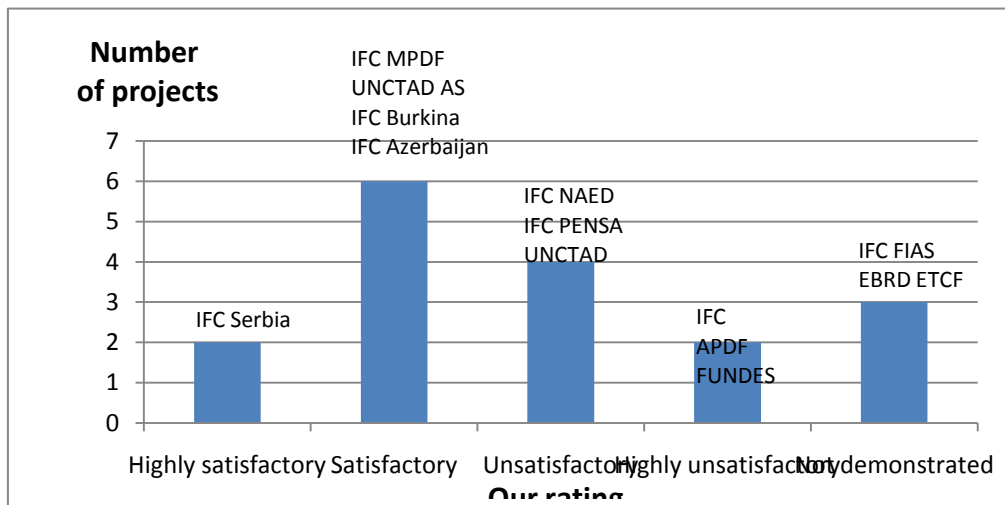
Cost-effectiveness is the measure of inputs (e.g. funds) versus the actual outcome of an intervention in the context of its objectives. It is sometimes called ‘value for money’ and is, or should be, the ultimate criteria for a development intervention. Cost-effectiveness is a relative term and should ideally be undertaken for similar approaches to determine best value for money. It is not a term used by DAC, but many development agencies apply this concept in their evaluations.

It follows from the discussion above that weak analysis of the costs elements of the projects has consequences also on assessing the cost-effectiveness of the portfolio. If we cannot judge whether an intervention is efficient in delivering outputs, it is even more difficult to judge whether the intervention is cost-effective in achieving results such as changes in the business environment or as a means of triggering investment, jobs etc.

The summary of the assessments in the portfolio in terms of cost-effectiveness is given below. For details see **annex 9**.

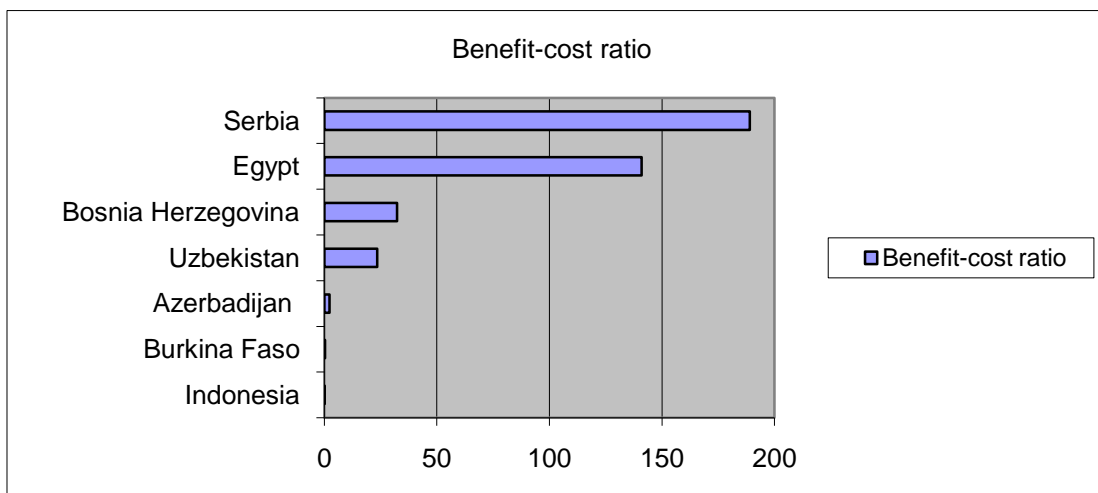
⁶⁵ Dalberg Global Development Advisors (2011)

Figure 10: Cost-effectiveness of the SECO BER projects



As noted above, some projects have attempted to quantify the cost savings for businesses resulting from the improvements in the business environment. By comparing such annual cost savings with the costs of a project (or the costs of a project component), a benefit-cost ratio could be calculated which provides a crude measure of the cost-effectiveness of projects. This is illustrated in the following figure which shows large variations between benefit-cost ratios for different projects. From our previous discussion, it is obvious that these variations are most likely more related to which methodology that is applied than to actual differences in cost-effectiveness between projects.

Figure 11: Benefit-cost ratios for specific BER projects (or for project components)



Source: Compilation based on results-based reports on the SECO BER portfolio

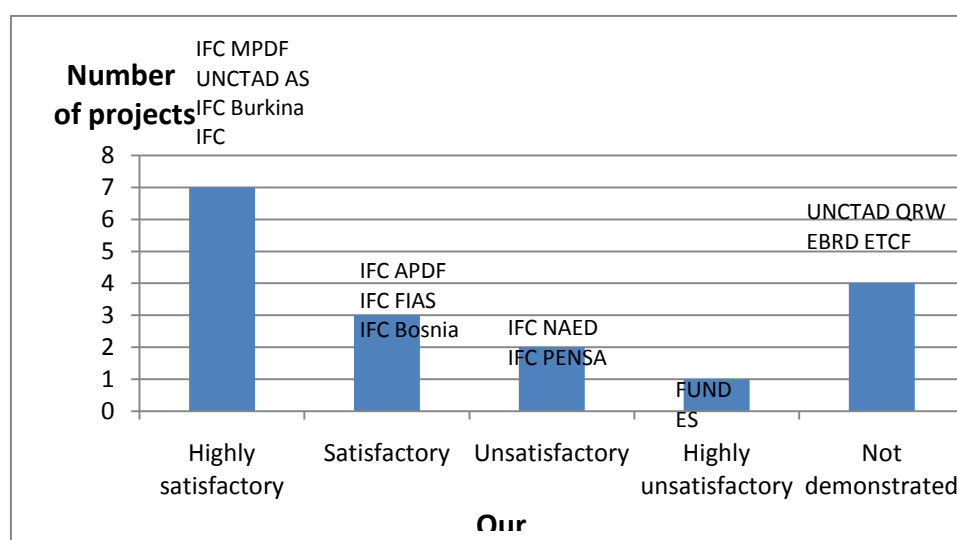
It should be remembered that as benefits are calculated as cost savings for businesses, the benefit-cost ratio does not reflect the full socio-economic impact of a project. A standard cost-benefit analysis would have to take into account broader impacts on society such as public sector cost savings resulting from more efficient administrative procedures, positive and negative impacts on public revenues, as well as impacts of e.g. increased trade flows etc. The recent evaluation of FIAS suggested that FIAS should expand the compliance cost savings model “to capture the dynamic effects of reforms. For business registration and licensing

projects, this would centre on the extent to which reforms cause new companies to come into existence and/or formalise. Second, the model should attempt to capture net economic benefits, not just savings that accrue to direct beneficiaries.”

5.11 Sustainability

Sustainability is defined as the continuation of benefits from a development intervention after the development assistance has been completed. For BER this implies, for example, that project-related changes in business regulations such as registration procedures and related policies are maintained beyond a project. There are varying degrees of sustainability in a BER intervention in the sense that some aspects of the changes might be permanent and even further improved, while others might be reversed. Sustainability should ideally be assessed well beyond the end of an intervention. However, there are no such ex-post evaluations carried out in the SECO portfolio, and sustainability therefore is a judgement. Below is a summary of our assessment of the SECO portfolio. For details see Annex 9.

Figure 12: Expected sustainability of the SECO BER projects



In summary, it appears likely that the effects of the ‘specialised BER projects’ undertaken by IFC during recent years will be sustainable in terms of maintaining and improving on changes in the business enabling regulatory environment. There are several factors behind this:

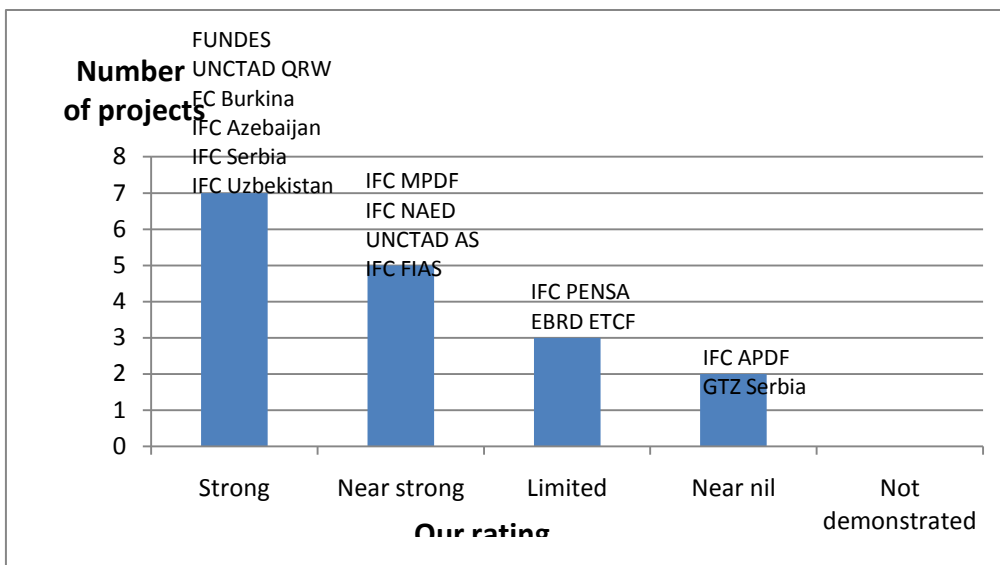
- There is often strong ownership by governments in the sense that the projects have been initiated by them in order to improve the countries’ rankings in the Doing Business index.
- There is an increasingly improved methodology in undertaking these projects. Especially IFC is developing an understanding of what works and what doesn’t.
- The projects are often elements in larger ‘programs’ where earlier FIAS projects played a part. Continuation builds sustainability.
- The benchmarking and peer comparisons which are inherent in the Doing Business provide incentives to sustain changes.

There is, nevertheless, a need to revisit some of these BER projects in order to assess 1) whether the changes are maintained or if there is policy reversal, and 2) whether the *implementation* of changes in regulations are sustained.

5.12 Additionality

The concept of additionality is not part of the DACs evaluation criteria. However, given the fact that there are often several donors involved in a BER project, the specific value added of SECO's participation in the project is seen as an important dimension of this meta-evaluation. SECO's value added is determined both by the relative size of SECO's financial contribution and by SECO's role in the design, governance and monitoring of a project. While SECO's share in the funding of projects is easy to establish, it is much more difficult to find information on SECO's role in projects. SECO's Decision and Completion notes⁶⁶ do not often comment on this issue and evaluation reports rarely touches upon this subject. The following figure providing our rating of SECO's additionality is, therefore, mostly based on discussions with SECO staff, implementing agencies and partners, rather than reports. For details, see **annex 9**.

Figure 13: The additionality of the SECO BER projects



Obviously, the level of SECO's share of the funding of a project has a decisive effect on SECO's chances to influence a project. As previously shown in table 1, SECO's share in the funding of projects in the BER portfolio varies between 2% and 100%. Many donors, who participate in multi-donor projects with smaller funding shares, choose not to involve themselves actively in the governance and monitoring of the project. The above ratings reflect our impression from interviews and discussions that even in cases when SECO's funding share is fairly small, SECO usually plays an active role during the planning and implementation of those projects.

SECO's participation in FIAS offers an interesting example. In this case SECO provides in addition to its regular contribution to the FIAS core fund also substantial contributions to two thematic trust funds; one of which is focussed on secured lending to SMEs and the other on SME taxation. SECO has found that these themes are clearly relevant for SME development and participates actively in the monitoring of the projects, e.g. by having a staff member participating in major events related to these themes.

⁶⁶ It is noted that SECO also prepares initial Advocacy Notes. The templates for both Advocacy and Decision notes have changed over time. Previously the role of SECO was often discussed in Advocacy Notes, while more recently such a discussion is being expected in Decision notes.

Looking at IFC projects where SECO has a major part of the funding, our impression is that SECO is regarded by IFC staff as a respected, engaged and active partner. Examples of such projects include e.g. the Egypt simplification project and the Serbia sub-national competitiveness project. In such cases there has been an active participation by both SECO's field organisation, i.e. the Swiss cooperation office and by its Private Sector Department at SECO's headquarter.

6. THE SERBIA CASE

6.1 The purpose of the Serbia case study

Besides allowing a more in-depth assessment of the SECO BER projects in Serbia, the case study provides an opportunity to assess the portfolio from the following perspectives:

- country context – are the projects addressing relevant issues and problems?
- donor context – issues of crowding and donor cooperation
- broader Swiss development assistance context – potential synergies with SDC and SIFEM, as well as coherence with the Swiss Cooperation strategy.

6.2 The BER context in Serbia 2000-2011

The reform process

After almost a decade of isolation in the 1990's, Serbia's transition from a socialist to a market economy was speeded up after the democratic changes in 2000. In this period, the Serbian economy witnessed relatively high annual GDP growth rates averaging 5.7% p.a., even though the main impediment to reforms remained political instability. Several major policy steps conducive to a better business environment were implemented. Thus, trade liberalization was achieved; tax code reforms were carried out; a privatization law was adopted in 2001; leasing, collateral and concessions laws were introduced in 2003, and a new company law was adopted in 2004. The main motive for reform implementation was to increase the economic competitiveness. The harmonization of the Serbian legal system with that of the EU also gained in importance over time and is currently the main driver of reforms in Serbia.

Initially, the reforms were ad-hoc, focusing on eliminating inherited entry barriers for businesses and slowly spreading to other, more complex areas, such as labour regulation, protection of investor rights, cadastre and bankruptcy. These produced visible results and led to Serbia being declared as "top reformer" in the World Bank Doing Business Report 2006. Subsequently it was clear that, in addition to the adoption of new, market friendly legislation, implementation needs to play a key role, and it is necessary to secure the building of several new institutions as well as their maintenance and capacity building. In the period 2000-2005 several new institutions were created, such as the Privatization Agency, the Serbian Business Registers Agency, Bankruptcy Supervision Agency, the Competition Authority etc.

Crisis management

In the recent period of global financial crisis, which has strongly affected Serbia and caused an overall drop in its economic activity, the improvement of the quality of regulations, simplification of the existing regulations and the reduction of unnecessary administrative burdens that affect business activities and investments became a focus of the Government. The Government adopted a Regulatory Reform Strategy for the period of 2008-2011. This sets the objective to establish a regulatory system which: (i) promotes economic development and social prosperity; (ii) supports national competitiveness while protecting public interest; (iii) reduces administrative business costs; (iv) accelerates and reduces administrative procedures; (v) improves the international rating of Serbia in terms of business and investment environment quality.

A national “regulations guillotine”

A fully fledged review of regulations (the “regulations guillotine”) was implemented at the national level in the period 2008-2011, leading to significant cost savings for businesses as shown in table 3 below:

Table 3: Status of “guillotine” recommendations on the national level⁶⁷

	as per 12.04.2011	Savings on an annual basis
Implemented	106	in a range 120-130 million Euros
In process of implementation	124	additional 20 million Euros
Not implemented	74	30-40 million Euros
Total	304	170-190 million Euros

An unfinished agenda

While significant progress has been achieved in business environment reforms, they are still far from complete. It will be more difficult to maintain the current pace of reforms as the unfinished agenda contains areas where strong vested interests are opposing the implementation of reforms mainly at the government level. These vested interests pose a significant challenge. In many instances, they have succeeded in impeding or limiting reforms even when the top policy makers, media, civil society, and business associations are pushing for the reforms. Examples include inspections reform, business licensing reform and construction permits.

6.3. Serbia’s Doing Business ranking

The ranking in terms of the overall *ease of doing business* still places Serbia behind the new EU-10 members and far behind the original EU members. While Serbia was declared top reformer in the 2006 Doing Business Report as mentioned above, in the period that followed, its ranking deteriorated due to the lack of additional reforms. In the DB 2011, Serbia was ranked 89 out of 182 countries in overall *ease of doing business*, and improved only 1 position with respect to DB 2010, exclusively due to the reforms in the *closing a business* insolvency related indicator.

Table 4; Serbia Doing Business Rankings⁶⁸

Ease of DB Ranking	DB 2011 Rank	DB 2010 Rank	Change in ranking
	89	90	+1
Topic Rankings	DB 2011 Rank	DB 2010 Rank	Change in ranking
Starting a Business	83	75	-8
Dealing with Construction Permits	176	174	-2
Registering Property	100	105	+5
Getting Credit	15	14	-1
Protecting Investors	74	73	-1
Paying Taxes	138	134	-4
Trading Across Borders	74	71	-3
Enforcing Contracts	94	94	no change
Closing a Business	86	101	+15

⁶⁷ Regulatory Review Unit of the Government of Serbia, www.srp.gov.rs

⁶⁸ www.doingbusiness.org

It is noteworthy that Serbia ranks at the very bottom in terms of the indicator *Dealing with construction permits* in spite of efforts to address this issue. To a large extent such a poor ranking is due to the rent-seeking opportunities involved in this. Thus, an example of the unfinished reform agenda corruption is widespread with limited progress in establishing the institutional mechanisms for fighting corruption. Serbia is ranked 78th out of 178 countries in the Transparency Corruption Perception Index 2010,⁶⁹ the lowest among all South-East European countries except Albania and Bosnia & Herzegovina.

Serbia is a country aspiring to become an EU member and this means that in the forthcoming period the challenge will be to accelerate the harmonization of its system with that of the EU. According to the last report of the European Commission, the business environment continues to be constrained by burdensome administrative procedures and a weak rule of law. One of the main challenges for Serbia remains moving from partial, one-off or episodic business environment reforms to a strategic, systemic, continual process of improving the business enabling environment and competitiveness.

6.4 The donor landscape in business environment reforms in Serbia

The business environment reforms in the initial phase of the reforms (2000-2005) were very much influenced by the World Bank and IMF, as well as by the EU. In this period the World Bank negotiated conditionalities with the Government, linked to loans under favorable IDA countries terms. Some of the most relevant reforms which were implemented through this mechanism are included in box 3.

Box 3. World Bank loan conditionalities Serbia

- Adoption of the privatization law and support to the Privatization Agency
- Facilitation of efficient corporate governance and entry and operations of business through adopting the Company Law;
- Creation of a new business registration system by adoption of a new business registration law which transferred the competence for business registration from the courts to an independent administrative agency (the Serbian Business Registers Agency (www.apr.gov.rs));
- Adoption of an EU compatible competition policy through the adoption of the competition (anti-monopoly) and accompanying bylaws that that will enable the competition authority to be built and will provide the groundwork for authority operations;
- Removal of legislative barriers to efficient contract enforcement through the adoption of the new Law on Enforcement Procedure;
- Introduction of Regulatory Impact Assessment as mandatory whereby all ministries area obliged to perform RIA on proposed laws and by-laws with the aim to lower the cost of doing business and improve regulatory reform by enhancing capacity to assess need for and quality of regulations and market impacts of proposed rules on business.

The World Bank/IFC FIAS project had also in the early 2000s undertaken a review of Serbia's investment climate which to some extent set the agenda for further reforms.⁷⁰ Besides the international organizations and the EU, bilateral donors which were active in BER in the early 2000s were USAID and GTZ. The scene was not characterized by 'donor crowding' when SECO entered in the mid 2000s.

⁶⁹ http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

⁷⁰ The World Bank (2004), *Investment Climate Assessment, Serbia*

6.5 The Swiss support in Serbia

The Cooperation Strategy of Switzerland with Serbia and Montenegro 2007–2009 (Cooperation Strategy), stated as the overall goal of the Swiss cooperation program in Serbia over the period “the social, economic and political transition of Serbia, including its regional, European and international integration”.⁷¹ The program was consolidated in four domains, each of which was essential in the overall transition context: education, public infrastructure, local governance, and private sector development. The specific objectives related to private sector development were defined as: “A private-sector, friendly legal and regulatory framework is in place, and the private sector, especially SMEs, have access to markets and investments, thereby creating employment opportunities and equitable growth.”

The private sector development projects implemented in accordance with this Strategy have been aimed at: (i) the business climate for investment through improving the legal and regulatory environment as well as direct investment promotion; (ii) access to finance especially for SMEs; (iii) capacity building and advisory services including income generation for the most vulnerable; and (iv) trade (policy, efficiency and promotion). Many of the projects have been part of wider regional or international initiatives managed by third parties.

The overall goals of the new Swiss Cooperation Strategy 2010-2013 relate to European integration in four domains (economic development; rule of law and democracy; education; energy efficiency and renewable energy). In terms of business environment, the Strategy states that “SECO will continue to promote new reforms, especially at the sub-national level in medium-sized municipalities, with an emphasis on implementing policies, enforcing the regulatory framework and building related capacities.”

6.6 SECO’s business environment reform projects in Serbia:

The projects

As indicated earlier, the three SECO supported BER projects in Serbia since the mid 2000s are:

- EBRD Insolvency Regulator Capacity-building in South Eastern Europe with a special focus on Serbia, 2004-07 with SECO allocation for Serbia of EUR 0,3 million in a broader regional project ending in 2011;
- GTZ’s Commercial Law Reform Project with a SECO allocation of EUR 0,15 million in 2005-07, in a long-term large EUR 8 million project started 2001 and ended in 2010; and
- IFCs Sub-national Competitiveness Project 2007-10 as a part of IFC’s Western Balkan Investment Climate Program with SECO funding of USD 0,5 million, a project in which SECO was the main funder.

Neither project is a major investment from SECO’s point of view, but the portfolio provides a good spread on approaches, both in terms of focus areas and use of implementing channels. For a fuller description of the projects and an assessment of them in the Serbian context, see **Annex 8**. Below is a summary.

⁷¹ The reference is made here to this strategy as it was in place during the time of the SECO projects. It has been replaced with a strategy for the period 2010-2013

Relevance

We considered all three projects as *relevant* at the time they were initiated. They were well in line with government and donor priorities, building on previous reform work by the World Bank and programs such as FIAS. SECO's involvement in the GTZ Commercial Law Reform Project and the focus on the "second wave" of regulatory change in the selected areas (mortgage, foreign trade, investment funds) was well selected, considering that some of the other priority areas such as privatization, banking sector reform, introduction of VAT, were already initiated and well advanced.

Subsequently it became clear that in addition to the adoption of new, market friendly legislation, implementation needs to play a key role. It was necessary to secure the building of several new institutions as well as their maintenance and capacity building. In this period (2005) the Bankruptcy Supervision Agency was created in order to implement the new Bankruptcy Procedure Act. SECO's decision to participate in the EBRD Insolvency Regulator Capacity-Building Project was timely and relevant for the circumstances.

SECO's decision to be the main partner of IFC in its Sub-National Competitiveness Project was a sound decision, considering that the international organizations as well as large bilateral donors mostly focus on reforms at the national level, which left an open space for SECO as a small bilateral donor to have a significant impact and value added through the implementation of this project.

Effectiveness

All of the projects have proven *effective* in terms of delivering good results in line with their immediate objectives. They are contributing to Serbia's reform process, are appreciated by the government authorities and also by the business community. However, only in one of the three projects SECO can take the credit for this - the IFC sub-national competitiveness project. In the other two projects, SECO chose to end the involvement prior to completion of the projects. In the GTZ project, difficulties with reporting on progress contributed. In the EBRD project the performance at the end of 2007 was bleak, besides repeated problems in the partnership between SECO and EBRD. In retrospect both projects can from SECO's perspective be described as difficulties for SECO to find an effective working relationship with the chosen partner organisations.

The IFC sub-national competitiveness project, on the other hand, is a success and SECO's role clearly manifested and demonstrated. A major achievement was streamlining of the local regulations and modernising these through setting up a formalities register and a publicly accessible web portal with information on all the formalities in each of the selected localities. This resulted in potential considerable cost-savings to the private sector. The project, implemented in two phases in ten municipalities, is today functioning as a demonstration case for other municipalities; the achievements are also to be used by the central Standing Conference of Towns and Municipalities (SCTM) as a means of spreading the local reform process to other municipalities.

While the sub-national reform process is far from over in Serbia, in the targeted municipalities under the IFC-SECO project or in the rest of Serbia's 145 municipalities, neither IFC, nor SECO seem currently planning to continue the work sub-nationally. In the case of IFC it is a matter of strategic choice globally.

6.7 The role of the Swiss office in Serbia

The local Swiss office in Belgrade shows an impressive detailed knowledge concerning the BER projects which SECO has been involved in. This knowledge is also grounded in intimate knowledge of the local organisations of relevance. This was confirmed by the persons interviewed both in the donor community and among stakeholders. There has been an active participation in the project implementation by the staff, not least the local staff which constitutes a significant institutional memory. As far as we can judge, there is good integration with other relevant projects, for example the SDC project Market for the Poor (M4P) implemented in the same region as the sub-national competitiveness project.

6.8 Conclusions from Serbia

From the work in Serbia we conclude that:

- SECO's involvement in BER was clearly relevant in the targeting of subject matters at the time it was initiated;
- The three projects all produced good results in terms of outputs and outcome;
- While SECO, as the main funder, can claim concrete results in the successful IFC sub-national competitiveness project, in the other two projects, SECO either had a minor role in (GTZ) or left prematurely (EBRD) to claim any value for its funding in terms of achieving results;
- The Swiss offices in Belgrade plays a strong role in BER and there is good synergies with other Swiss projects undertaken by SDC (for example the M4P program)

6.9 Future SECO involvement in BER in Serbia

SECO is in the process of defining its future involvement in Serbia in terms of business environment reform. The Swiss office is pursuing discussions with IFC concerning a taxation project, but the results of these are not clear. There is a concern in the Office to reduce the administrative burden of administering too many projects (in general) while, at the same time, build on SECO's experience and comparative advantage. Our recommendation is to develop a long-term sub-national business environment reform project which would replicate the reform undertaken in cooperation with the IFC project to other selected municipalities in Serbia, using local organisations and resources. Such a project would have the following merits:

- It builds on SECO experience and provides a continuation of these.
- It allows a long-term involvement with synergies with other sub-national projects in the portfolio.
- It builds upon and develops further national capacities.
- It tests the ability of SECO to carry out BER of its own.
- It would have strong visibility and additionality.
- There is no donor crowding at the local level

This idea is elaborated as a concept note in **Annex 9**.

7. CONCLUSIONS AND LESSONS LEARNED

7.1 Summing up the results

Summing up the results from the evaluation we conclude:

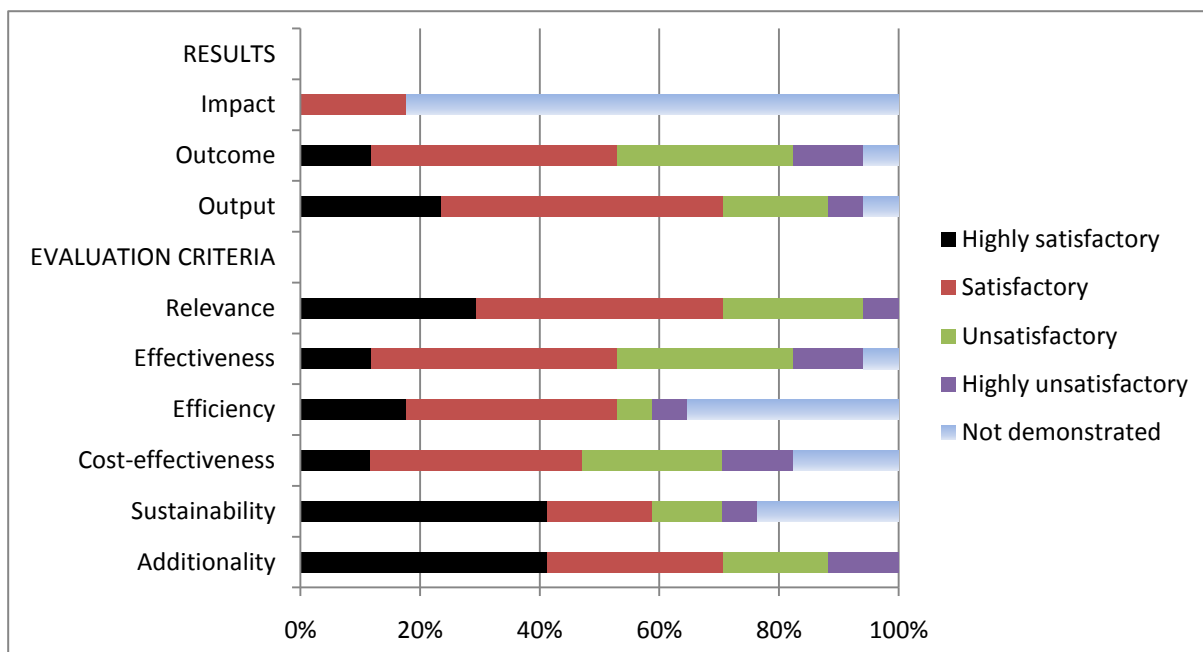
- there is overall a good degree of *relevance* in SECO's work in business environment reform. In our assessment we found that 75% of the projects in the portfolio can be considered satisfactory or highly satisfactory in terms of relevance. Such relevance is assured by a several factors: pre-project work by, for example, the WBG, identifying needs and problems at country level; usually a clear demand of support for reform by governments; considerable experience in business environment reform built up over the years especially by IFC and indirectly by SECO; and a flexibility in project design with a continuous learning while doing. The projects which were rated less than satisfactory had either a marginal BER element in a multi-component project, or were implemented in a sub-standard fashion.
- The portfolio has, overall, shown good results in *delivering outputs* in the form of proposed new laws, proposals for elimination of unnecessary regulations, streamlining of procedures, modernisation of regulations and their implementation, related training and capacity building. With few exceptions, the SECO projects deliver what they are set out to do.
- In terms of *outcome* – implemented reforms – the results have been mixed in the portfolio as a whole. However, for a majority of projects there is evidence of improvements in the business environment, e.g. *reduced barriers to competition* (i.e. barriers to entry, barriers to exit).
- There are clear attempts in many of the portfolio projects to quantify outcomes in the form of *private sector cost savings* due to easing of the administrative burden, ease of starting and closing business and overall reduction of red tape. While such quantification of outcome is a strong element of IFC's BER projects, the indicated results vary to such an extent due to differences in methodologies applied, that its usefulness for cross-project comparison is limited. IFC is working on this as discussed in chapter 3.
- In terms of indicators suggested in SECO's Approach Paper for the evaluation of *impact on actual business performance* such as (i) rate of business registration; (ii) reduced risk for businesses, (iii) effects on business profitability, there are only a few cases for which results have been reported.
- In terms of impact of the portfolio projects on *job-creation* and *investments* which can be attributed to the projects, only two projects have a result-reporting attempting to assess this (Burkina Faso and Egypt). Thus, the evaluation cannot make any statement on such aggregated results. This is disappointing, but probably a reflection of the fact that attribution challenges increase the further we move along the results chain.
- From the above we conclude in terms of *effectiveness* measured against expected outcome in terms of institutionalised reforms, the portfolio has, overall had a mixed

result with slightly over half of the projects rated satisfactory or highly satisfactory. This category is dominated by IFC implemented projects, indicating that IFC is a professional organisation in BER, while SECO's experience with most other partners has been disappointing.

- The analysis on *ultimate impact* indicators such as economic opportunities, productivity, improved livelihoods for poor people, integration in regional and global markets and sustained economic growth as suggested as criteria in SECO's Approach Paper is absent in all the result-reporting from the projects. Hence, no statement can be made by us on this.
- Existing result-reporting indicates that the portfolio is overall *efficient*, with over 80% of the rated projects judged as satisfactory or highly satisfactory in this respect. However, we often must question such statements due to lack of evidence. Although the quality of management of projects, reporting standards etc. are usually found to be satisfactory, costs are rarely analysed and possibilities to undertake comparisons between different projects and approaches are not available.
- *Sustainability* is overall likely to be good for the SECO projects. In our assessment nearly 80% of the projects had a satisfactory or highly satisfactory rating in this respect. Strong political pressure on reform in most countries assures that results will be maintained. IFC's Doing Business reports contribute to this by creating transparency on performance.
- With the caveat that the cost-dimension of the portfolio tends to be poorly assessed, we have nevertheless rated slightly more than half of the portfolio as reasonably *cost-effective*. One criteria used is the ratio between overall cost of the project and the expected costs-savings by the private sector due to reforms.
- The *additionality* of SECO to the portfolio appears to be significant for 80% of the projects. While there are a few projects for which SECO's additionality probably is near zero (the projects would have been carried out at the same scope and format anyway), many projects would probably not have taken place without the Swiss support. The additionality in terms of inputs into design, supervision, quality control etc. is difficult to determine due to lack of reporting on this, but at least for some projects this can be assumed to be substantial. SECO has been an active and engaged partner especially with the IFC and the World Bank.

Figure 14 below summarises our findings in terms of results and the evaluation criteria for the SECO portfolio.

Figure 14: Results at each level of the results chain according to our assessment based on results reports on SECO's BER portfolio (17 projects/programs)



7.2 SECO as a development agent in business environment reform

We conclude that:

- SECO is a *professional organisation* which today has strong insight into various dimensions of business economic reforms vested in its key staff. In spite of its smallness, SECO can act as a professional partner to organisations such as the World Bank and IFC. In our experience, SECO stands out as one of the most professional bilateral donors in BER.
- The management procedures of SECO as reflected in decision notes, completion reports, active participation in donor meetings, report requirements from partners, the strategy formulation for PSD, etc. are an indication of a *good management culture* in BER. However, SECO can do more to assure ‘value for money’ by applying better results-based management techniques.
- *Learning* in SECO in BER has been effective as a result of project experience and through the cooperation with the World Bank Group. However, SECO has a rather low profile in other donor learning mechanisms. SECO is not a member of DCED’s Business Environment Working Group, a key international platform for policy coordination and knowledge management in the field of BER.
- SECO is applying current *best practices* in BER mainly as a result of its reliance on professional partners such as IFC and the World Bank, which themselves are leading in developing best practices. SECO is sufficiently informed of the practices being developed in BER as further elaborated below.
- The desire for *visibility* is a strong feature in SECO’s work triggered by demands on the organisation from its constituency, the Swiss parliament. Visibility has been and continues to be a problem in BER, however, as SECO depends on other organisations for project implementation.

- **Synergies** with other Swiss interventions in private sector development undertaken by SDC and SIFEM seem more to take place in an informal, than formal way, and primarily taking place at the field level through the integrated offices of SECO and SDC. Given SECO's interest in BER and SDCs in market development (with special emphasis on the “M4P approach”⁷² the two agencies should be able to jointly develop interesting synergies relating to BER with a sector- or sub-national focus.

7.3 The choice of partners

The unique role of the World Bank Group

As discussed earlier, SECO has cooperated with a number of implementing agencies in its BER work, including multilateral organisations such as the World Bank, IFC, EBRD and UNCTAD, bilateral agencies (German GTZ), and non-governmental organisations (FUNDES). The implementing organisations have different modes of operation in BER and a comparison is not entirely simple to undertake. Nevertheless, IFC emerges from our assessment as the partner with the strongest record in terms of results and effectiveness in BER, especially in projects of more recent date. There is a clear rationale for this: as outlined in chapter 4, IFC has in partnership with the World Bank over the years developed a high degree of specialisation in business environment reform, not least triggered by the work on the Doing Business indicators since 2004. The publishing of the DB reports have often caused governments to request support from the WB Group to improve their countries' ranking in the DB. IFC has been effective in responding to such requests from governments. DB has become a global bench-mark for business environment reform and is to some extent synonymous with such reforms. Through a number of similar projects around the world, IFC has also developed a strong resource pool of expertise, and has over time rolled out increasingly standardized methods to address various aspects of the business environment reform agenda.

The World Bank Group is also a *centre of knowledge* development in the field of business environment, not least through FIAS. The research capacity is stronger than other organisations, feeding learning into practice. Strengthening the competence of IFC in BER is also its continuous development of a *methodology in performance* measurement. Thus, the internal Monitoring & Evaluation system of projects, reporting on success rates of changing regulations and cutting red tape, and in methods to quantify impact of the BER projects in private sector cost savings, provide further strength to IFC as an implementing organisation in BER. These developments have been closely aligned with donors reporting requirements for results, hence a smooth and often comfortable partnership has evolved. In fact, SECO's own objectives of BER mirror perfectly the Doing Business criteria. IFC has also developed a capacity for a flexible and demand-driven approach to BER, rather than a 'blue-print' style. Typically, BER projects even of fairly precise and short duration show considerable 'learning while doing'.⁷³

A functional partnership with IFC

Overall, there is currently no organisation that can compete with IFC to deliver professional services in business environment reform with a focus on regulations and policy. Our assessment has found no evidence to question SECO's own perception that IFC is its most

⁷² Extensive documentation on the M4P approach and SDCs involvement in M4P is found on www.springfieldcentre.com/papers.

⁷³ Examples of this are the Burkina Faso projects which added 4 components in BER to the original 4 during the course of the project, for example on construction permits. Another example is Serbia where a second round of sub-national interventions in new municipalities added new features.

competent and effective partner in BER. The cooperation between SECO and IFC in BER is reinforcing the overall partnership between the organisations. SECO is one of IFC's major contributors and IFC delivers a substantial share of SECO's private sector development support in SECO's priority countries. It is a mutually benefitting partnership. SECO considers that over the years it has been able to influence IFC in different ways, such as in developing exit strategies, the reporting, etc. During the evaluation we received several testimonies of appreciation from IFC officials of SECO as a partner, not only for its financial support, but also for SECO's active engagement, knowledge, dialogue and participation in project development.

7.4 Risks with SECO's dependency on IFC

Unequal partnership

The trusted partnership with IFC has its drawbacks, though. IFC is an organisation which from its profits and broad donor funding is increasingly able to establish its own agenda with a declining need for donor funds. In respect of its own transaction costs, IFC tends to prefer basket funding, rather than project financing which SECO prefers. IFC's country priorities do not fully overlap with SECO's. Indeed, IFC's current orientation is towards IDA countries while SECO has a strong focus on middle income countries. This particular issue is currently playing out in Serbia, where SECO is eager to continue a pipeline of BER projects with IFC, but IFC has not yet delivered this due to its own strategic considerations.

Low visibility

A partnership with IFC implies that IFC will be the dominant partner towards the client and on the global scene. IFC is such a major global player and tends to promote projects and programs under its own flag (albeit with mentioning of the donor) even when the funding entirely might be derived from a donor such as SECO. This is contradictory to SECO's desire of visibility for its interventions.

Inherent risks of a 'monopoly'

Another risk is that IFC (and the World Bank) through its dominant position in BER have a position of 'monopoly.' Through the Doing Business it sets the agenda and provides the bench-mark, through its delivery mechanism no organisation can rival IFC, and through its M&E it also provides the format for performance judgement. However, Doing Business is not without its critiques as discussed in chapter 3. A too strong focus on DB might be a sub-optimal strategy to promote business, growth, job-creation and investments. A monopoly is rarely good for dynamic evolution, but rather preserves existing patterns. A monopoly also tends to prescribe one model, one fit-for all approach.

7.5 SECO's experience with other partners

The mixed, but mostly negative results with alternative donors to IFC such as FUNDES, GTZ and EBRD can be summarised as:

- Problems to find working relationships, reflected in, for example, reporting requirements (GTZ, EBRD)
- Poor capacity by the partner to deliver quality outputs (FUNDES)

The experience in cooperation with UNCTAD is mixed. However, it is limited to reform in the policies/regulation and capacity building concerning foreign investments, hence is not the mainstream of BER.

Based on these lessons, the options for alternative modes of strategic partnerships are discussed in the final chapter.

7.6 The feed-back mechanisms on results and ‘value for money’

Evaluations and mid-term reviews

An important element of the result-reporting of development projects are mid-term reviews and external evaluations. The use of such instruments by SECO varies a great deal, however. Not all the portfolio projects have been subjected to an external evaluation or a mid-term review. This is partly due to the fact that some are relatively new, and still on-going, but there seems also to be a systemic issue that such reporting is not done for ‘smaller’ projects for which SECO is the only or major donor, even if these, as in the case of IFC’s BEE project in Uzbekistan, went on for 7 years. None of the SECO funded BER projects under the IFC PEP ECA program has been subject for an evaluation, and the mid-term reviews undertaken by IFC for the Western Balkan projects are of such nature that they have little value to the donor. The limited use of this instrument for the ‘smaller’ projects which jointly constitute a substantial investment of SECO is, therefore, unfortunate.

Limited control over the evaluation process

As seen in **Annex 4**, the multilateral implementing agencies, which in most cases determine the choice of external reviewers and evaluators, tend to use the same persons or companies. This might be justified because these persons/companies know the subject matter and the projects better than others, hence there are lower start-up costs. There is, on the other hand, a risk that frequently used external evaluators develop vested interests as ‘house consultants’ and might refrain from more critical analysis. It is unfortunate that external funders of projects, including SECO, almost without exceptions ‘delegate’ to the implementing organisations to determine the terms of reference for external reviews, to select the companies to carry these out, and also to be in charge of the reporting process. In the evaluation reports for the portfolio projects, we have not found one single report taking a critical view of IFC’s work in business environment reform, for example assessing IFC’s efficiency as comparative to alternative channels.⁷⁴ Nor is there in any of the reporting a comparative analysis to what extent other interventions in private sector development in a specific country would have provided better value for money. It is also uncommon that the evaluations consider the projects in the context of what other donors are doing in the same country and ‘sector’. Donor crowding is not uncommon and parallel donor activities in business environment reform might considerably determine attribution.

SECO’s internal results-reporting

SECO has a well functioning system to report on performance at the end of a project through its Completion Notes. These are good management tools, providing insightful views of the projects and their outcome as well as a basis for organisational learning. The reports are based both on SECO officers’ own experience and on available results-reporting. By necessity they are brief, and provide only a broad picture of the performance without details of outcome and impact. In exceptional cases, no completion note has been prepared in spite of the fact that the project (from SECO’s point of view) is ended. For example, this is the case with the EBRD Insolvency Capacity Building Program which ended in 2007 and FUNDES, a project ended in 2010. Both are problem projects and Completion notes would have been essential for

⁷⁴ SECO sees IFC as very expensive, but this is based on own observations and not any analytical work by evaluators

institutionalised organisational learning (such learning has clearly taken place at any rate as SECO is a small organisation and learning is vested in the staff).

Using log-frames

Logical Framework Analysis (LFA) is a common method applied by donors as a means to structure the objectives at different levels, making the assumed results-chains explicit and also defining performance indicators. While in the reporting reviewed there are occasional references to log-frames, LFA has not been applied systematically (*ex-ante* and *ex-post*) in any of these projects. From this point of view the LFA technique seems not to play an as strong role as a tool in results-based management by SECO as is the potential of this tool.

7.7 Applying best practices

In chapter 4 the best practices in BER were summarized as expressed by DCED in 15 criteria. Below is our assessment of the SECO BER portfolio against these criteria.

Table 5: SECO's adherence to DCED Best practices

Best practices	Assessment based on the results reporting	Rating
Adopt a systemic approach to reform	This is applied in most portfolio projects. A clear feature of IFC's recent projects	HS
Understand and respond to the political economy of reform	The politics are well understood, but reforms often falter due to limited 'political will'; Doing Business is a means to pressure governments to reform	S
Respond to and stimulate the demand for reform and drivers of change	Most projects are demand-driven; the dimension of change agents rarely discussed in reporting	S
Ensure domestic ownership and oversight of reform efforts	Done systematically, but ownership changes due to political changes, sometimes setting back results	S
Strengthen the role and capacity of key stakeholders	Training integral part of projects, but the issue is the question of length and depth	S
Focus on what the private sector needs through public-private dialogue	A part of most projects, but a stronger focus could be applied of involving the business community	S
Focus on the binding constraints to business growth and scope reforms accordingly	Assessment of binding constraints rarely discussed in results-reporting, but might be utilised <i>ex-ante</i> although this is not explicit	S??
Sequence business environment reforms and allow time	Generally the case	S
Address the implementation gap	Often not done due to short project periods	US
Formulate a communication strategy and use media strategically	A systematically applied strategy in IFC projects	HS
Work with government as the lead agent	Systematic in SECO projects both at national and sub-national level	
Align business environment reforms with national development plans	Likely to be done, but rarely discussed in results-reporting	S
Ensure good donor coordination	Mixed – many projects involving several donors; coordination with other donors not addressed in results-reporting	S??
Balance international and national expertise	Generally well applied	S
Promote quality assurance in development agency support of business environment reform.	Good, but more active participation by SECO in international BER knowledge initiatives would be preferable	S

HS= Highly satisfactory; S= Satisfactory; US= Unsatisfactory; ?? = indicate that the topic rarely is discussed in results-reporting, hence our assessment is based on weak material

While the result-reporting not necessarily are explicit on all best practices, there is sufficient evidence to indicate that SEO's work is well aligned to these.

7.8 The societal impact

In none of the evaluations or mid-term reviews from the portfolio is there a discussion of the potential impact of the projects on the society beyond business: for example, whether a reduction in the administrative burden for the business community might have a negative effect by reducing social control of some kind. Neither is there a discussion of the consequences of transfers (a reduced fee paid by a company is also, presumably, a reduced fee accruing to the state or municipality.)

7.9 The questionable efficiency dimension

As noted in chapter 5, there is a striking feature in the results-reporting on the SECO supported BER projects in that these rarely assess the cost-dimension of the projects while at the same time claim efficient performance. Costs are rarely considered, and attempts to assess for example input-output ratios for specific deliverables to allow comparisons between different projects or approaches are not made. Such lack of real efficiency considerations likely reflects the nature of development assistance. It is more driven by budget allocations (and often with an overriding target to allocate and disburse a certain percentage of GDP to aid), which create no incentive in the system for efficiency. For example, in the comparative evaluation of four IFC BER projects in Africa, the evaluators attempted to do an efficiency analysis, but concluded that

"...the analysis of efficiency is prevented by the lack of sufficiently detailed information regarding the utilization of financial resources. In fact, in all the projects analyzed, expenditures were not tracked by component or activity stream, but only by type of expense (e.g. staff costs, travel costs, etc.), and even budgets are only sometimes available in a highly aggregated form (e.g. for Burkina Faso no budget breakdown by component is available".

While implementing agencies might have a reason to refrain from efficiency considerations, donors should not.⁷⁵

7.10 A broader concept of Business Environment

It is important to keep in mind that the regulatory environment and its associated 'cost of doing business' is one factor in a sea of many factors which influence a foreign investor's decision to go into a new country or expand existing operations, or a local person's willingness to take risks to start a new business venture, or willingness to invest and employ more people. It is just one factor and rarely or never the most important factor. Market conditions and market size, access to resources, labour cost and labour productivity are generally more important considerations. The argument here is not that 'bad regulation' is better than 'good' – clearly not - but a question of prioritising and selecting the best value for money. One conclusion from the comparative evaluation of four IFC projects in Africa was that the apparent much lower relative outcome and impact on jobs and investments in Burkina Faso was possibly due to the fact that the other three were more comprehensive projects than in Burkina. They included support for investment promotion etc., while Burkina was a 'pure' BER project.

⁷⁵ SECO has informed IFC that SECO can only accept activity-based budgets. However, SECO has not always succeeded to receive them. IFC claims it is in the process of upgrading its accounting software to allow for activity-based budgeting and cost monitoring.

7.11 External factors: What are the conditions for effective BER?

The portfolio analysis leads to the following tentative conclusions which are factors that determine the effectiveness of the BER interventions, i.e. under which conditions projects are likely to be successful or not successful:

- The *professionalism of the implementing organisation*; the case of FUNDES indicates that support for business environment reform is not an easy task, while IFC tends to provide good results.
- *Ownership* – reforms that are requested by governments - often after a critique of their countries' placement in Doing Business ranking – seem to have a better chance of success,
- *'Staying power'* – from SECO's point of view the limited inputs into EBRD and GTZ projects in Serbia were not successful. While the broader projects eventually turned out well, SECO left – as it turned out – prematurely and had little or no recognised role in the outcome
- The *openness to change* –resistance to change is paramount in countries and organisations. The conditions and abilities to overcome such change, sometimes referred as 'political will', is often a factor determining results.

8. SECO'S STRATEGIC ORIENTATION – SUGGESTIONS FOR THE FUTURE

8.1 A SWOT analysis of SECO

Concerning the strategic orientation of SECO in business environment reform we summarize our assessment of SECO's work in this field with a simple SWOT analysis below:

Strengths

- An active donor in BER with high professional standards; SECO is one of the most professional among bilateral donors in our experience, which is also endorsed by implementing organisational staff interviewed;
- long-term and well-functioning partnership with the World Bank and IFC; respect from both sides of one another;
- Strong record in BER with a considerable portfolio spread over different types of interventions and implementing channels;
- A distinct policy for what SECO should do in BER
- Integrated SECO/SDC offices in the field allowing hands-on involvement and also coordination with other Swiss projects (by SDC)
- A limited number of priority countries allowing geographical concentration.

Weaknesses

- Few alternatives to IFC as a partner organisation; 'all eggs in one basket'
- Disappointing results from other partnerships
- Weak assurance of 'value for money' due to the quality of the result-reporting
- A small organisation with a limited human resources capacity
- BER projects tend to be short in time, mostly focusing on the content of reform and less on the long-term implementation of reform.

Opportunities

- A developed know how in BER with opportunities do to more and to play an even more central role
- The 'Swiss model' as an opportunity to explore in a broader PSD context: neutrality, decentralised governance, a very successful economy, unique competencies as a land-locked, resource limited country with a vibrant business sector with global reach
- A small, flexible organisation with opportunities to innovate and seek new approaches off the mainstream track, exploiting also "Swiss comparative advantages";

Threats

- Vulnerability due to limited administrative capacity – reliance on a few persons as institutional memory and capacity
- IFC taking a different route in geographical orientation
- BER turning out to be a sub-optimal approach to promote business development, economic growth and poverty reduction

We take these aspects as a basis for our conclusions and recommendations for SECO's future work in BER with an outlook to a broader PSD agenda.

8.2 Deepening the IFC partnership

SECO has a well-functioning partnership with IFC (and the World Bank through FIAS) in business environment reform. Our evaluation has not provided any evidence as a ground to

change this. Rather, there is a strong case for SECO to continue this partnership and if possible deepen it further by providing an engaged donor's perspective on BER. The latter might include, for example:

- Engage IFC to deliver better analysis of actual costs of outputs which can lead to operative standards and project comparisons on efficiency.
- Take a stronger position on external and independent evaluations of supported projects, also including 'smaller projects' and with a stronger involvement in the design of such evaluations (ToR);
- Develop a joint strategic framework for a long-term cooperation; this could mean, for example, to define thematic sub-areas in BER that SECO want to focus upon;
- Develop a more extensive pipeline of projects fitting SECO's prioritising of countries.

8.3 Creating strategic partnerships with bilateral donors or international NGOs

SECO has so far developed partnerships in business environment reform with not more than a limited number of donors or international NGOs. In order to reduce the dependency on IFC, SECO might consider exploring other partnerships, for example with key players in BER such as USAID, ICF and DFID. There might also be a case to explore a deeper partnership with GTZ in spite of the mixed experience in Serbia. GTZ is a key player in BER with a long-term approach, and there are potential synergies between the organisations.

8.4 Going alone

Our preferred option as a complement to IFC is, however, that SECO on a selective basis begins to undertake 'own' business environment reform projects. Although such an option is more demanding on SECO's administration and management capacities than partnerships, it has several advantages: 1) it enhances strongly SECO's *visibility* and *additionality*; 2) it allows the organisation to better link BER activities to other SECO interventions, prioritising on countries and aligning with Swiss Cooperation strategies; 3) it enforces SECO's learning and professional development; 4) through 'own' projects SECO can explore opportunities to use the Swiss 'resource base' and systematically utilise local professional resources; and 5) it allows SECO for a specialisation on certain dimensions of BER, for example sub-national approaches; secure lending and taxation. A case for such an own-implemented BER project is outlined for Serbia in **annex 8**.

8.5 Assuring effective results-analysis

A results-assessment is paramount in development assistance, and there is increasing pressure in most development organisations to show the results of their work and assure proof of 'value for money'. A conclusion from the Evaluation is that there are many weaknesses in the existing results-reporting system for BER described above. We recommend that SECO:

- establishes a mechanism by which all of its funded projects are subject for an external review or evaluation, and that financial resources for this is allocated at the decision stage;
- make sure implementing organisations report systematically on agreed outcome indicators (for example, established in log-frames) in progress reports
- takes a stronger position in agency organised reviews and evaluations in terms of including assessment of cost-effectiveness and 'value for money';
- periodically initiates independent evaluations (in co-financed projects jointly with other donors) of more substantial projects implemented by partner organisations;

- in its own reporting (Decision notes for new phases and Completion notes) makes a critical assessment of SECO's *additionality* to the projects, for example in design and supervision;
- includes an assessment of the 'societal' impact of the BER support as a complement to the business perspective in terms of potential effects on the regulatory effectiveness, revenue streams to the public sector, impact on corruption and rent-seeking, etc. Especially environmental impact and impact on corruption are in line with SECO's policy.

8.6 The choice of interventions

The Approach Paper requests the Evaluation to provide strategic suggestions on what the best and most relevant approaches for support of BER would be in the future. One dimension of this is whether SECO should change its focus on specific functional areas in the realm of business environment reform. As indicated in chapter 2, SECO has identified focus areas such as business laws and regulations, contract enforcement laws, etc., while not explicitly in its policy mentioned, for example, taxation or public-private dialogue processes which are part of the DCED catalogue. As long as SECO is working through organisations such as IFC in country or regional projects, the needs assessment must determine the focus areas applied, rather than a predetermined blue-print. The constraints in the business environment differ from country to country, and from time to time as indicated in the Serbia case study.

If SECO goes 'alone' as suggested above as a complementary approach, a more focussed method would make sense in order to strengthen and develop the organisational capacity. Key focus areas might be taxation (tax policies and administration) and policies and regulations for the commercial financial sector. A third focus area (not one defined by DCED) might be sub-national reforms. These first two are already identified by SECO, for example in its work with FIAS. The third is in line with Swiss overall strategy in development cooperation. In all three areas Switzerland has unique competencies, hence can provide socialised services in the development cooperation.

8.7 Strengthen the cross-cutting issues

SECO has identified two key cross-cutting issues in its PSD policy as mentioned earlier. Economic governance and the fight against corruption is highly relevant in BER, but reforms in the business environment might also have direct relevance for *climate change and environment* (For example, to what extent are reforms taking such dimensions into account and aims at fostering a more prudent use of natural resources). As also mentioned earlier, these cross-cutting issues are poorly dealt with in the results-reporting of the BER projects. We recommend that SECO should make these more mainstreamed than currently by

- insisting that impact of the reforms on economic governance, corruption, climate and environment are dealt with in progress and results-reporting reporting by implementing agencies; and
- that SECO in its own reporting (Decision notes and Completion notes) assess these issues.

8.8 Seeking new approaches

Focus on implementation of reforms and resistance to change

The support for business environment reform by the donor community tends to focus on the content of reform and less on the longer-term implementation of reform. At the same time, it is recognised that reforms are often only partially implemented and sometimes there is reversal due to the political economy, vested interests and rent-seeking, general human

resistance to change in organisations, etc. The importance of ‘political will’ – or lack thereof - is often used as an expression of determinants of change. SECO might explore the opportunities to work on ‘change mechanisms’, exploring the opportunities to use techniques and systems today used in management and corporate governance, and overall add focus on the longer-term implementation of reform.

Beyond the ‘minimalist’ agenda

The World Bank Group has until very recently followed a neo-classic approach to economic development as reflected in structural adjustment and in the creation of a ‘level playing field’ in economic reform. Its critics point to the fact that some of the most successful economies over the past 20-30 years (such as China, Vietnam, South Korea, Singapore, Mauritius, and earlier countries such as Sweden and Switzerland) often have not applied such economic policies, but what sometimes is referred to as structuralism whereby the state plays an active part in setting priorities, developing selective instruments to promote certain business sectors, initiating active public-partnerships which have fostered growth in selected industrial sectors and so on. SECO’s work in BER (and in PSD in general) has an implicit approach reflecting the World Bank Group agenda. The World Bank Group is changing, perhaps triggered by the fact that its new chief economist is Chinese and the head of the PSD network is from Singapore. SECO might closely follow this trend, and also explore alternative methods of identifying potential competitiveness edges of nations, perhaps with a base in European experience and overall support countries in identifying their niches in a global economy.

Exploring Switzerland’s unique competencies

Bilateral donors tend to be weak in providing services in development assistance utilising their own unique competencies. To some extent SECO is doing so in BER by its focus on capital markets and taxation (in FIAS) and on sub-national competitiveness projects (as in BiH, Serbia and Indonesia). There are obviously other areas where Switzerland has developed unique competencies of relevance in business and economic development, for example in overcoming the general constraint of being a land-locked country. There are other unique competencies in specific industrial sectors such as in pharmaceuticals, engineering, food etc. In general, the historic model of Switzerland as a multi-lingual, poorly resource-based, land-locked country placed in a setting of major historical conflicts, and yet prosperous and largely unaffected by external or internal conflicts should be an inspiration for many developing countries. Exploiting such uniqueness would be most effective means to achieve visibility and additionality in Swiss development cooperation.

Exploring linkages to Swiss and other business as change agents

Private sector development pursued by donors is today taking many venues besides working with governments to improve business and investment climates. One such avenue is working with the business community in donor countries to promote change and investments, sometimes called Business for Development, B4D. SECO has unique opportunities in this field through its close linkage to SIFEM and the strong global competitiveness of Swiss industry. In this context the work that has been started by DCED-BEWG to carry out an inventory of innovative approaches to engaging the international private sector in BER may of specific interest to SECO.

8.9 A new style private sector development strategy

The Approach Paper requests the evaluation to answer the question whether there is a need and a rationale for a SECO sector strategy for PSD-BEE. We believe that a specific strategy for business environment reform is not required. However, SECO might consider drafting a

broader PSD strategy taking into account most recent learning in PSD as well as exploring SECO's and Switzerland's unique competence and comparative advantage in this field. If such a strategy would focus on the new 'industrial policy' trend in PSD, it could contribute to SECO's future work, and possibly also to the thinking in the donor community. We believe that as much as poor countries can learn from the successful emerging economies, there is to learn from the European economic history pursued by the smaller states characterised by a private sector development based on human rights and respect.

The Role and Effectiveness of SECO Cooperation in Private Sector Development – Business Environment Reform

APPROACH PAPER

Background

Private Sector Development

Private Sector Development (PSD) is a fairly broad sector comprising macro-economic policies, infrastructure services, investment climate, business environment, access to finance, business management, etc.

By generating employment opportunities and income, PSD has the potential to get people out of poverty. Moreover, by addressing systemic constraints (e.g. market or government failures), PSD can leverage resources. For example, the incentive to make a profit can lead other businesses to copy a positive change on a massive scale.

However, while it is generally accepted that reforming the investment climate is a cost-effective way to promote PSD and improve competitiveness, it is unclear how significant the link is between business environment reform and economic growth and poverty reduction and whether it can be measured. Regulatory reform may not be the immediate priority in some cases. Quality of regulation and the effect it has on firm behaviour can also be an issue.

SECO Involvement in Private Sector Development

The Private Sector Development Division (WEIF) is part of the Economic Cooperation and Development Department at the State Secretariat for Economic Affairs (SECO), which is responsible for the planning and implementation of economic and trade policy measures with developing, transition and EU enlargement⁷⁶ countries.

WEIF focuses its activities on the mobilization of private sector resources in partner countries, with a particular emphasis on small & medium sized enterprises (SME).

Operationally, the work of the Division is organized around three main pillars of intervention, aka **business lines** (BL):

BL 1: **Business enabling environment**, i.e. improving the business environment

BL 2: **Financial sector deepening and access to finance**, i.e. enhancing access to finance for companies and increasing efficiency of the financial sector

BL 3: **Sustainable management for SMEs** (and financial intermediaries), i.e. creating a sustainable basis for business activity

In addition, SECO provides a few complementary instruments to facilitate foreign direct investment in partner countries, such as the mandate for investment promotion in Sub-Saharan Africa (IPSSA) awarded to OSEC.

Generally, SECO also works on economic governance / fighting corruption as a cross-cutting topic in its PSD projects.

⁷⁶ However, the SECO contribution to enlargement is not part of this evaluation.

Rationale and Purpose of Independent Evaluation

Rationale

As part of its strategic steering and reporting (accountability), SECO implements one to two independent evaluations every year. In 2011 such an evaluation will assess the activities under BL 1: Business enabling environment (BEE) of WEIF. The current BL 1 portfolio comprises 16 projects with a yearly budget of roughly 10 million CHF.

Besides the accountability function, this evaluation should also provide an input to the development of the BEE portfolio in the priority countries of SECO (as part of the next ordinance on development cooperation 2013-16, due in early 2012).

In consideration of the timeframe and resources available, the Evaluation and Controlling Division (WECO) of SECO has decided to conduct this evaluation as a meta-evaluation, i.e. the evaluation will rely on existing project evaluations and end-of-project reports.

Purpose

The purpose of the evaluation is two-fold:

- 1) Accounting for results / achievements, i.e. assessing the extent to which:
 - SECO interventions in the partner countries have contributed to the objectives of reducing the main costs of doing business for the private sector (i.e. the burden of regulations, the burden of taxes, and the cost of finance) as well as barriers to competition (i.e. barriers to entry, barriers to exit);
 - SECO interventions in PSD-Business enabling environment have contributed to SECO's overall aim of supporting partner countries in their sustainable and environmentally friendly economic development;
- 2) Reviewing the strategic orientation of SECO in the area, incl. learning lessons and providing recommendations regarding the future SECO BEE portfolio in the priority countries.

The second purpose relates among others to the following questions, discussed in the context of private sector development:

- What is a functional demarcation between 'overall business environment framework' and other areas of PSD, such as access to finance, investment climate⁷⁷ or corporate governance, and (accordingly)
- What are the best / most relevant approaches to supporting BEE?

Both purposes are of equal importance to SECO. This means that the evaluation should strike a balance between reporting (accountability) and review of strategy (learning).

Scope

The evaluation shall be limited to business line 1: **Business enabling environment** for the following reasons:

- It encompasses a broad variety of issues relevant for PSD and the related instruments;
- It implements the biggest number of projects, thus providing a sufficient number of evaluations for this meta-evaluation;

⁷⁷ **World Bank:** Reforming the investment climate is a cost-effective way to promote private sector development and improve competitiveness. A growing body of evidence shows how reforms are strongly associated with economic growth and job creation.

- Compared to BL 2: Access to finance, which builds on fairly well established approaches, the concepts for supporting BEE are still more contested⁷⁸;
- In BL 3: Sustainable management of SME, SECO is a niche player with comparatively few projects in this area (and therefore also limited evaluations);

The evaluation shall cover those programmes and projects of BL 1 designed and conducted between circa 2001 and 2010 for which evaluation reports are available (see indicative list in the Annex). For practical purposes, a selection of projects to be included in the meta-evaluation may be necessary.

Focus and Evaluative Questions

Focus

With regard to achievements, the focus of the evaluation should be on the *project outcomes*. *Impact* will only be assessed to the extent that the evaluation reports, on which this meta-evaluation builds, provide sufficient and consistent information for an analysis at this level. To assess the relevance of the SECO approach in PSD-BEE, the focus of the evaluation should be on the *strategic intent*. This should include an assessment of the effectiveness of the (mix of) approaches (technical assistance, capacity building and policy development) applied by SECO in the sector.

Key Evaluation Questions

The evaluative questions take into account that the evaluation depends on existing evaluation reports. This excludes questions that depend on primary sources of information. Against the background of SECO's areas of intervention in BEE and using the DAC/OECD evaluation criteria as reference, the evaluation shall answer the following questions. The list is not exhaustive. Additional relevant questions may be identified by the evaluators, to be added if mutually agreed upon:

Relevance:

- Are the results of SECO projects contributing to reducing the critical constraints of the private sector for doing business and improving competitiveness in the context of the respective countries?
- Do the SECO projects and programs address the right areas of BEE and the right / relevant phases within the business life cycle to achieve relevant results?

⁷⁸ Donor Committee for Enterprise Development (DCED), Supporting Business Environment Reforms:

Contested Issue 1: Can we measure the extent to which business environment reform contributes to economic growth and poverty reduction?

While business environment reform contributes to economic growth and poverty reduction, it is unclear how significant this link is and whether it can be measured. The World Bank claims that if a country reformed sufficiently to move from the bottom quartile to the top quartile of the *Doing Business* ranking, it would add 2.3 percent to the annual growth rate. However, others have contested the extent to which such precision can be applied to this link, arguing that there is no simple, linear relationship between growth, income and regulation. A low level of regulation is optimal for rich countries, and highly regulated middle-income countries can benefit from deregulation. However, it is argued, regulatory reform may not be the immediate priority in some poor countries, nor for middle-income countries with low levels of regulation. Moreover, consideration should be given to the quality of regulation – not simply the volume – and the effect this has on firm behaviour.

SOURCES: [1] Djankov, S. et al. (2006) *Regulation and Growth*, World Bank: www.doingbusiness.org/documents/growthpaper_08_17.pdf

- What is the level of commitment by the country/government to support and sustain reforms in the policy framework governing PSD?
- To what extent and how do SECO projects complement the support of other donors?
- What is the comparative advantage and value added of SECO interventions?

Effectiveness:

In terms of outputs:

- What has been achieved in SECO projects in the following focus areas of BEE-interventions:
 - o Business laws and regulations
 - o Simplification of company registration
 - o Contract enforcement laws
 - o Insolvency & bankruptcy laws
 - o Property laws & land titling
 - o Labour laws & regulations?
- To what extent are new laws and regulations actually implemented? At what speed?
- What is the level of actual achievements compared to planned achievements?

Level of outcomes:

- To what extent have SECO interventions contributed to:
 - o Easing the starting and closing of businesses (for SME)
 - o Easing the administrative burden of businesses (SME)
 - o Reduced cost of doing business (for SME)
 - o Increased rate of business formation / reduced rate of informality
 - o Reduced risks for businesses (SME)
 - o Increased income / profits (for SME)
 - o Increase in productive employment opportunities, specially for the poor
 - o Increased levels of investments and innovation (competitiveness)?
 - o Increased regulatory transparency
- What is the level of actual achievements compared to planned achievements?

Level of impact (to the extent that the information available in the reports allows an assessment):

- What are the direct and long term effects that can be linked in a plausible manner to Swiss supported actions in terms of:
 - o Increased economic opportunities and productivity
 - o Mobilisation of private sector investment / participation
 - o Less corruption
 - o Improved livelihoods (namely of poor people)
 - o Improved integration of economies into regional and global markets
 - o Sustainable economic growth

- Other?

For each level:

- Which external factors (political, institutional, social, cultural and economic) have contributed substantially to the success, respectively to shortcomings of projects with regard to outputs, outcomes and impact?
- Which internal factors (project planning, approach and implementation) have contributed substantially to the success, respectively to shortcomings of projects with regard to outputs, outcomes and impact?

Efficiency:

- What are the (internal and external) factors that have influenced the efficiency of achieving results at output, outcome and impact levels?
- To what extent have monitoring systems (namely logframes) been designed and used for steering and reporting?
- How cost-effective are the programmes and projects? (*to be assessed only if reports provide relevant information*)

Sustainability:

- To what extent are the outcomes and impacts of the projects actually or likely to be continued beyond the project period?
- To what extent has capacity of key public and private stakeholders to manage BE-reforms been established?
- What are the main opportunities and threats with regard to sustainability of achievements?

Additional questions:

- What have been the experiences made and results achieved by other donors in the sector?
- Overall, are the approaches to PSD–BEE in line with general good practice in the sector?
- What (which results) have the SECO projects contributed to the cross-cutting issue of good governance in PSD?

Based on the findings and conclusions, the evaluation should formulate recommendations, namely (but not exclusively) with regard to:

- Future strategic orientation of the PSD-BEE interventions of SECO, considering possible comparative advantages of SECO (respectively Switzerland);
- Possible adjustments in the approaches for PSD-BEE; the need and rationale for drafting a SECO sector strategy for PSD-BEE.

Methodology and Process

Methodology

Desk study

The evaluation will be implemented as a meta-evaluation, by reviewing existing evaluation reports and analysing the results of these evaluations by means of the above evaluative

questions. As an additional source of information, the related project documents may need to be consulted. In addition, an on-going tracer-study on the impact of business facilitation processes (Peru) as well as relevant end-of-project reports, mid-term reviews and case studies will need to be consulted.

Verification / cross-check in the field

At least one project will be evaluated directly to cross-check and supplement the findings of the meta-evaluation. Ideally, a terminated project will be selected to allow for an ex-post evaluation. To increase the possibilities for verification of the meta-evaluation results, a country could be identified where the results of several evaluated projects could be checked ex-post (sustainability). This would increase the reliability of the findings of the meta-evaluation.

Review of experiences of other agencies

A review of selected evaluations conducted by other agencies in PSD-BEE will provide insights that allow for a comparison. The evaluators may propose evaluations based on their knowledge of the sector. However, WEIF will contribute to the identification and selection of such evaluations and if required, establish the necessary contacts with the concerned agencies.

Assessment of current understanding and trends regarding best practice

To identify current best practices and trends regarding PSD-BEE support, the evaluators shall conduct a review of literature and of practices and experiences of other donors. Gathering the experiences of other donors can be combined with the consultation of experts. If trends are considered important, the consultation can be arranged in a kind of 'Delphi-consultation'.

Interviews

Interviews at SECO headquarters and telephone interviews with implementing partners and consultants as well as with selected experts will be used to get more information on selected aspects of the evaluations.

For (each of) the case study, which shall provide a qualitative as well as a detailed quantitative analysis, the evaluation team will also undertake interviews with local partners, stakeholders, other donors and beneficiaries (direct and indirect). Taking into account that many projects are implemented in parallel to projects financed by other donors (multilateral or bilateral), it is important to also interview selected persons (criteria: key staff for PSD, if possible familiar with evaluated projects) of these partners to identify and assess whether SECO's support is complementary.

Steering of evaluation process

A Steering Group will be established, comprising of SECO representatives (Mrs. C. Cudré-Mauroux: Head of WECO, Mr. T. Knecht: Deputy Head of WEIF, Mrs I. Leibundgut: Programme Officer WECO and external partners, to be identified in consultation with WEIF. Its main tasks will be to accompany and monitor the whole process as well as to consult on the different deliverables. The Steering Group will ensure the quality of the whole process, by securing that consultants have access to all necessary information and that the feedback on key outputs of the evaluation is consolidated among several actors.

A discussion on the approach involving the evaluation team and the Steering Group will develop a common understanding of the evaluation process, scope and focus on the basis of the draft inception report. While a synthesis workshop will present the draft evaluation report for feedback and validation on the conclusions and recommendations.

Process

The main steps of the evaluation are *tentatively* depicted as follow; some flexibility remains in the agenda according to the consultants' availability:

Activity	Tentative deadline	Responsibility
Draft Approach Paper	End of year	Evaluation officer, in consultation with WEIF, Steering Group and Evaluation Committee

Call for offers	January 2011	Evaluation officer, in consultation with WEIF
Selection of consultants	End of January 2011	Evaluation officer, in consultation with WEIF
Contract with Evaluation team	1 February, 2011	Evaluation officer
Drafting of a work plan for the evaluation, clarifications on the Approach paper , discussions with the Evaluation officer	15 February 2011	Evaluation officer + Consultants + Steering Group
Submission of the inception report and discussion with SECO	10 March 2011	Consultants + Evaluation officer + Steering Group
Desk study and interviews Mission(s) in countries for case study(ies)	March – April 2011	Consultants
Draft evaluation report and discussion with SECO and partners	End of May 2011	Consultants + Evaluation officer + Steering Group
Final evaluation report	Mid June 2011	Consultants
Presentation of the evaluation conclusions and recommendations to Evaluation Committee	TBD	Evaluation officer

Organisational Arrangements

The Evaluation team will be contracted by the Evaluation and Controlling Division of the Economic Cooperation and Development Department of SECO (WECO), under the supervision of the Evaluation Division, Mrs. Catherine Cudré-Mauroux.

For questions and issues related to the conduct, scope, organisation, logistic and reporting, the Evaluation team will interact with the Evaluation Division, Mrs. Catherine Cudré-Mauroux. To access any substantive information, the Evaluation team will refer to the thematic division WEIF, Mr. Thomas Knecht.

For the field visits, WECO will contact the relevant Swiss Cooperation Offices in the respective countries.

All deliverables (see chapter 6) are to be submitted to the Evaluation Division, Ms Catherine Cudré-Mauroux, who is responsible for organising the appropriate consultation processes. Consolidated feedback to the Evaluation team on the deliverables will also be organised and forwarded by the Evaluation Division.

Deliverables

The evaluation team should provide the following documents in the course of the assignment and according to an agreed time schedule:

- i) At the beginning of the assignment: evaluation work plan;
- ii) Inception report, including:
 - a. the methodology to be applied for the assessment of the available evaluation reports (desk-study), indicating requirements for additional information / data;
 - b. a literature review of relevant theoretical and empirical documents on Private Sector Development – Business Enabling Environment by means of development aid, to establish the concept and benchmarks against which the results of the evaluated projects will be assessed;
 - c. a proposal for the expert consultation (list of experts, key questions, expected results);

- d. a list of persons to be interviewed and an estimate of the support expected from SECO, respectively its field offices, in the organisation of the evaluation;
- iii) at the end of the assignment, a synthesis evaluation report containing the findings, conclusions and recommendations, not exceeding 40 pages (plus annexes), including an executive summary.

The report should be written in plain English, in a way that will facilitate its subsequent use to disseminate the results and recommendations of the evaluation. It is intended that the output of this independent evaluation will be made available to any interested third parties. It will also be published on SECO's website and on the DAC evaluation website.

Evaluation Team

The Evaluation team should consist of a team of international evaluators and a national evaluator in the country(ies) to be visited for the case study.

The *international evaluators* are expected to have the following profile:

- Professional evaluation experiences, familiar with DAC evaluation guidelines;
- One of the consultant should have professional expertise in evaluation methodology (incl. qualitative and quantitative methods in impact assessment), while the other one should be specialised in PSD (BEE);
- Field experiences in developing and/or transition countries;
- Strong analytical and editorial skills and ability to synthesise;
- Strong ability to interact with a multitude of partners and beneficiaries at government, donor and private sector levels
- Fluent in English

The *national evaluators* are expected to have:

- Specific in-country experiences in PSD in the respective country;
- Sound knowledge of the international donor community in their countries;
- Not to have been closely associated with SECO/WEIF projects in the respective country;
- Fluent in written and oral English.

Reference Material

- SECO/WE policy papers on PSD
- Evaluation reports and fiches (as per separate list) and related project decision notes and project documents
- Project annual reports and review reports (if required)
- Any other relevant documents

All reference materials will be made available on a CD. A list of resource persons will also be prepared.

Annex – Indicative List of Evaluations and Internal Reviews

Year	Exec. Co-spons.	Title (acronym) (country/region where applicable)	Type	Amount Period
2005	UNDP IFC	African Project Development Facility (APDF IV) (Sub-Saharan Africa)	EE	US\$ 3.1m 2000-2005
2005	FUNDES	Simplification of Administrative Processes for Business Reg. Phase I (Costa Rica, El Salvador & Bolivia)	EE	US\$ 747k 2002-2004
2008	FUNDES	Simplification of Administrative Processes for Business Reg. Phase II (Guatemala & Costa Rica)	EE	US\$ 2.36m 2005-2010
2005	IFC	MPDF II: Mekong Private Sector Development Facility (Vietnam)	EE (MTR)	US\$ 3.71m 2003-2007
2007	IFC	MPDF II: Mekong Private Sector Development Facility (Vietnam)	EE (final)	See above
2005	MIGA	MIGA – Swiss Partnership Programme (MSP) for Sub-Saharan Africa	EE	US\$ 1.73m 2002-2006
2005		North Africa Enterprise Development (NAED) (Algeria, Egypt, Morocco)	EE	CHF 4.9m 2002-2003
2006	IFC	Programme for Eastern Indonesia SME Assistance (PENSA I)	EE (MTR)	CHF 5m 2003-2007
2008	IFC	Programme for Eastern Indonesia SME Assistance (PENSA II)	EE	US\$4m 2008- 2013
2007	UNCTAD	Advisory Services on Investment and Training (global)	EE (MTR)	US\$ 1.3m 200-2007
2007	IFC	Private Enterprise Partnership Advisory Services Programme (PEP) (Eastern Europe & Central Asia)	EE (MTR)	N/A 2001-2007
2007	IFC/IBRD	Foreign Investment Advisory Services (FIAS) (global)	EE (MTR)	US\$ 1.13m 2005-2007
2008	Various donors	African Management Service Company (AMSCO) (Sub-Saharan Africa)	IR	US\$ 500k 2004-2007
2008	EBRD	Early Transition Country Fund (ETCF) (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Uzbekistan)	EE (MTR)	EUR 3m 2004-?
2008	IFC	Private Enterprise Partnership (PEP) for Africa (Sub-Saharan Africa)	EE (MTR)	US\$ 8m
2010	IFC	Private Enterprise Partnership (PEP) for Africa (Sub-Saharan Africa)	EE	See above
2009	IFC	Uzbekistan: Business Enabling Environment (BEE) Project	IR	US\$ 1.67m 2001-2008
2009	EBRD	Kirgizstan: Business Advisory Services (BAS) Programme	EE	EUR 4.8m 2005-2012
2009	IFC	Serbia: Sub-national Competitiveness Project	MTR	US\$ 450k 2008-2010
2009	IFC	Bosnia & Herzegovina: Sub-national Competitiveness Project	MTR	US\$ 390k 2008-2010
2010	IFC	Peru: Municipal Simplification Project	Impact Evaluation	US\$ 1.2m 2006-2009
2010	IFC	Azerbaijan Investment Climate Project	Survey	US\$4.35m 2008-2012
2010	IFC	Impact assessment of Investment Climate Africa Programme (Burkina Faso)	EE (MTR)	US\$ 1.9m 2006-?

Acronyms:

BEE	Business enabling environment
EE	External evaluation
FDI	Foreign direct investment
IR	Internal review
N/A	not applicable
MTR	Mid-term review
SME	Small & medium enterprises

ANNEX 2: Persons interviewed/contacted

SECO, Bern

Germann, Ivo	Head of Private Sector Development Division
Cudré-Mauroux, Catherine,	Head of Evaluation and Controlling Division
Leibundgut, Irène,	Deputy Head of Evaluation and Controlling Division
Knecht, Thomas,	Deputy Head of Private Sector Development Division
De Warlingcourt, Elodie,	Program manager
Krummenacher, Eva-Maria	Program manager
Schafroth, Gabriella	Program manager
Veprék, Miroslav	Program manager

Engler, Markus, Consultant to SECO's Evaluation and Controlling Division

In Serbia

Swiss Cooperation Office

Meyer, Beatrice	Country Director
Bohli, Nadia	Deputy Country Director
Rosic, Arminio	National Program Officer

Government

Gacesa, Vesna	Director, Bankruptcy Supervision Agency
Jovanovic, Katarina	Head, SME Policy Unit, Ministry of Economy and Regional Development
Karguljac, Pero	Senior Adviser, Ministry of Finance
Milivojevic, Radmila	Serbian Chamber of Commerce
Stanicic, Dorde	Secretary General, Standing Conference of Towns and Municipalities

City of Uzice

Vujadonovic Petar Head of the Office for General Affairs

IFC, Advisory Services – Private Sector Development

Werner, Wendy Jo	Program manager
Marisavljevic, Milos	
Milanovic, Katarina	
Karavadic Kocevid, Sladana	
Osmochescu, Eugeniu	PSD specialist

Other donor agencies and projects

Baltic, Milos	Coordinator, GIZ Open Regional Fund for South East Europe
Dabic, Ruzica	PSD – Private Sector Development Program, Uzice
Mossberg, Björn	Councillor, Embassy of Sweden
Popovic, Andrej	The World Bank
Stanojevic, Dragana	USAID Business Enabling Project

Private sector

Bodanovix, Branka

Biznis Inkubator

Radulovic, Branko

Professor of Economics at the Belgrade Law School

Ristanovic, Bozo

Spektar Engineering

Stefanovic, Nikola

Director General, SEAF South Balkan Fund

Trbovich, Ana

Euro Balkan Advisors and Faculty of Economics, Finance and Administration

Vukovic, Ljiljana

Director, Alisa Baby

Others

Buckley, Graeme

ILO

Eriksson-Skoog, Gun

Swedish Embassy, Liberia

Davis, Peter

DCED Secretariat (by e-mail)

Guislain, Pierre

FIAS, World Bank Group

Fougner, Christian

NORAD

Hartmann, Susanne

GIZ

Heggli, Beat

FIAS, World Bank Group

Kiessling, Johan

Thematic Department, Sida

Laird, Michael

OECD/DAC, Development Cooperation Department

Melin, Albena

IFC, Nepal (by e-mail)

Mikhnev, Andrei

FIAS, World Bank Group

Motta, Marialisa

FIAS, World Bank Group

Möller, Lasse

DANIDA (by e-mail)

Nellis, Roger

DfID (by e-mail)

Oakeley, Roger

M4P Hub (by e-mail)

Rahm, Anna

Thematic Department, Sida

Reinhardt, Juergen

UNIDO (by e-mail)

Sader, Frank

Financial and Private Sector Development Network, World Bank Group

Schneider, Charles

IFC, Mekong Private Sector Development Facility (MPDF)

Sunesson, Caspar

UNDP

Tanburn, Jim

DCED Secretariat

Theodossiadis, Love

Swedish Embassy, Tanzania

White, Simon

Consultant, BEWG

ANNEX 3: Literature

Alcázar L. et.al. (2010), *Panel/tracer Study on the Impact of Business Facilitation Processes on Enterprises and Identification of Priorities for Future Business Enabling Environment Projects in Lima, Peru*, Group for the Analysis of Development (GRADE)

Asia Foundation (2007), *Local economic governance in Indonesia, a survey of businesses in 243 regencies/cities in Indonesia*

Bannock Consulting (2006), *Reforming the Business Enabling Environment Mechanisms and Processes for Private-Public Sector Dialogue*, International Workshop on Public-Private Dialogue, Paris 2006

Bourguignon, F. and Sundberg, M. (2007), *Aid Effectiveness – Opening the Black Box*, World Bank paper

Business Environment Working Group (2009), *Reviewing the Policies and Practice of Donor-Supported Business Environment Reform* (unpublished)

Commission on the Legal Empowerment of the Poor (2008), *Making the Law Work for Everyone*

Dalberg Global Development Advisors (2011), *Mid-term Evaluation of IFC Advisory Services in the Mekong Region (MPDF III)*, Final DRAFT Report

Donor Committee for Enterprise Development, DCED (2008), *Supporting Business Environment Reforms: Practical Guidance for Development Agencies*

Economisti Associati srl (Italy) (2011), *Investment Climate in Africa Program, Four Country Assessment*

Hallward-Driemeier, M., L. Pritchett and G. Khun-Jush (2010), *Deals versus Rules: policy implementation uncertainty and why firms hate it*, NBER Working Paper 16001

Hallward-Driemeier, M. and L. Pritchett (2010), *How Business is Done and the 'Doing Business' Indicators: The Investment Climate when Firms have Climate Control*, CID Working Paper No. 211

IFC (2008), *The Monitoring and Evaluation Handbook for Business Environment Reform*, Washington DC

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Independent Evaluation Group (2008), *Doing business: An Independent Evaluation, Taking the Measure of the World Bank-IFC Doing Business Indicators*, The World Bank

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- Independent Evaluation group (2011), *Assessing IFC's Poverty Focus and Results*, International Finance Corporation (IFC)
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- SECO (2010), *Private Sector Development: Towards Better Access to Finance and Business Conditions for the Private Sector*
- Tanburn, J. (2008), *The 2008 Reader on Private Sector Development: Measuring and Reporting Results*
- The Commission on Growth and Development (2008), *The Growth Report Strategies for Sustained Growth and Inclusive Development*
- The World Bank (2004), *Investment Climate Assessment, Serbia*
- UNIDO, GTZ, BMZ (2008), *Creating an Enabling Environment for Private Sector Development in Sub-Saharan Africa*
- USAID (2007), *Policy Reform Lessons Learnt: A Review of Economic Growth Related Policy Reform Activities in Developing Countries*
- White, S. and P. Fortune (2005), *Review of DFID Activities in the Enabling Environment*
- White, S., L. Winton and S. Engels (2010), *Review of Donor-Supported Business Environment Reforms Programmes and Practices in Kenya*, DCED

Annex: 4: The SECO portfolio of Business Environment Reform projects - available reporting

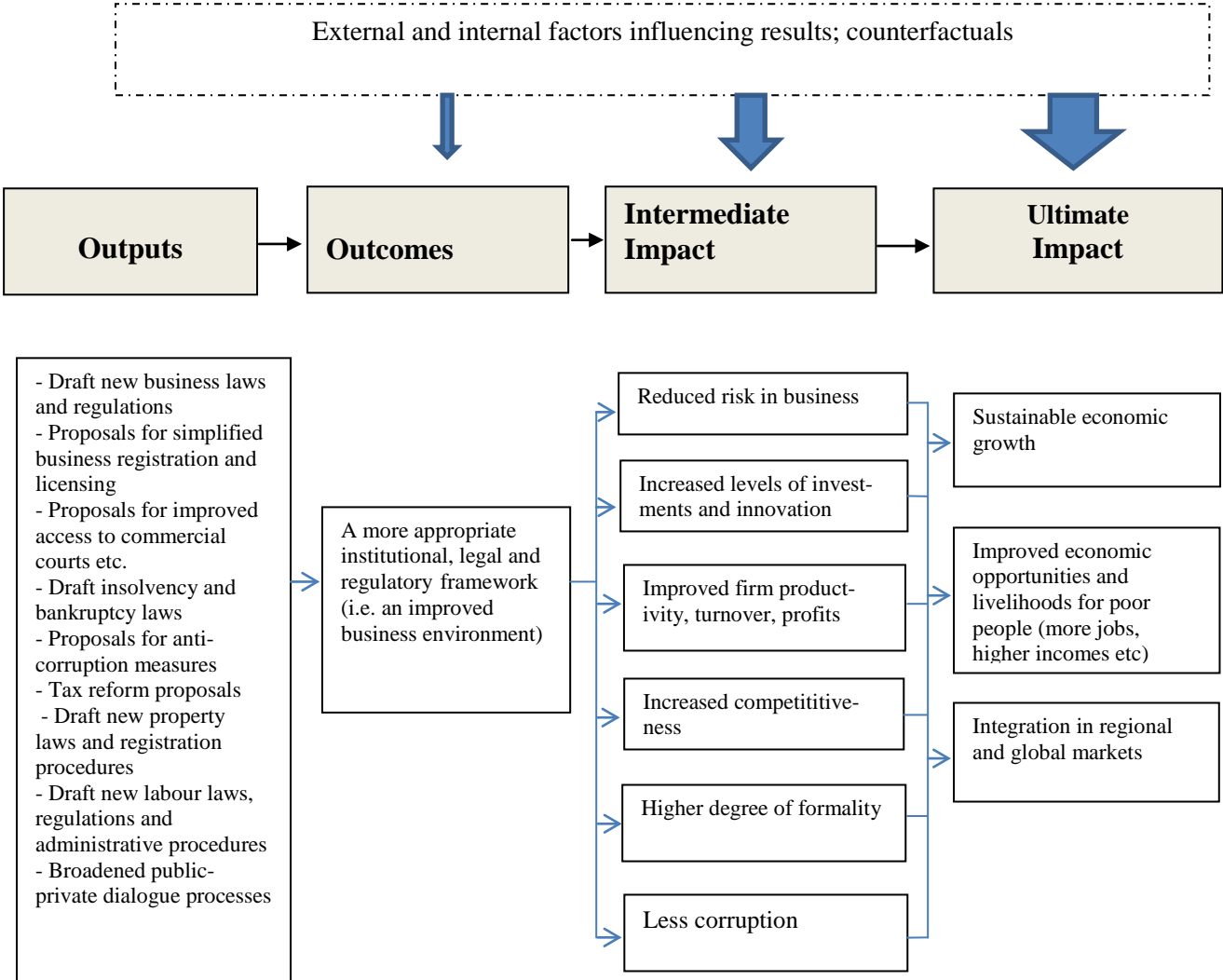
Project	Impl. org.	Period SECO funding	SECO Decision note	Mid Term & Final report	Evaluation	SECO Compl. note
1. African Project Development Facility (APDF) Several phases	UNDP/IFC	1986 - 2005	2000		2005 (Baastel)	2007
2. Simplification of Administrative Processes for Business Reg Phase 1-2	FUNDES	1995-2010	2005		2010 (Nexus)	Not done
3. Mekong Private Sector Development Facility (MPDF) Several phases	IFC	1996 - 2013	2002 2008	2005 (Nexus) 2011 (Dalberg)	2007 (Stamp)	
4. North Africa Enterprise Development (NAED)	IFC	2002-04	2002	2005 (IFC)	2005 (Rand)	2006
5. me for Eastern Indonesia SME Assistance Phase I and II PENSA	IFC	2003-ongoing	2002 2008	2006 (Nexus)	2008 (Nexus)	
6. Advisory Services on Investment and Training – Several phases	UNCTAD	2000 - 12	2006 2007		2005 (Karsegard) 2007 (Karsegard)	
7. UNCTAD Advisory Services on Investment and Training – Quick Response Window (QRW)	UNCTAD	1997-2008	Undated 2002?		2007(Lorenzi)	2009
8. Foreign Investment Advisory Services (FIAS) Several phases	IFC/IBRD	1989 - ongoing	2005 2007 2008	.	2007 (Nexus) 2011 (Nexus)	
9. Early Transition Country Fund (ETC F)	EBRD	2004-ongoing	2007	2008 (OPM)		
10. Private Enterprise Partnership (PEP Africa) Several phases	IFC	2005 - 15	Framework agreements	2008 (DFC)		
11. Investment Climate Africa me in Burkina Faso	IFC	2006-10	2005		2010 (Economisti) 2011 (Economisti)	2011
12. Private Enterprise Partnership Advisory Services me (PEP -ECA) Several phases	IFC	2000- 15	Framework agreements	2007 (IFC)		
13. Investment Climate Project Azerbaijan	IFC	2008- 13	2008		Not done	
14. Sub-national Competitiveness Project Bosnia & Herzegovina	IFC	2008–11	2007	2009 (IFC)	Not done	Pending
15. Sub-national Competitiveness Project Serbia	IFC	2007-10	2007	2009 (IFC)	Not done	Pending
16. Business Enabling Environment Uzbekistan	IFC	2001-08	2006		Not done	2009
17. Business Start-up Simplification project in Egypt (2 phases)	IFC	2008-ongoing	2008 2011	2010 (IFC)	Not done	2010
18. Commercial law reform Serbia	GTZ	2005-07	2005		Not done	2007
19 Insolvency Regulator Capacity-Building in South Eastern Europe.	EBRD	2005-07	2005		Not done	Not done

ANNEX 5: Assessment Sheet

Project description	
Title	
Acronym	
Implementing organisation	
Period and phases	
Total project cost	
SECO contribution in phases	
Other funding agencies	
Country focus	
Project office (location)	
Background	
Current project status	
Objectives, outputs and activities	
Project objectives	
SECO objectives	
Activities	
BER Focus	
Means to assess results	
Result-reporting (e.g. Mid term reviews, evaluations)	
Internal RBM (e.g. progress reporting)	
Log frame	
Country performance over project period	
Economic growth	
IFC's Doing business	
Trade, FDI	
Competitiveness index World Economic Forum	
Results	
General	
Actual outputs	
Client satisfaction	
Impact	
Institutional, legal and regulatory framework	
Doing business ranking	
Regulatory transparency	
Administrative burden	
Economic governance	
Cost of doing business	
Barriers for competition	
Registration of new businesses	

Degree of formality	
Risk in business	
Mobilisation of private sector investments	
Foreign and local direct investments	
Competitiveness	
Innovation	
Tax mobilization from the private sector	
Trade	
Integration in regional and global markets	
Increased economic opportunities and productivity	
Level of corruption	
Employment direct	
Employment indirect	
Technology transfers	
Sustainable economic growth	
Improved livelihoods for poor people	
Poverty	
DAC and other key criteria	
Relevance	
Effectiveness	
Efficiency	
Cost-effectiveness	
Sustainability	
Mainstreaming issues	
Environment/Climate	
Anti corruption	
Democracy and Human rights	
Aid management issues	
Quality of results-reporting	
Ownership	
Donor coordination	
Learning in project	
Seco's role and management	
Management	
Link to Swiss country strategies	
SECO's risk analysis	
SECO visibility	
SECO additionality	
Overall conclusions	
References	
SECO desk officer	
Reports	

ANNEX 6: A generic Results-Chain for BER with indicators



Annex 7: Assessment of SECO's portfolio

Table 1: The relevance of the SECO BER projects

Project	Rating	Comment
1. IFC: African Project Development Facility (APDF)	1	The project was for most of its implementation focused on direct enterprise support, and was slow in adapting to a BER agenda. Little, if anything, emerged out of that.
2. FUNDES: Simplification of Administrative Processes for Business	2	The private sector in Costa Rica and Salvador were not pushing for this type of reforms. Lack of evidence that this type of reform would have a significant impact on business creation.
3. IFC: Mekong Private Sector Development Facility (MPDF)	3	MPDF has increasingly focused on BER and target areas of critical importance for the long-term development of the private sector in Vietnam, Laos and Cambodia. High degree of client satisfaction with support provided by MPDF.
4. IFC: North Africa Enterprise Development (NAED)	3	NAED applied an "opportunistic approach" which may have served the purpose of paving the way for later introduction of more programmatic programs focussed on critical constraints.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	2	Although the BER components of PENSA I were essential elements in the business enabling environment, the rationale for the selection of a rather scattered portfolio of BER projects does not seem to be quite clear.
6. UNCTAD: Advisory Services on Investment and Training	3	Several evaluations rated the program as highly relevant with questions about one- two components.
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	2	The project was designed to provide a mechanism for rapid response to identified needs. In its design and implementation it failed to live up to this.
8. IFC: Foreign Investment Advisory Services (FIAS)	4	FIAS is strongly focussed on promoting business environment reforms of strategic relevance for partner countries. SECO supports specific areas (secured lending and SME taxation) which both are regarded as clearly relevant for SME development.
9. EBRD: Early Transition Country Fund (ETCF)	2	ETCF mainly targeted at facilitating EBRD investments. No clear focus on reforming the BE.
10. IFC: Private Enterprise Partnership (PEP Africa)		A Framework agreement from SECO's point of view. No direct funding of core functions. One underlying project (Burkina Faso) relevant in terms of immediate outcome
11. IFC: Investment Climate Project, Burkina Faso	3	Project strongly tailored to the Doing Business indicators. The relevance of these indicators to the investment climate and business environment in Burkina Faso an issue in respect of the results achieved.
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)		A Framework agreement from SECO's point of view. Four underlying projects (Uzbekistan, Azerbaijan, Serbia and Bosnia Herzegovina) all relevant as 100% BER focused (see below)
13. IFC: Investment Climate Project Azerbaijan	4	The project directly tailored to Doing Business approach on the request by the President – a 100% BER according to IFC's model
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3	The sub-national project is 100% BER but is taking place in a national environment with low reform drive
15. IFC: Sub-national Competitiveness Project Serbia	4	The project clearly relevant as there is considerable local regulation in need of reform with great variations from municipality to municipality. The scope for improved environment considerable, especially for SMEs
16. IFC Business Enabling Environment Uzbekistan	4	The project 100% oriented towards BER along proven IFC methodology taking place in a difficult political environment
17. IFC: Business Start-up Simplification Project Egypt	4	This project supported Egypt's strong drive to improve its business enabling environment through a combination of interventions at the national and industrial zone level.
18. GTZ Commercial law reform Serbia	3	The GTZ project was clearly relevant in the Serbian setting when it was designed and also when SECO joined
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	3	Insolvency regulations and practice was an important issue at the time of project start.

Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4

Table 2: The effectiveness (reaching stated objectives) of the SECO projects

Project	Rating	Comment
1. IFC: African Project Development Facility (APDF)	1	Marginal impact on business environment – effectiveness low although project was not explicit in terms of objectives for BER
2. FUNDES: Simplification of Administrative Processes for Business	1	Effectiveness was evaluated as low by Nexus. No positive outcomes were achieved.
3. IFC: Mekong Private Sector Development Facility (MPDF)	3	Outputs and some immediate outcomes are well documented, while attribution of impacts is quite complex.
4. IFC: North Africa Enterprise Development (NAED)	2	Outputs are well documented, while it does not seem possible to document any outcomes. NAED was terminated prematurely.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	2	Mixed results. A few positive outcomes in municipalities and potential influence on the industrial law process.
6. UNCTAD: Advisory Services on Investment and Training	3	Evaluations rating the project as effective in reaching stated objectives with variations among the seven components. However, the methodology applied in the evaluation not sufficiently evidence-based to make such claims, given the broad, qualitative objectives
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	2	Low effectiveness in stated objective as a quick response window due to management issues.
8. IFC: Foreign Investment Advisory Services (FIAS)	3	53% of FIAS projects were rated by the Results Monitoring Unit as satisfactory or excellent regarding outcome achievement. Few projects have documented impacts.
9. EBRD: Early Transition Country Fund (ETCF)	2	MTR rated effectiveness as high; however BER effectiveness unclear in relation to partner country needs and priorities.
10. IFC: Private Enterprise Partnership (PEP Africa)		A Framework agreement from SECO's point of view. No direct funding of core functions. Available results-reporting not sufficient to judge BER effectiveness
11. IFC: Investment Climate Project Burkina Faso	3	Burkina Faso is one of the top improvers in Doing Business recent years. However, far below the project target of being one of the 25% best in Africa. (Burkina is not even among the top half in Africa 2010.)
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)		A Framework agreement from SECO's point of view. No direct funding of core functions. Available results-reporting not sufficient to judge BER effectiveness
13. IFC: Investment Climate Project Azerbaijan	3	Project achieved the objectives in terms of enabling environment, and exceeded several quantitative targets. In terms of job-creation no assessment
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3	Likely satisfactory achievements of objectives at output and outcome levels (enabling local environment); In terms of the objective 'competitiveness' of local industries, no assessment has been made
15. IFC: Sub-national Competitiveness Project Serbia	4	Good performance, exceeding many targets
16. IFC Business Enabling Environment Uzbekistan	3	High degree of achieving the objectives of an enabling environments and cost savings for SMEs
17. IFC: Business Start-up Simplification Project Egypt	4	Clearly documented outputs and outcomes. Too early to judge impacts.
18. GTZ Commercial law reform Serbia	N.d.	Due to the smallness of the SECO contribution (EUR 0,15 mill.) in a EUR 8 mill project, and a short duration effectiveness is not rated
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	2	At the time SECO refrained from continuing support of the reform, the results were meagre and largely neglected in the continuation

Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4

Table 3: The efficiency of the SECO projects

Project	Rating 0-5	Comment
1. IFC: African Project Development Facility (APDF)	N.d.	Due to marginal inputs concerning BER, efficiency is neither possible nor relevant to assess
2. FUNDES: Simplification of Administrative Processes for Business	1	Project management/administration accounted for more than 50% of total costs.
3. IFC: Mekong Private Sector Development Facility (MPDF)	3	Efficiency rated as satisfactory by evaluator. The cost-ratio of MPDF is compared with similar projects and found fully acceptable.
4. IFC: North Africa Enterprise Development (NAED)	N.d.	No information provided.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	N.d.	See subsequent table.
6. UNCTAD: Advisory Services on Investment and Training	4 ?	Evaluations consider the project as very efficient in comparisons to similar projects undertaken by other agencies. Evidence of this is, however, not provided.
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	2	Difficulties in managing the QRW especially in terms of time, reduces efficiency in delivery
8. IFC: Foreign Investment Advisory Services (FIAS)	3	Efficiency rated as “partly satisfactory” for 41% and “satisfactory” for 46% of a selection of projects rated (by IFC’s Results Monitoring Unit).
9. EBRD: Early Transition Country Fund (ETCF)	3	ETCF regarded as efficient in comparison with a counterfactual where same projects would be implemented by bilateral agencies.
10. IFC: Private Enterprise Partnership (PEP Africa)		See earlier table
11. IFC: Investment Climate Project Burkina Faso	4	Evaluation 2010 claimed high efficiency through satisfactory or excellent outputs compared to reasonable costs.
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)	N.d.	See earlier table
13. IFC: Investment Climate Project Azerbaijan	N.d.	No efforts in the results-reporting to compare outputs to project costs
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3 ?	By IFC rated as a highly efficient project
15. IFC: Sub-national Competitiveness Project Serbia	3 ?	By IFC rated as a highly efficient project
16. IFC Business Enabling Environment Uzbekistan	3 ?	According to SECO satisfactory – “It is acknowledged that IFC delivers high quality results, which justify quite expensive salary costs of international experts and staff”
17. IFC: Business Start-up Simplification Project Egypt	4	Cost-efficient management.
18. GTZ Commercial law reform Serbia	N.d.	Not sufficient analysis available
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	N.d.	Not sufficient analysis available

Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4

Table 4: The cost-effectiveness of the SECO projects

Project	Rating	Comment
1. IFC: African Project Development Facility (APDF)	1	Hardly any results were achieved in BER
2. FUNDES: Simplification of Administrative Processes for Business	1	Highly unsatisfactory outcomes indicate that the cost-effectiveness of the project was very low.
3. IFC: Mekong Private Sector Development Facility (MPDF)	3	No explicit assessment has been made by evaluators. However, given the positive assessment of MPDF's efficiency and well documented outcomes cost effectiveness seems to be fully satisfactory.
4. IFC: North Africa Enterprise Development (NAED)	1	No assessment was made of efficiency or cost effectiveness. Absence of documented outcomes indicates low cost-effectiveness.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	2	Evaluator comments that "some projects have yielded satisfactory return; others have not generated benefits commensurate to costs".
6. UNCTAD: Advisory Services on Investment and Training	3	The results reporting claims on the one hand satisfactory results and effectiveness as compared to objectives, and on the other hand high efficiency in delivery. Of this follows high cost-effectiveness. However, the results-reporting has major weakness in both dimensions.
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	2	Due to unsatisfactory outcome
8. IFC: Foreign Investment Advisory Services (FIAS)	N.d.	Few intermediate outcomes and impacts were documented, why costs effectiveness is difficult to assess.
9. EBRD: Early Transition Country Fund (ETCF)	N.d.	Cost effectiveness" is even more difficult to assess than "effectiveness" due to the character of ETCF projects.
10. IFC: Private Enterprise Partnership (PEP Africa)	N.d.	No assessment is made of the same reasons as explained earlier
11. IFC: Investment Climate Project Burkina Faso	3	One of the few projects which attempts to assess impact. The cost-benefit ratio much less than for three comparable projects, see text box below
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)	N.d	No assessment is made of the same reasons as explained earlier
13. IFC: Investment Climate Project Azerbaijan	3	
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3	
15. IFC: Sub-national Competitiveness Project Serbia	4?	If claimed results in the form of cost-savings are excepted, the project was extremely effective at a small inupt
16. IFC Business Enabling Environment Uzbekistan	3	
17. IFC: Business Start-up Simplification Project Egypt	4	Impressive results were achieved with relatively small inputs and in an exceptionally short time.
18. GTZ Commercial law reform Serbia	N.d.	Too limited inputs to establish results
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	2	The SECO supported phase delivered few, tangible results, hence low cost-effectiveness

Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4

Table 5: Expected sustainability of the SECO projects

Project	Rating 0-5	Comment
1. IFC: African Project Development Facility (APDF)	3	The limited BER interventions seem to pave the way for more concerned efforts in the follow-up project PEP Africa. The little that was achieved has been further developed
2. FUNDES: Simplification of Administrative Processes for Business	1	As no clear results were achieved, sustainability it is not meaningful to assess.
3. IFC: Mekong Private Sector Development Facility (MPDF)	4	Evaluators commented that ongoing processes of reform were unlikely to be reversed.
4. IFC: North Africa Enterprise Development (NAED)	2	Initial goals of achieving sustained impacts and local capacity development were not achieved. However the partnerships developed by NAED were beneficial for the PEP-MENA project.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	2	The results which were achieved should have a sustained value, but the municipal facilitation projects will be difficult to replicate due to high costs.
6. UNCTAD: Advisory Services on Investment and Training	4	Evaluations rating the sustainability as high with variations between different components
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	n.d	Not systematically assessed due to the early stage of the sub-projects
8. IFC: Foreign Investment Advisory Services (FIAS)	3	Evaluators have not presented any assessment of sustainability. It appears nevertheless that changes in institutional and legal frameworks have a satisfactory chance to be sustainable.
9. EBRD: Early Transition Country Fund (ETCF)	N.d.	Information missing. For most projects, it does not seem meaningful to measure sustainability independently from EBRD investment projects
10. IFC: Private Enterprise Partnership (PEP Africa)	N.d.	N.d. of reasons explained before
11. IFC: Investment Climate Project Burkina Faso	4	Sustainability N.d. in reports. Nevertheless, country ownership of project and steady improvements in the institutional framework indicate that sustainability of reform is likely to be satisfactory.
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)	N.d	N.d. of reasons explained before
13. IFC: Investment Climate Project Azerbaijan	4	Prospect appear satisfactory due to enacted laws and institutional reforms
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3	Expected to be sustainable after project, but there is a risk of revering back to business as usual
15. IFC: Sub-national Competitiveness Project Serbia	4	Testimonies by local decision makers and further institutional arrangements indicate good chance of sustainability
16. IFC Business Enabling Environment Uzbekistan	4	Likely to be satisfactory due to close cooperation with government
17. IFC: Business Start-up Simplification Project Egypt	4	According to the reporting changes achieved in business environment should "in normal situations be sustainable"
18. GTZ Commercial law reform Serbia	N.d.	The overall project appear to have good sustainability
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	N.d	The overall project appear to have good sustainability

Highly unsatisfactory: 1; Unsatisfactory: 2; Satisfactory: 3; Highly satisfactory: 4

Table 6: The additionality of the SECO projects

Project	Rating	Comment
1. IFC: African Project Development Facility (APDF)	1	Probably very limited. APDF a project with a dozen donors and SECO's share about 5% of funding. No information in reporting on SECO's role
2. FUNDES: Simplification of Administrative Processes for Business	4	As SECO was the only funder the additionality was high. When SECO finalized its support the project collapsed.
3. IFC: Mekong Private Sector Development Facility (MPDF)	3	MPDF is a multi-donor trust fund. SECO plays an active role in its monitoring and evaluation.
4. IFC: North Africa Enterprise Development (NAED)	3	Little information on SECO's role. It appears however that SECO was more active than other donors, and expressed dissatisfaction with the pre-mature phase-out of NAED.
5. IFC: Program for Eastern Indonesia SME Assistance (PENSA phase I)	2	Little information available. Synergies with project carried out by Swisscontact never materialised.
6. UNCTAD: Advisory Services on Investment and Training	3	SECO one of a about 10 donors, but with a substantial share of the funding (25%). SECO's role in design, supervision and evaluation not known
7. UNCTAD: Advisory Services on Investment and Training - Quick Response Window (QRW)	4	SECO only funder and initiator of the project. Decision on each sub-project
8. IFC: Foreign Investment Advisory Services (FIAS)	3	In addition to core support, SEC provides support to and participates actively in planning and monitoring of some thematic projects.
9. EBRD: Early Transition Country Fund (ETCF)	2	SECO is one of a number of donors to a multi-donor trust fund. SECO's Decision Note demonstrates an interest in playing an active role in the governance of the ETCF.
10. IFC: Private Enterprise Partnership (PEP Africa)	N.d.	SECO one of near 20 donors with a small share of the funding. No core funding. SECO's specific additionality likely to be small to the program
11. IFC: Investment Climate Project Burkina Faso	4	SECO only funder. No information available on the role SECO played in design, supervision or review of the project
12. IFC: Private Enterprise Partnership Advisory Services Program (PEP -ECA)	3	SECO one of the over 20 donors and providing no core funding. Clear additionality for the specific projects funded by SECO, often as sole donor. Active involvement by SECO
13. IFC: Investment Climate Project Azerbaijan	4	SECO main funder of the project. Active in semi annual meetings
14. IFC: Sub-national Competitiveness Project Bosnia-Herzegovina	3	SECO main funder in first phase; ended funding after second. No information available on SECO's role in design, supervision or results-reporting.
15. IFC: Sub-national Competitiveness Project Serbia	4	SECO only donor in early phase, active in dialogue with IFC
16. IFC Business Enabling Environment Uzbekistan	4	SECO only funder. The role in design, etc unclear
17. IFC: Business Start-up Simplification Project Egypt	4	Active SECO and COOF engagement in the design and monitoring of this project.
18. GTZ Commercial law reform Serbia	1	SECO's contribution small and limited in time. No indication that it added anything to the project
19. EBRD Insolvency Regulator Capacity-Building in South Eastern Europe	2	SECO played a main funding role in early phase, but declined continuation after 2008

Near nil: 1; Limited: 2; Near strong: 3; Strong: 4

ANNEX 8: Details of the SECO BER portfolio in Serbia

GTZ's commercial law reform project

The GTZ Project "Advice on the legal reform" started in April 2001 with quite wide overall objectives which were defined as: (i) The legal system in the Federal Republic of Yugoslavia corresponds in key elements to the needs of a constitutional state in freedom oriented, democratic society; (ii) The legal system of FRY is in compliance with the international law; and (iii) The legal system of FRY is in line with EU Law.

It was envisaged that the instruments and activities for achieving the desired objectives and goals will be implemented and co-financed through a strategic partnership between GTZ and SECO through the following program components:

1. Drafting of new legislation
2. Training courses, seminars and study tours for judges
3. Regional conferences
4. Information for the public

It was also foreseen that Swiss, international and regional experts will be involved in the proposed project activities, with the aim of transferring know-how and best practices in the legislative reform in Serbia.

The visible result of SECO's involvement in this large project is that in the lifetime of the Project and during SECO's involvement in the Project, by April 2007, three important laws had passed in parliament, namely the Mortgage Law, the Law on Foreign Trade and the Law on Investment Funds. Also in terms of harmonization of donors which were active in the field of commercial law reform, the project made a contribution to enhanced coordination, particularly in the bankruptcy area.

With respect to *relevance* of SECO's involvement in this area, this Project was designed in the initial stage of reforms in Serbia, when the main focus of the Government of Serbia was on the adoption of new, market friendly legislation. Considering that in this stage, some of the priority areas, such as privatization, banking sector reform, introduction of VAT, were already initiated and well advanced, it was a good choice to focus on the "second wave" of regulatory change in the selected areas (hypoteque, property, investment funds...).

One of the Project's success stories was certainly SECO's involvement in the area of denationalization, which was and still is a very sensitive issue in Serbia. As a response to the request from the Serbian Ministry of International Economic Relations to the Embassies of Switzerland, Germany and Austria, within the scope of this project, GTZ, SECO and ADA cooperated in supporting the development of a draft law on restitution. However, following the elections of 2006, no tangible steps were made towards adopting the legislation. In fall 2007, a draft law on restitution was proposed by the Prime Minister's adviser, supported by the Ministry of Finance. This draft was heavily criticized by the three mentioned donors as well as the World Bank, as it created new uncertainty regarding ownership and imposed heavy financial obligations on the state budget. Due to the previous donor engagement on the land reform project, SECO together with GTZ and ADA managed to prevent the enactment of such a law. With respect to *efficiency, effectiveness, cost effectiveness*, it is not possible to assess

whether the above Project did have specific and measurable results due to the lack of relevant M&E data.

EBRD insolvency regulator capacity-building in south Eastern Europe

The project Insolvency Regulator Capacity-Building in South Eastern Europe was initiated upon adoption of the Bankruptcy Procedure Law (2004). It was identified that the institutional capacity to implement legislation is vital for a successful functioning of the insolvency legal regime. In many countries the relevant government regulatory agency (the Bankruptcy Supervision Agency - BSA) oversees, among other things, the licensing, reporting and disciplining of insolvency administrators. This requires that the government has the capacity to develop and possibly deliver the curriculum for licensing examiners as well as develop ethical and practice standards for insolvency administrators.

In 2003 and 2004 the Legal Transition Team of EBRD conducted detailed studies of the quality of the law on the books and the quality of the law in practice which included Serbia as well as other countries in the region (BiH, Albania, Macedonia, Croatia, Bulgaria). Although Serbia (as well as the other countries in the region) was a high scorer in terms of the quality of the bankruptcy legislation, it performed poorly in practice with respect to insolvency administrators, which means that it lacked the ability to effectively implement the good laws that are in place. This was regarded as a significant indication, considering the high degree of responsibility on insolvency administrators in most good insolvency legislation. Therefore, EBRD decided to address this weakness with a regional project starting with and concentrating on Serbia.

Primarily, this project was aimed at strengthening the regulatory capacity of the Serbian government to effectively regulate insolvency administrators. The project was to develop new, more in depth and concrete standards for insolvency administrators, working with the Ministry of Economy in Serbia and the Bankruptcy Supervision Agency. The first National Standards for insolvency administrators were adopted in 2005, but were considered to be too general and lacking specific provisions that would enable efficient implementation in practice. It was envisioned that the Serbian experience would produce a set of leading international standards and a blueprint for neighbouring countries.

The deliverables under the project, i.e. the new National Standards for insolvency administrators and their Code of Ethics were submitted to the Serbian counterparts in early 2008. In the meantime, the Serbian authorities decided to further amend the legislative insolvency framework by drafting and enacting a new Bankruptcy Act, whereby this process substantially delayed the adoption of the National Standards. After the enactment of the new Bankruptcy Act in 2009, the National Standards were adjusted to the new Act and finally approved by the Ministry of Economy in March 2010 (a significant time after the end of SECO's involvement in this project in 2007).

Although, due to the lack of relevant evaluation material, it is not possible to identify to what extent SECO's involvement added value to this project, it is evident that the project eventually was highly successful, and its success can also be measured by the steady and substantial improvement of the duration, recovery rate and costs of bankruptcy procedures in Serbia.

Upon adoption of the Bankruptcy Procedure Law in 2004 and its subsequent implementation, the bankruptcy procedure in Serbia significantly improved. The length of the bankruptcy procedure in Serbia decreased from 7 years in average to about 3 years. However, the data still demonstrated that the bankruptcy procedure is far longer and more expensive than in an average OECD country. As a consequence, bankruptcy proceedings were rarely used in Serbia. The total number of procedures initiated in accordance with this law, since the beginning of implementation (2005) until 2008 was quite low and decreasing. While the number of initiated bankruptcy procedures in 2006 was 267, in 2007 it decreased to 199 and in 2008 to 140. The number was decreasing even though the economic reality should have caused a significant increase of bankruptcy cases. At that time there were more than 6000 companies in Serbia whose accounts have been blocked over 3 years by creditors and which fulfilled all conditions for initiation of bankruptcy proceedings.

Attempting to resolve the above problems, a new Bankruptcy Act in 2009, and it caused further improvement of the bankruptcy procedure in Serbia. According to the World Bank's Doing Business Report for 2011, the length of a bankruptcy procedure in Serbia is 2,7 years, the recovery rate is 29,5%, while the bankruptcy costs amount to 23% of the bankruptcy estate. However, even though the duration of the bankruptcy procedure is significantly shorter, it is still more expensive and the recovery rate is lower than in the average OECD country.

This project is a good example of efficient donor coordination. There were combined efforts of the World Bank, USAID and GTZ. Whilst this Project (EBRD-seco) focused on the institutional strengthening of bankruptcy supervision in Serbia, the GTZ Project supported the improvement of bankruptcy procedures by providing fora to discuss practical issues of implementation and organized roundtables for practitioners in this field, while USAID took the lead in developing a state of the art insolvency web portal.

Finally, although the bankruptcy procedure significantly improved in the period 2005-2011, many of the issues recognized at the beginning of seco's involvement in this area through EBRD's project, still remain valid. One of the main issues is that there is still a significant lack of capacities of the bankruptcy administrators to implement the National Standards and therefore a great need to continue to build their capacities in order to secure a more efficient implementation of the regulatory framework in this area.

IFCs sub-national competitiveness project

The IFC-SECO **Sub-national Competitiveness Project** was aimed at addressing specific factors in SECO priority intervention areas that affect the cost and risk of doing business in selected locations in Serbia, with a view to help both national and local governments to implement effective solutions for improving competitiveness and to increase the level of private investment. In 2008, the GoS initiated a process of simplification of the legislative environment at the national level with the objective to eliminate excessive administrative regulations, minimize financial costs and time constraints. The work on the simplification and reviewing of sub-national regulations was directly linked to ongoing work at the national level under the leadership of the National Council for Regulatory Reform. The implementation of better regulation and simplification modules both at the national and sub-national level has been designed to include substantial public-private consultation to build private sector support and better direct the reforms.

The goal of the Project was to increase the competitiveness of selected localities and help increase the levels of private investment. The Project focused on:

- Reducing the cost and time required to comply with business formalities, including licenses and permits in order to reduce the cost and risk of doing business
- Improving the capacity of governments to manage administrative and licensing procedures related to business operations and deliver services to businesses and
- Establishing a transparent and legally secure Registry of formalities and related information for businesses and the general public.

During the three years period, the Project was implemented in two rounds: first round pilot cities of Krusevac, Uzice, Vranje and Zrenjanin and six localities in the second round: the city of Nis and its municipalities (Palilula, Pantelejev, Medijana, Niska Banja, Crveni Krst).

The project was implemented in each of the localities in four phases:

- Phase 1: Inventory of formalities preparation - local officials mapped all existing formalities affecting businesses and citizens, and compiled all supporting documentation for the electronic inventory of formalities;
- Phase 2: Consultations with business and civil sector – focus groups and workshops were convened for individual entrepreneurs, business associations, chambers of commerce, community and civil society. The consultations produced feedback on the formalities, along with recommendations for simplification;
- Phase 3: Analysis and preparation of recommendations: In each locality, a task force of officials systematically reviewed the inventory and made recommendations for local and Republic level in terms of: the elimination or simplification of documents forms and procedures; elimination of information, shortened deadlines; reduction in related taxes and fees, elimination of formalities etc. The task forces took into consideration the recommendations from focus groups and workshops, incorporating inputs of all stakeholders in the decision-making process;
- Phase 4: Adoption and implementation of recommendations – City and municipal authorities adopted recommendations and relevant legal acts; new internet-based registries of formalities were established in each locality and a system of quality control was introduced to monitor new regulations.

Considering that in calculating the costs of compliance with existing regulations for businesses the Standard Cost Model (SCM) methodology was applied, it is necessary to point out to what the SCM methodology implies and to some of the limitations in the use of this methodology.

The SCM is a simple method for measuring administrative burdens imposed by regulations, primarily for businesses. It is a quantitative methodology that can be applied in all countries and at different levels. The method can be used to measure a single law, selected areas of legislation or to perform a baseline measurement of all legislation in a country.

The SCM breaks down different procedures (administrative or informational requirements) imposed to businesses into a range of manageable components-procedures that can be measured and then measures the administrative costs, i.e. unnecessary administrative burdens based on the data about the time necessary to comply with such requirements, as well as the data about the costs of such procedures.

The SCM has become very popular and the number of countries that use it keeps increasing. Although all of the countries that have applied the SCM do use the principal elements of the initial SCM developed in the Netherlands, some of them have adapted the original model and have introduced new elements which fit with the local circumstances. This is how the IFC promoted the “Balkan SCM” stating that with respect to the original SCM the detailed data requirements and categories of activities for the model were simplified and minimized and were tailored to local administrative regulations and procedures. To reflect the realities investors face in the field, the Balkan SCM aims to capture the **actual direct costs** borne by businesses in complying with the regulations, requirements, and administrative procedures imposed by public authorities but also to quantify and monetize the indirect costs incurred by businesses in complying with business formalities. The indirect costs include the burden of waiting for authorities’ responses and other “red tape” and the SCM was adapted by monetizing (roughly and indirectly) an “opportunity cost” of investment income forgone while waiting for authorizations.

The Balkan SCM measures four key cost components:

- **Submission time:** monetization of the time invested in gathering information and preparing forms for submission
- **Fees and stamp:** duties required for each formality
- **Documentation:** amount of expenditures required to acquire and prepare supporting documents (data requirements)
- **Waiting time:** This includes the time spent by a business applicant waiting to receive (a) supporting documents to be attached to an application and (b) final responses from the relevant authority after submitting the formality.

The SCM was used in calculating the savings for businesses in the National level “guillotine” as well, however, without calculating waiting time in the savings.

One of the main limitations of the SCM is that it assumes full compliance of businesses with the regulations, without taking into account that sometimes businesses fail to comply with the regulation because it is too complex or burdensome, in which case the calculated savings from simplification or abolishment of a procedure can be misleading and very different from the actual costs that businesses have due to partial compliance.

Even taking into account all the limitations and possible overestimation of the savings for businesses, this Project can be regarded as highly successful, under all the evaluation criteria.

With respect to cost-effectiveness, it is undisputable that this has been a highly successful project. The **savings** related to direct costs of compliance with existing regulations, were calculated, using the Standard Cost Model, as **9.9 million US\$** on an annual basis, for all localities.

Transparency has improved through the accessibility of information related to administrative procedures through websites which have been set up in all 10 piloted localities. The online registry set-up on the websites of the 10 piloted localities is an extremely valuable tool, as it provides an opportunity to access all required information related to the administrative procedure one is planning to submit a request for, without having to call or visit the specific locality.

There was strong local ownership and political support at the level of the mayors of the selected localities, which was a precondition for successful implementation. Also, the process was implemented in active consultation with stakeholders to promote ownership and sustainability.

The Project established a standardized project design, and it is now possible to replicate this reform to other municipalities in Serbia. In fact, IFC has handed over the methodology to the Standing Conference of Cities and Municipalities, which is going to be promoting further implementation of this reform in other localities in Serbia.

ANNEX 9: Concept note of a new SECO sub-national business environment reform project in Serbia

Background

The improvement of the quality of regulations, simplification of the existing regulations and the reduction of unnecessary administrative burdens that affect business activities and investments is an important part of the Government of Serbia (GoS) agenda. The Government adopted a Regulatory Reform Strategy for the period of 2008-2011. In accordance with this Strategy, a full fledged “guillotine” was implemented at the National level in the period 2008-2011, leading to significant savings for businesses in the range of EUR 170-190 million on an annual basis. In order to secure sustainability and continuation of this process, as well as further implementation of Regulatory Impact Analysis, the GoS established a permanent Government Office for Regulatory Reform and Regulatory Impact Assessment (RIA) in December 2010.

At the same time, the work on the simplification and reviewing of sub-national regulations was directly linked to ongoing work at the national level under the leadership of the National Council for Regulatory Reform. The implementation of better regulation and simplification modules both at the national and sub-national level has been designed to include substantial public-private consultation to build private sector support and better direct the reforms. SECO was the main funder of the IFC Sub-National Competitiveness Project which was implemented in the period 2007-2010 in two rounds: first round pilot cities of Krusevac, Uzice, Vranje and Zrenjanin and six localities in the second round: the city of Nis and its municipalities (Palilula, Pantelej, Medijana, Niska Banja, Crveni Krst). The project was implemented with the aim to increase the competitiveness of selected localities and help increase the levels of private investment.

The above project was highly successful, in particular in terms of cost-effectiveness, and direct savings for businesses and citizens, which were calculated by using the Standard Cost Model methodology, amount to app. USD 9.9 million. Including indirect costs, IFC considers the savings to over USD 200 million per annum. Also, there was strong local ownership and political support at the level of the mayors of the selected localities, which was a precondition for successful implementation. Also, the process was implemented in active consultation with stakeholders to promote ownership and sustainability. The Project established a standardized project design, and it is now possible to replicate this reform to other municipalities in Serbia.

Project Goals

By implementing the sub-national guillotine on the local level in selected localities, an important step was taken in establishing an environment supportive of private enterprises and economic growth on the local level. This is however only an initial step, considering that only 10 localities have been implemented this reform, while Serbia has a total of 145 municipalities.

The projects main goal is the implementation of the sub-national guillotine reform in at least 30 selected additional localities in Serbia.

In addition, in order to secure sustainability of these reforms the project will aim to build the capacities of the selected localities to monitor the introduction of new burdens and costs, by applying Regulatory Impact Assessment on new proposed local regulations.

The project will foster the exchange of experience and knowledge at the sub-national level, as well as the efficient use of local capacities which have been built in Serbia in the implementation of the national and sub-national regulatory reform.

Project Activities

Specifically, the project is suggested to be implemented in the period 2012-2015, through the following activities:

- Organizing an initial project launch conference to raise awareness about the sub-national guillotine implementation;
- Implementation of the sub-national guillotine in at least 30 selected localities;
- Establishing a transparent and legally secure Registry of formalities and related information for businesses and the general public for each of these selected localities;
- Securing the connection of the web portals of all the localities that implemented this reform with the newly created e-government portal (<http://www.euprava.gov.rs/>);
- Transferring best practice and sharing business friendly regulation i.e. does not contain new burdens;
- Organizing 10 workshops aimed at sharing experiences in the implementation of the reform which will gather representatives of the selected localities and the business sector;
- Organizing 9 sub-national Regulatory Impact Assessment training sessions (3 per year for a total of up to 250 participants from the selected municipalities) which will enable the municipalities to draft legal instruments while applying RIA, and prevent the introduction of new burdens for businesses.

Impacts

The overall objective of this reform is to reduce the cost of doing business and improve regulatory reform at the local level, and in particular:

- Reduce the cost and time required to comply with business formalities, including licenses and permits in order to reduce the cost and risk of doing business
- Improve the capacity of governments to manage administrative and licensing procedures related to business operations and deliver services to businesses and
- Establish a transparent and legally secure Registry of formalities and related information for businesses and the general public.

Regulatory reform should not be regarded as a one-time measure, but as a continuous process. As Serbia moves to a market-led growth strategy fully integrated with Europe, the implementation of this project will speed up economic transition and reduce the costs of transition. In particular, the replication of the guillotine reform in a number of other municipalities in Serbia will reduce the cost of doing business and increase the competitiveness of such localities. Also, enhancing the capacities of the regulators at the local level to implement RIA, i.e. choose efficient regulatory solutions consistent with market needs will reduce the risks of new costly mistakes and market failures.

Organisation

It is suggested that SECO undertakes such a project in cooperation with Serbian authorities, municipalities and local expertise. The counterpart and owners of such a project might be the Standing Conference of Towns and Municipalities, SCTM, which has been vested with the task of promote the sub-national reform process, which also will take over the methods developed in the SECO-IFC project. SCTM has limited technical and financial capacity and welcomes donor support. We further suggest that the proposed project builds on the excellent local capacity today available in Serbia in terms of local consultants.

Budget

A tentative budget for a 3-year project as described above, based in the IFC model, but with reduction in costs due to local implementation, is USD 2,5 – 2,7 million.