Center for Global Development

Supporting Private Business Growth in African Fragile States

A Guiding Framework for the World Bank Group in South Sudan and Other Nations

Benjamin Leo, Vijaya Ramachandran, and Ross Thuotte

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Preface

Fragile and post-conflict states pose a daunting challenge to the World Bank Group. They suffer from a combination of harsh business environments, unstable and corrupt political regimes, and rent-seeking actors. These barriers prevent private businesses from generating much-needed services, economic growth, and jobs. Viewing the private sector as the key to economic and social progress in fragile states, the authors of this report assess the programs and projects supported by the three major arms of the World Bank active in those states (the International Development Association, the International Finance Corporation, and the Multilateral Investment Guarantee Agency) and propose a strategy to improve the overall effectiveness of the Bank's work.

Though the World Bank Group and its shareholders have made fragile states a priority in recent years, their private sector–oriented programs in the past decade have not yielded many concrete development results. Bank Group staff has been asked to improve project outcomes and to help increase the absorptive capacity of fragile states while targeting priority sectors. But there has not been a clear World Bank Group–wide strategy for fragile states operations.

Using project documents and other sources of information, the authors have compiled a comprehensive dataset on the Bank Group's work in 14 African states (Sudan, Central African Republic, Democratic Republic of Congo, Togo, Guinea-Bissau, Guinea, Liberia, Angola, Côte d'Ivoire, Republic of Congo, Zimbabwe, Eritrea, Chad, and Burundi), which are classified as fragile by the World Bank Group. The dataset describes 5,000 IDA projects, 3,700 IFC projects, and 700 MIGA projects over the period 1980–2011 that focus on building the private sector in these states. These data are available for the first time in an easily accessible format and will likely serve as a valuable resource for policymakers, donors, and other interested actors. Analysis of the data shows that there often does not appear to be a clear strategy driving the interventions and that they are sometimes at odds with the stated needs of policymakers and the public.

Policymakers at the World Bank and those in its shareholder countries should heed the authors' findings if they hope to help private sector businesses grow in Africa's most challenging investment environments. The authors' methodical and exhaustive assessment allows them to deliver a clear message. The World Bank should design and implement projects that a) alleviate the growth constraints most identified by businesses, b) target sectors that governments have explicitly made priorities, and c) align with proven, country-specific successes. Adherence to this framework could greatly increase the chances of successful future private sector–oriented interventions in fragile states.

Nancy Birdsall
President
Center for Global Development

Acronyms

AfDB	African Development Bank
CPIA	Country Policy and Institutional Assessment
DOTS	Development Outcome Tracking System
FCS	Fragile and conflict situation
FIAS	Financial Investment Advisory Service
FY	Fiscal year
ICT	Information and communication technology
IDA	International Development Association
IEG	World Bank Independent Evaluation Group
IFC	International Finance Corporation
IFI	International financial institution
IRAI	IDA Resource Allocation Index
IRR	Internal rate of return
MDC	Movement for Democratic Change
MIGA	Multilateral Investment Guarantee Agency
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-private partnership
PSD	Private sector development
SME	Small and medium enterprise
USAID	U.S. Agency for International Development
WFP	World Food Programme
ZANU-PF	Zimbabwe African National Union–Patriotic Front

Executive summary

The World Bank Group faces significant operational changes over the near to medium term. More than half of poor countries are projected to graduate from the World Bank's International Development Association (IDA) concessional assistance over the next 15 years.[1] As a result, IDA's country client base is projected to become dominated by African fragile states. To its credit, the World Bank Group recognizes these coming changes and the unique needs and constraints present in fragile environments. It has publicly expressed a plan to develop an organization-wide strategy tailored specifically for fragile and conflict-affected situations.

At the same time, private businesses often are able to operate in the absence of stable, well-established governments and therefore can present donor organizations with an attractive pro-growth opportunity in fragile states. After all, the overwhelming majority of African jobs come from the private sector, and private businesses are responsible for some of the most dramatic improvements in the African economic landscape over the past decade. Perhaps most impressively, the mobile telecommunications sector, comprised almost entirely of private firms, generated more than 300 million mobile phone subscribers between 2000 and 2008. Recognizing these issues, the World Bank Group must make business growth a central objective of its future strategy for fragile and conflict-affected states. The most recent *World Development Report* and its subsequent implementation report partially reflect this sentiment. They argue that the organization must "position fragility, conflict, and violence at the core of its development mandate" and that the Bank must "significantly adjust its operations model" to reflect this priority shift.[2] Currently, the World Bank Group is devising a new strategy that will set the tone for Group-wide strategic changes.

Scope and key findings

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

- *Business constraints.* On average, the most frequently cited business constraints in African fragile states include electricity (68 percent of survey respondents), access to finance (56 percent), political instability (56 percent), corruption (48 percent), and tax rates (40 percent).
- *Government priorities.* African fragile state governments have prioritized the following issues: regulatory framework reforms (100 percent of sample countries), transport infrastructure (100 percent), electricity (92 percent), access to and cost of finance (83 percent), and macroeconomic stability (75 percent). Our analysis seeks to identify government priorities in a defined set of African fragile states. A separate comparison between fragile and nonfragile low-income country priorities could be useful to World Bank project design staff.
- *Project outcome performance.* The private sector–related subsectors with the highest project outcome ratings include: telecommunications, oil and gas, transport infrastructure, and trade policy reform. At least half of IDA projects had at least "satisfactory" outcome ratings in these subsectors. The worst-performing subsectors include: port infrastructure; banking; micro, small, and medium enterprise finance; rail infrastructure; and mining.

Subsequently, we assess the alignment of World Bank Group operations within these three areas over the last decade. For this analysis, we have assembled a new database covering all World Bank Group operations in fragile states since 1980, which includes current and past fragile states (both African and non-African). Overall, we find that project alignment varies widely across the World Bank Group's three largest subsidiaries—IDA, the

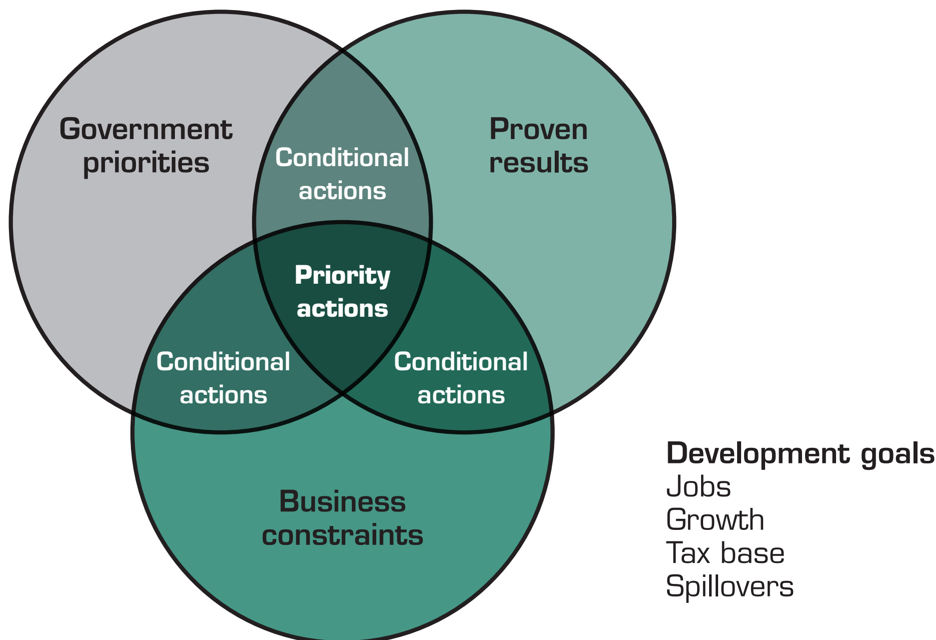
International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Despite several bright spots, our analysis suggests that strategic changes in the World Bank Group's operations are needed—particularly for IFC and MIGA. Our summary findings include:

- *IFC and MIGA alignment performance*. IFC and MIGA projects are only modestly aligned with the private sector's most binding constraints or government priorities. Instead, projects have been heavily concentrated in low-risk sectors, such as the extractive sector (between 1980 and 2000). In recent years, this concentration has shifted toward the financial sector (on a project *count* basis) and the telecommunications sector (on a project *value* basis). Taken together, IFC activities over time suggest that the organization chooses its investments on a project-by-project basis, rather than implementing a comprehensive, systematic strategy in African fragile states.
- *IDA alignment performance*. IDA exhibits very strong alignment with government priorities and reasonably good prioritization in sectors with higher project outcome ratings. But it has a more mixed performance with respect to focusing on what businesses cite as the most binding private sector–related constraints. By illustration, it has focused a disproportionate share of private sector–related projects on transport infrastructure, which businesses cite less frequently as a "major constraint." On the other hand, IDA has pursued fewer projects focusing on the most binding constraints, such as electricity and access to finance.[3]

Recommendations

Based on this analysis, we propose a new guiding framework for the World Bank Group and other donor institutions for prioritizing private sector–related projects in fragile states. We recommend that private sector promotion policies prioritize three key issues: addressing the most severe constraints to private sector growth; matching the host government's stated priorities; and targeting sectors and subsectors with proven track records, relative

Figure 1
Policy design framework for fragile states



to other sectors (figure 1). Moreover, donor policies and projects should also contribute to broader development goals, including job creation, economic growth, broadening and strengthening of the tax base, and positive spillover effects into other economic sectors.

Ideally, donor institutions would pursue projects in sectors or areas where all three components intersect (what the private sector needs, what the government wants, and what donors do effectively). For example, a project to build roads in the Republic of Congo would meet all three criteria (table 1).

Table 1
Criteria to build roads in the Republic of Congo

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

To be most effective, this framework could be applied to all segments of the World Bank Group project cycle—including policy design, ongoing operations, and exit evaluations. Operational implementation of the proposed approach clearly should be customized across subsidiaries and individual countries. But without a concerted and consistent strategy both within and across subsidiaries, World Bank Group projects will continue to perform at a suboptimal level in fragile and conflict-affected states.[4]

To help implement this framework, the World Bank Group should consider ways of addressing three central issues: improving managerial capacity to enable a bolder approach to fragile states; revising human resource strategies to attract and retain staff who are willing to take risks and understand the operating conditions in fragile states; and improving staff incentives to reward greater risk-taking and innovation. Each of these areas is enormously challenging, but must be tackled in order to successfully implement an ambitious fragile states agenda.

Notes

1. Moss and Leo (2011).
2. World Bank Group Development Committee (2011).
3. World Bank Group project decisions are complex and consider a broad array of issues. Promoting private sector business growth is just one of the many priorities of the World Bank Group; this may be reflected in its project portfolio.
4. Fragile states are often affected by violence and conflict and generally suffer from poor governance. Furthermore, large elements of the private sector in these countries may be criminalized, dominated by rent-seeking actors, or entirely informal and unregulated. As such, expectations for project effectiveness in these countries should be lower relative to nonfragile countries. But adhering the proposed framework would address some of the pitfalls involved in fragile state private sector growth promotion efforts and might improve their effectiveness.

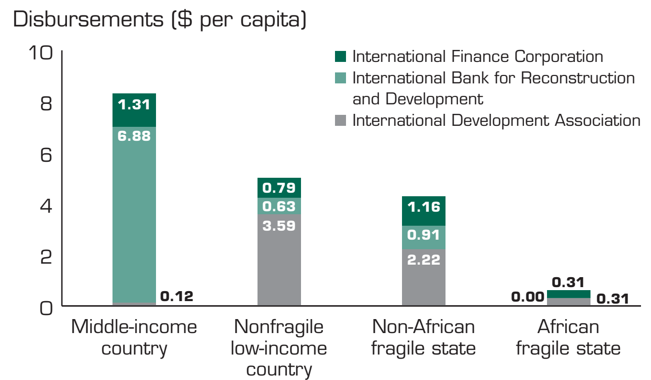
Chapter 1

Overview

In recent years, international financial institutions (IFIs) have dramatically increased their worldwide investments in the private sector—from $10 billion in 1998 to more than $35 billion in 2008.[1] In Sub-Saharan Africa, donor financing for private sector–related activities through loans, guarantees, and advisory services has also increased at a fast pace. By contrast, African fragile states overall have experienced little growth in donor projects targeting private sector activities and continue to receive infinitesimal (albeit slowly increasing) portions of World Bank Group disbursements in recent years (figure 1.1) on a per capita basis.[2] The time period for the data in Figure 1.1 is 2010, which the World Bank Group considers to be a "postcrisis" period. Some disbursements in this year are countercyclical measures to mitigate the negative impact of the financial crisis. Therefore, we cannot assume that this is entirely indicative of World Bank Group disbursements in a typical year. However, countercyclical lending policies are mostly likely not the sole cause of the large discrepancy between disbursements to middle-income countries, low-income countries, and African fragile states.

There are a number of factors driving these low investment levels, such as small market size, high political risk, poor infrastructure, and weak legal and regulatory frameworks. Moreover, International Development Association (IDA) projects are roughly twice as likely to fail as those in nonfragile states.[3,4] Institutional factors within IFIs themselves also have contributed to underinvestment over time. For example, the International Finance Corporation's (IFC) risk-averse culture and mandate to earn a profit are just two factors that have led to very few investment deals in African fragile states outside of enclave sectors.[5] The current World Bank Group project portfolio reflects the realities of investing in fragile states. It also reveals some of the challenges that the World Bank Group and other IFIs might consider when scaling up their activities in fragile states over the near to medium term.

Figure 1.1
Per capita World Bank Group disbursements by income category, 2010



Note: Of the 14 countries in the African fragile states sample, Sudan and Zimbabwe are currently in arrears and are not eligible to receive further loans or grants from the International Bank for Reconstruction and Development or the International Development Association.

Source: World Bank Group and authors' calculations.

Definition of fragile states

For the purposes of our analysis, we define African fragile states according to countries' respective IDA Resource Allocation Index (IRAI) score between 2005 and 2009.[6] Specifically, countries are defined as fragile if they fall into one of two categories:[7,8]

- *All core.* Country has remained below a score of 3.0 for all years.[9]
- *All marginal.* Country has remained below a score of 3.2 for all years.

Based on this approach, the countries of interest (in order of 2009 IRAI scores from lowest to highest) include: Zimbabwe, Eritrea, Sudan, Chad, Guinea-Bissau, the Central African Republic, the Democratic Republic of Congo, Togo, the Republic of

Congo, Liberia, Angola, Côte d'Ivoire, Guinea, and Burundi. These 14 countries provide a variety of case studies spanning geographic regions, income groups, and natural resource endowments (table 1.1). Our diverse group of African fragile states also allows us to formulate a policy framework that may be relevant to a wider range of fragile environments.

In its latest *World Development Report*, the World Bank stresses the importance of integrating security and development activities in conflict-affected and fragile state environments.[10] In operational terms, the report suggests that the World Bank Group plan to make country strategies more fragility-focused; prioritize private sector development (PSD) and job creation; realign results and risk-based frameworks; and reduce volatility in financing levels. The World Bank's concessional financing entity—the IDA—has already been pursuing a number of evolving strategies customized for fragile state environments. While modest progress has been achieved, significant work remains. In contrast with IDA, the World Bank Group's other subsidiaries—IFC and the Multilateral Investment Guarantee Agency—currently do not have operational strategies for fragile states. So the World Bank Group faces a number of challenges in translating the new *World Development Report* directives into effective programs on the ground.

Against this backdrop, we consider a range of issues and options that may help the World Bank Group and other donor organizations streamline operations and improve their effectiveness in African fragile states. First, we examine whether the World Bank Group implemented its projects in African fragile states over the last decade in order to address the most significant obstacles to

Table 1.1
African fragile states sample and selected indicators

Country	Population (millions)	GDP ($ millions)	GDP per capita ($)	CPIA (2010)	Conflict-affected	In arrears	Oil exporter
Angola	19.0	25,901	1,364	2.8	✔		✔
Burundi	8.5	966	113	3.1	✔		
Central African Republic	4.5	1,054	234	2.8	✔		
Chad	11.5	3,097	269	2.4	✔		✔
Congo, Dem. Rep.	67.8	6,851	101	2.7	✔		✔
Congo, Rep.	3.8	5,067	1,348	2.9	✔		✔
Côte d'Ivoire	21.6	11,666	541	2.7	✔		✔
Eritrea	5.2	692	133	2.2	✔		
Guinea	10.3	4,108	398	2.8			
Guinea-Bissau	1.6	244	148	2.7			
Liberia	4.1	619	151	2.9	✔		
Sudan	43.6	22,819	524	2.4	✔	✔	✔
Togo	6.8	1,719	254	2.9			
Zimbabwe	12.6	4,082	323	2.0		✔	
Total	**221.0**	**88,887**	**421**	**2.7**			

Source: World Bank Group.

business growth; country government priorities; and areas where the World Bank Group has a proven track record. In this manner, we gauge how well the World Bank Group is focusing on what is needed, what is wanted, and what works. Second, we apply this approach to assess donors' PSD support in the newly independent nation of South Sudan.[11] Taken together, our findings suggest a somewhat mixed picture about the World Bank Group's alignment and effectiveness in promoting PSD in African fragile states. Finally, drawing upon this analysis, we propose a number of strategic and operational policy recommendations for the World Bank Group to consider as it seeks to prioritize and improve its PSD programs in African fragile states.

Notes

1. IFC (2010b).
2. In this report, we use several metrics to demonstrate the relative size of World Bank Group commitments to fragile states. First, to reduce the bias of countries with larger populations receiving more commitments, we use per capita figures. Second, to gain the perspective of fragile state commitments versus commitments in other countries, we use commitment values in fragile states as a percentage of total commitment values in all countries. Third, for countries in which high-value projects are simply not feasible, we use project count metrics in relation to total Group projects in all countries.
3. Gelb (2010).
4. While IDA's supply-driven resource allocation model ensures that fragile states receive substantial assistance volumes, poor project performance levels have a significant influence on the sectors targeted by IDA funding. IDA's performance-based allocation (PBA) system does include a project portfolio quality component, which has a modest impact on each respective recipient country's resource allocation.
5. Of the numerous private sector–related programs and funding sources listed later in this paper, investments in fragile states constitute a small portion of overall investments. For a complete breakdown of multilateral development banks' investments, see Perry (2011).
6. IRAI scores are based on the World Bank's annual Country Policy and Institutional Assessment (CPIA) exercise. They are calculated as the average of country ratings across four distinct categories: economic management; structural policies; policies for social inclusion/equity; and public sector management and institutions. The CPIA/IRAI is the principal determinant of a given country's IDA allocation. For additional details, see www.worldbank.org/ida.
7. Appendix 7 includes a full list of existing African "fragile states," their IRAI scores, and categorizations. To maintain close relevance with our target countries, we have omitted island nations and non-African countries.
8. This report's definition of fragile states tracks largely with that of the World Bank, which defines "core" and "marginal" states as those countries with IRAI scores of below 3.0 and 3.2, respectively. Our only departure from the Bank's definition is that we extend the period to 2005–09.
9. This categorization also includes countries that are missing data for one or more years, but that lie below 3.0 when scored.
10. World Bank (2011a).
11. Appendixes 5 and 6 provide further analysis on the case studies of Zimbabwe and Somaliland.

Chapter 2

Private sector development in fragile states

PSD in Africa

In recent years, the majority of investment in the African private sector has flowed toward the rapidly expanding telecommunications and extractive industry sectors. Between 2005 and 2008, private investors contributed 62 percent of total funding to the telecommunications industry, which has resulted in the rapid expansion of networks and profitability, as well as prospects for continued growth.[1] By illustration, African telecommunications firms generated more than 316 million mobile phone subscribers between 2000 and 2010.[2] The rapid 43 percent annual growth rate leaves plenty of room for upward movement in the sector, as mobile penetration only reached 44 percent in 2009.[3] Unlike other sectors, telecommunications growth has spanned the gamut of Sub-Saharan countries, ranging from middle-income economies to fragile states.[4] The natural resources and extractive industries have also accounted for a significant portion of African growth, contributing roughly a quarter of Africa's growth between 2002 and 2007.[5]

While progress in the telecommunications and extractive industry sectors is promising, current signals indicate that private investors' appetite for other sectors continues to grow and that private sector expansion could provide a valuable boost to capital- and capacity-starved fragile states. Private sector investment projects in infrastructure could provide high investment returns (as in telecommunications) for both investors and customers in fragile states. For example, "bankable" investments in electricity generation capability and infrastructure (for which there is significant consumer demand) could greatly decrease costs for businesses while generating revenue for power providers.[6]

PSD in fragile states

Theoretically, the private sector has many opportunities to thrive in environments in which traditional aid cannot succeed. For instance, the private sector can exist (and even thrive) even when there is no central government that is stable enough to accept foreign aid (for example, Somaliland). This could make the private sector a particularly viable and valuable target for economic development interventions in fragile states. Therefore, promoting private sector growth in fragile states could be one tangible first step toward better governance and more diverse, robust economies. However, despite a sound rationale for public sector intervention in the private sector, private sector development (PSD)–focused activities in fragile state environments remain vulnerable to a range of binding or limiting constraints.

Fragile states generally are categorized by very weak business climates that often restrict individual firm activities through several channels. In particular, the indirect costs of poor infrastructure, regulatory challenges (such as excessive licensing fees, bribes, and so forth), and low labor productivity can reduce profit margins and reduce incentives for business owners and prospective entrepreneurs.[7] These effects can be exacerbated in fragile states, in which governments and institutions routinely fail to administer services, enforce contracts, and reduce corruption. Political risk also is a major concern for multilateral institutions that wish to invest in the African private sector. This illustrates African fragile states' acute need for customized financing instruments, such as political risk guarantees.

Fragile states also lack the human capital needed to operate scalable business ventures. While skilled micro-entrepreneurs may exist en masse in countries like Chad and Burundi, many of the most skilled businesspeople (such as those with formal skills in accounting, personnel management, strategic planning, risk analysis, marketing, and the like) have often left these hostile business environments for more lucrative and/or secure opportunities abroad. Although these highly skilled workers often send home substantial remittances, they frequently do not maintain local businesses in the fragile-state environment from where they came.[8]

Many firms in fragile states are also heavily constrained by what Ramachandran, Gelb, and Shah (2009) refer to as "external costs."[9] These external or indirect costs—such as those stemming

from failures in electricity service provision, transport infrastructure, and supplier networks—often erode individual businesses' profit-making capabilities. In other words, many African firms' "ability to produce value beyond the cost of their direct and indirect inputs is heavily constrained by the magnitude of the cost of the latter."[10] Finally, markets for goods in nearly all of our 14 fragile states are particularly disparate and weak. Even with strong support from multilateral development banks on the supply side, the private sector will not thrive without predictable and steadily increasing demand from local consumers.

Rationale for public sector support of the private sector

Before launching into a more in-depth discussion of PSD initiatives in fragile states, we shall examine several broad theoretical rationales for public sector support of the private sector. First, it is believed that PSD activities help to create jobs and foster economic growth (the private sector accounts for roughly 90 percent of jobs in the developing world).[11] Second, many argue that the public sector should support the private sector because individual businesses are constrained by numerous government-driven limitations, ranging from corruption to lack of physical infrastructure. Third, many of these constraints result from market deficiencies that theoretically can be rectified by public sector initiatives. For example, imperfect capital markets hinder businesses—notably small and medium enterprises—by not investing in profitable projects. This often occurs because of imperfect information regarding profitability, high transaction costs, and insufficient legal frameworks and enforcement mechanisms. Relatedly, informal and small firms are often unable to pledge collateral and lack formal title rights to physical property.[12] Another example relates to governance. PSD requires an appropriate institutional framework that the private sector cannot provide for itself. While there are several examples of private sector firms joining together to help stabilize the governance environment (such as in Somaliland), most firms in fragile states are unwilling or unable to create the institutional framework necessary to promote PSD by themselves.[13]

Existing multilateral efforts—the World Bank Group

The World Bank Group and others donor organizations' PSD goals in African fragile states broadly mirror those in other low-income countries. The key differences relate to developing policies and projects that are tailored to the more difficult operating environments.

The World Bank's soft loan facility (the International Development Association, or IDA) has a significant presence in fragile states. All of the African fragile states are IDA-eligible borrowers, though several countries (namely, Sudan and Zimbabwe) currently are inactive due to World Bank Group loan arrears. Oil-producing African fragile states (Angola and the Republic of Congo) are above the IDA lending income cutoff, but still have access to IDA loans on "hardened terms."[14] Although one of IDA's specific foci is PSD, its projects in many sectors such as infrastructure and regulatory reform result in positive spillover effects for private sector businesses. Indeed, much of IDA's contribution to the private sector may result from indirect benefits from non-PSD–focused IDA projects. IDA's current eligibility requirements have significant implications for the institution's future. A recent study estimates that by 2025, most IDA-eligible countries will be African fragile states—a reality that may compel IDA to restructure its strategy around fragile lending environments in the coming years.[15] By extension, adapting to the specific constraints of fragile states will be essential to IDA's continuing success.

The efforts of the World Bank Group's private sector arm are of particular interest. The International Finance Corporation (IFC) is a leading global player in the PSD spectrum and makes nearly 40 percent of all investments that originate from development finance institutions.[16] However, IFC's 2010 project disbursements to African fragile states, on a per capita basis, were four times smaller than commitments to middle-income countries.[17] The smaller levels of investment in African fragile states reflect investment conditions characterized by volatility and high levels of risk, limited private sector partners, and few choices for viable investment projects. And if IFC hopes to scale up its investments in African fragile states (a World Bank Group–wide measure has been proposed in the most recent *World Development Report*), it must innovate its investment model.

Taken together, the World Bank Group has shown an increased level of commitment toward fragile states in recent years. During the World Bank's spring 2011 Development Committee meeting, shareholders agreed on the following commitments:[18]

- Make fragile and conflict situation (FCS) strategies more fragility-focused by preparing new strategies for FCS countries.

- Increase attention to jobs and PSD by promoting a common World Bank Group approach to employment and introducing new IFC/Multilateral Investment Guarantee Agency (MIGA) instruments.
- Realign results and risk frameworks for FCS countries through the development of results metrics that are sensitive to conflict and fragility.
- Strive for "global excellence in FCS" by establishing a new FCS hub in Nairobi by the end of fiscal year (FY) 2011 and further revising human resource policies that reflect FCS priorities and needs.

Since this World Bank Group strategy was approved only recently, it has yet to be operationalized by the individual World Bank subsidiary organizations such as IFC and IDA. However, the IFC launched its five-year Conflict Affected States in Africa Initiative in 2008 to help design and implement integrated strategies that support economic recovery in conflict-affected countries. Roughly 18 percent of total IFC advisory service expenditures worldwide are committed to World Bank–classified fragile states, which include non-African countries. Specifically, the Conflict Affected States in Africa program has four main elements: improving the business environment through regulatory reform; strengthening small and medium enterprises and support institutions (such as chambers of commerce); rebuilding financial markets and other financial institutions; and increasing private sector involvement in rebuilding infrastructure.[19] The IFC has implemented Conflict Affected States in Africa projects in several postconflict countries with severe business climate constraints, such as Burundi, the Central African Republic, the Democratic Republic of Congo, Liberia, and Sierra Leone. It continues its extensive advisory service operations in many African fragile states. IFC emphasizes the importance of these services in lieu of larger investment project operations, which it says are especially difficult in fragile environments.[20]

Although there are numerous efforts aimed at promoting African infrastructure growth (one result of which would be private sector growth), few of these initiatives have the capability and/or audacity to commit resources to fragile states. Although examined for this report, many private sector and infrastructure initiatives were not included because they do not focus on fragile states. These initiatives/institutions include NEPAD's Infrastructure Investment Fund, DevCo (a fund overseen by the Private Infrastructure Development Group), and InfraCo (also funded by the Group). A list of selected PSD initiatives in fragile states is located in appendix 8. Of particular interest is the Public-Private Infrastructure Advisory Facility (PPIAF), which was established in 1999 to increase private sector participation in emerging markets. PPIAF provides grants to help governments create a sound enabling environment for private participation in infrastructure through activities such as framing infrastructure development strategies, organizing stakeholder consultation workshops, and designing pioneering projects.[21] PPIAF, committing about $20 million a year globally, has sponsored projects in fragile states such as the Democratic Republic of Congo, Guinea, Guinea-Bissau, Liberia, and Sierra Leone.[22] The projects often have a regional focus, and PPIAF's 2011–13 work plan cites fragile states as one of four major cross-cutting themes for future projects.

The World Bank Group's Financial Investment Advisory Service (FIAS) is a multidonor investment climate program that assists developing and transition economies to improve their business environments with an emphasis on regulatory simplification and investment generation.[23] FIAS also coordinates with IFC Advisory Services and other World Bank Group departments. Forty-five percent of FIAS activities in FY10 occurred in Sub-Saharan Africa, including 31 percent of its implementation expenditures in fragile and postconflict states.[24] FIAS completed five business reforms in three fragile states, including business taxation reform in Sierra Leone, construction permits in the Democratic Republic of Congo, and investment policy reforms in Guinea-Bissau. In 2011, FIAS began designing a methodology to estimate the savings accrued to firms resulting from its business climate reform support. FIAS's client satisfaction rating has hovered around 90 percent in recent years.[25] Moreover, FIAS released a *Rough Field Guide to Investment Climate Reform in Conflict-Affected Countries* in 2010, which explicitly links investment climate improvement with peace-building efforts in postconflict countries. The report also provides highly detailed instructions on the design, implementation, and evaluation of investment climate reforms, including laws, regulations, and procedures that govern industry competitiveness, bureaucratic efficiency, and institutional governance.[26]

The World Bank's Doing Business project provides absolute and relative measurements of business regulations and obstacles across 183 economies. These annual reviews contain extensive data on constraints to business growth, including time and costs required to start a business, licensing fees, construction permits, and trading

across borders. Unlike most private sector–oriented diagnostics, Doing Business collects data annually for nearly all of the world's economies.[27] While the Doing Business program does not support specific business reform activities, its field analysis and findings feed into IFC, FIAS, and non–World Bank Group programs assisting fragile states (and other countries) with business climate reforms.

Promoting business growth—policy goals in fragile states

The next chapters describe the World Bank Group's projects in some detail. But first, with a view to evaluating the efforts of the World Bank Group, we describe four key business growth–related objectives in fragile states: supporting broad-based economic growth, job creation, tax mobilization, and positive spillovers. We also introduce a conceptual framework to guide support operations that could be adapted and applied to a variety of African fragile state environments.

Broad-based economic growth

Sustained, broad-based economic growth is the critical driver for significant poverty reduction in low-income countries, particularly in view of the limited scope for income redistribution. But as the World Bank's Commission on Growth and Development states, economic growth is not an end in itself. Rather, it is the spark to create resources and social services to support health, education, job creation, and other development goals. By illustration, one study estimated that a 2 percent rise in average household income resulted in a 1.2–7.0 percent decline in poverty rates.[28] Therefore, economic growth has major implications for poverty reduction in African fragile states.[29] Over the last 30 years, poverty levels have fallen significantly, with much of the progress being attributable to economic growth. Globalization has provided the platform to expand markets, import ideas and technology, and facilitate the movement of human capital and investment to regions that were previously largely closed off from the global economy. Although there is not one common success story, countries that have achieved sustained economic growth have maintained macroeconomic and political stability, raised investment and savings, and opened their markets. The overriding policy challenge is to determine how to apply these success stories to the poorest and most fragile countries.

The World Bank's Commission on Growth and Development outlines several types of countries that face dramatic challenges in achieving sustained economic growth. These include Sub-Saharan countries still contending with postcolonial resource extraction models and negative spillovers from unstable and violent neighbors; small states with significant concentration in a few economic sectors highly vulnerable to exogenous shocks; governments facing comparatively high per capita costs of social services; and countries rich in natural resources facing Dutch disease and rent-seeking risks. Most African fragile states examined in this report fall into one of these categories.

Job creation

The labor market is deeply entwined with both economic growth and poverty reduction. Many African fragile states face high, persistent unemployment levels, particularly among youth and demobilized combatants, which can contribute to increased rates of violence, political instability, and higher levels of poverty.[30] Therefore, supporting job creation opportunities should be a central objective of any World Bank Group operation that aims to promote business growth. The relationship between jobs and growth is largely a two-way street: sustainable economic growth depends at least partly on the underlying labor market structure and a flexible labor force, while employment growth often depends on growth of output in the formal sector. But a key characteristic of African labor markets is the very high ratio of informal to formal sector employment.[31] Thus, although formal sector growth is essential in the long term, the informal sector often has greater capacity to absorb the ever-expanding labor force—especially in economies constrained by low formal output growth.[32] Therefore, African fragile state governments and donor organizations often need to pursue two-track approaches for supporting increased productivity within the informal sector while simultaneously improving the operating environment for formal enterprises.

Tax mobilization

A third PSD-related objective is fostering a broad, stable tax base, which contributes to improved governance, accountability, and economic growth. Domestic tax policies have the potential to strengthen government legitimacy in the eyes of constituents through increased accountability and transparency, perceived fairness, and a clear political commitment to shared prosperity.[33] Government revenues are also necessary for providing social services and can be used to support economic growth and diversification. There is considerable variation

in African countries' tax bases, with the lowest tax bases often corresponding to almost exclusive dependence on natural resource rents. Tax revenues average roughly 14 percent of GDP in African fragile states, with oil exporters Chad and the Republic of Congo on the low end with slightly higher than 5 percent of GDP and Liberia and Zimbabwe on the high end with approximately 30 percent of GDP.[34] Due to large informal sectors, most fragile states have relatively narrow tax bases. Thus, the government's "fiscal-social contract" with the private sector is an important step toward reform. Formalizing the informal sector of the economy creates not only a broader tax base and larger stream of revenue to provide necessary services, it provides an incentive for expanded political participation.[35]

Positive spillovers and multipliers

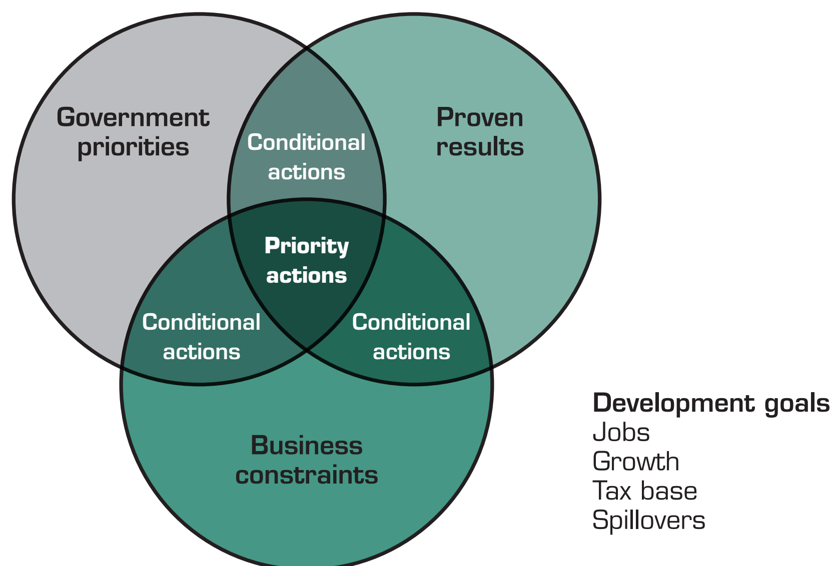
Another driver of success is growth spillovers—when growth in one part of the country or some subset of firms impacts the growth of other firms or regions. At the country level, open borders for the flow of goods and services, along with increasing migration and flow of human capital, lead to increasingly positive spillovers. Within countries, knowledge and technology are key ingredients in the development of industry, and can be shared across firms. Also, firms in fragile states may be able to "borrow" knowledge cheaply, helping to "leapfrog" the historic development process. Mobile phone technology is a prime example.[36] Finally, some types of investments can also spur the growth of related industries, either upstream or downstream in the production process.[37]

PSD policy design in fragile states

In light of these policy goals, how should the World Bank Group best prioritize its PSD-related support programs in African fragile states? Upon careful review of the diagnostics of each economy and the tools available to donors, we propose that good policies are drawn from the intersection of three elements—the private sector's most severe constraints, the stated priorities of governments, and policy interventions with an acceptably effective track record (figure 2.1). The policies emerging from the intersection of these areas must also support the above-mentioned goals of economic growth, job creation, tax mobilization, and positive spillovers.

Our conceptual model brings together these three fundamental areas for policy design. First, to generate growth, policymakers must create a conducive environment for business owners and managers of small, medium, and large firms. Extensive survey data

Figure 2.1
Policy design framework for fragile states



on the problems reported by businesses are available on the World Bank's website and from other sources.[38] We analyze these data to identify the most critical problems facing businesses that are trying to survive in fragile environments. Understanding their constraints is the crucial first step toward good policy design. Whether it is the basics (infrastructure, public services), regulations (taxes, licensing rules), or labor shortages, we need to know what the private sector believes is holding back growth.

The second area is understanding government priorities. Policymakers in fragile states operate in very difficult environments, often trying to address various constraints simultaneously with very few resources. Understanding their perspective and primary objectives is important, especially for policymakers in multilateral institutions. By searching through public documents, speeches, and other data, we try to identify what African fragile state governments perceive to be their most binding PSD-related obstacles. There may well be some overlap between their perspective and that of the private sector, as we will see in next chapters.

Third, we must use the lessons learned from past policy interventions. Understanding what has worked in fragile environments will be useful to the design of new policies, programs, and projects, particularly when these findings are referenced against public and private sector constraints and priorities. To accomplish this task, we analyze past policy interventions using a database of IDA projects and other sources to identify successful projects by sector, type, and location.

When considered together, these three analytical components can help multilateral organizations prioritize PSD-related programs in fragile states. As noted previously, donor institutions ideally would pursue projects in sectors or areas where all three components intersect (what the private sector needs, what the government wants, and what donors do effectively). This is the "priority action" zone of the conceptual framework. But there will be situations or environments in which multilateral organizations may wish or need to pursue projects or investments that do not meet this condition. In this instance, we recommend that multilateral organizations then prioritize projects in sectors or areas where two of the three components intersect. Careful attention should be given to why one of the components does not meet this condition and what types of remedial actions would be required. For each of the omitted policy prioritization components, potential remedial steps could include the following in different situations:

- *Major PSD constraints (need to tread carefully).* Multilateral organizations should proceed very cautiously in the absence of private sector buy-in. However, there could be instances when proceeding could be justified—such as a prioritization overlap with informal and/or small and medium enterprises, though not with the business elite.
- *Government priorities (need to get buy-in).* Multilateral organizations should determine why the private sector and national government priorities are not consistent. After this, steps should be taken to encourage government buy-in as appropriate—particularly in areas where direct or indirect government involvement is likely. But multilateral organizations may want to deprioritize the need for buy-in in failed or highly repressive states.
- *Proven results (need to innovate)*: Multilateral organizations will need to consider innovative or alternative implementation models to ensure that project or investment results exceed historical performance patterns. Moreover, careful attention should be given to programmatic factors that are significantly predictive of project outcome performance ratings, such as quality-at-entry and supervision (these issues are examined in greater detail in chapter 4).

The next chapters explore each of these areas—constraints reported by businesses, priorities of governments, and understanding what works—in significant detail. Each chapter examines the available data, and then compares them with the project portfolio of the three relevant World Bank Group entities—IDA, IFC, and MIGA (when possible). The aim of this analysis is to understand whether these institutions have operated with a consistent, well-defined strategy and whether their projects have met needs identified by either the government or the private sector (or ideally both). Finally, our conceptual model is used to identify priorities for Africa's newest country, South Sudan (chapter 6). Case studies for Somaliland and Zimbabwe are included as well.

Notes

1. McKinsey Global Institute (2010).
2. McKinsey Global Institute (2010).
3. McKinsey & Company (2010).
4. For example, Zain (a Kuwaiti mobile telecommunications company) has made major investments in South Sudan since 2008. To date, Zain has invested more than $300 million in their South Sudan network.

5. Government spending from resource-generated revenue contributed an additional 8 percentage points. See McKinsey & Company (2010).
6. In a 2010 interview with the Infrastructure Consortium for Africa, Bobby J. Pittman Jr., African Development Bank Vice President for Infrastructure, Private Sector Development, and Regional Integration, noted the AfDB's strong interest in high-return investments in African infrastructure projects.
7. Ramachandran, Gelb, and Shah (2009).
8. Fragile states record significant amounts of remittances from abroad. World Bank estimates for 8 of the 14 countries in the sample are that remittances counted for an average of nearly 4 percent of GDP in 2009. During that year, the average for Sub-Saharan Africa was roughly 2.5 percent.
9. Ramachandran, Gelb, and Shah (2009), p. 44.
10. Ramachandran, Gelb, and Shah (2009), p. 45.
11. Kurokawa, Tembo, and te Velde (2008).
12. Kurokawa, Tembo, and te Velde (2008).
13. See appendix 6 for more in-depth information on how the Somaliland private sector helped stabilize an otherwise volatile business environment in the subnational territory.
14. For more details, see www.worldbank.org/ida.
15. Moss and Leo (2011).
16. IFC (2010a). This includes institutions such as IFC, the European Bank for Reconstruction and Development, and MIGA.
17. Of IFC capital, 89 percent is invested in middle-income countries (DfID 2010). According to authors' calculations, IFC's 2010 commitments to MICs were roughly $1.31 per capita, while commitments to African fragile states were only $0.31 per capita.
18. World Bank Group Development Committee (2011).
19. IFC Conflict Affected States in Africa website, www.ifc.org/ifcext/africa.nsf/Content/CASA_Home.
20. The developmental and financial returns gained from advisory service projects are far more ambiguous than returns gained from investment projects (for instance, IFC received a 16.5 percent return on its organization-wide manufacturing equity investments in 2010). Therefore, much of IFC's work in African fragile states is difficult to quantify, and the full impact of IFC in these countries may not necessarily be presented by the data analysis contained in this report. But the IFC's own evaluation report completed by the World Bank Group's Independent Evaluation Group determined that advisory projects in "high-risk" business climates tend to have higher development effectiveness than those in their non-high-risk counterparts. This same assessment applies to IFC investment projects in high-risk climates.
21. See www.ppiaf.org/.
22. The PPIAF also manages the Private Participation in Infrastructure Database, which houses data on more than 4,600 infrastructure projects in 137 countries, including the Central African Republic, Sierra Leone, and Zimbabwe. The database has project-level reports on energy, telecommunications, transport, and water and sewage sectors, which allow trend identification in the private infrastructure space.
23. FIAS (2010).
24. FIAS implementation expenditures for 2010 totaled $18.5 million.
25. Another positive indicator is FIAS's recent improvements (from 48 percent in 2008 to 77 percent in 2010) in the World Bank's own Development Effectiveness ratings.
26. Also in 2010, FIAS launched the *Investing across Borders* report, which provides objective data on the climate for foreign direct investment in 21 African countries, including Liberia and Sierra Leone. The report presents numerous indicators under the following four categories: friendliness to foreign investors (that is, the percent of ownership allowed), ease of starting a foreign business, ease of accessing industrial land, and complexity and length of the commercial arbitration process. See World Bank (2010b).
27. The only African fragile state without Doing Business coverage is Somalia.
28. Commission on Growth and Development (2008).
29. Over the past decade, the average oil-exporting African fragile state's GDP grew at a pace of between 3 and 11 percent, while the average non-oil-exporting African fragile state grew at a pace of –1 to 5 percent (measured on an annual basis).
30. Harris (1999).
31. ILO (2011).
32. Gelb and Tidrick (2000).
33. Everest-Phillips (2008).
34. Heritage Foundation (2011). For additional details, see www.heritage.org/index/.
35. Everest-Phillips (2008).
36. Timmer (2006).
37. Forni and Paba (2002).
38. For additional details, see www.enterprisesurveys.org/.

Chapter 3

Constraints to business growth in African fragile states

One of the public sector's primary objectives in assisting the private sector is to relieve constraints that may stifle businesses' ability to grow, expand employment opportunities, and generate profits. Recognizing this, donor organizations have increased funding over the last decade for private sector development (PSD) diagnostics that help to identify these binding constraints. While there are a number of instruments available, we focus primarily on two World Bank surveys: the Doing Business reports, which provide comprehensive assessments on regulatory, financial, and political constraints through a top-down methodology; and the Enterprise Surveys, which gauge firms' views about business environment constraints.

World Bank Doing Business Reports

Doing Business country (and subnational) reports provide relative and absolute measures of business environment constraints across eight distinct categories, such as the ease and cost of starting a new business, enforcing contracts, and trading across borders. The Doing Business methodology scores countries according to both the attractiveness of their current business environment (the number of days it takes to secure an import license) and their progress toward delivering more private sector–friendly policies (the number of regulatory reforms that have been completed in a given year). Overall, the Doing Business reports, providing the most comprehensive country coverage, are completed on an annual basis—which allows for more dynamic monitoring of business environment changes and trends.

With few exceptions, African fragile states lag far behind their higher income and non-African fragile counterparts on nearly every Doing Business measure. On average, African fragile states have an ease of doing business ranking of 171 (of 182 countries) compared with an average ranking of 125 for other low-income countries (table 3.1). Importing a standardized container of goods costs nearly three times more in African fragile states than in middle-income countries.[1] And starting a new business costs more than three times as much in African fragile states than in other low-income countries. These exorbitant operating costs have a profound impact on businesses' ability to generate profits, expand, and compete in a globalized marketplace.[2] Moreover, they contribute to broader economic effects, such as inflation, large informal sectors, and rent-seeking behavior.

Table 3.1
Fragile states compared with other developing countries, Doing Business indicators

Income category	Overall ranking	Cost to import container ($)	Cost to start a business (percentage of GDP per capita)	Time to register property (days)	Time to enforce a contract (days)
Middle-income country	96	1,443	26	49	635
Low-income country	125	2,308	61	68	545
Africa nonfragile state	117	1,972	47	54	629
Non-African fragile state	125	1,968	69	132	650
African fragile state	171	3,596	184	96	722

Source: World Bank 2011b.

While Doing Business reports provide a useful assessment of business environment issues, they also omit several factors that impact PSD, such as macroeconomic stability, security, quality of infrastructure, and corruption. As such, they should be used with other diagnostic instruments to identify the most binding constraints on business growth in African fragile states.

World Bank Enterprise Surveys

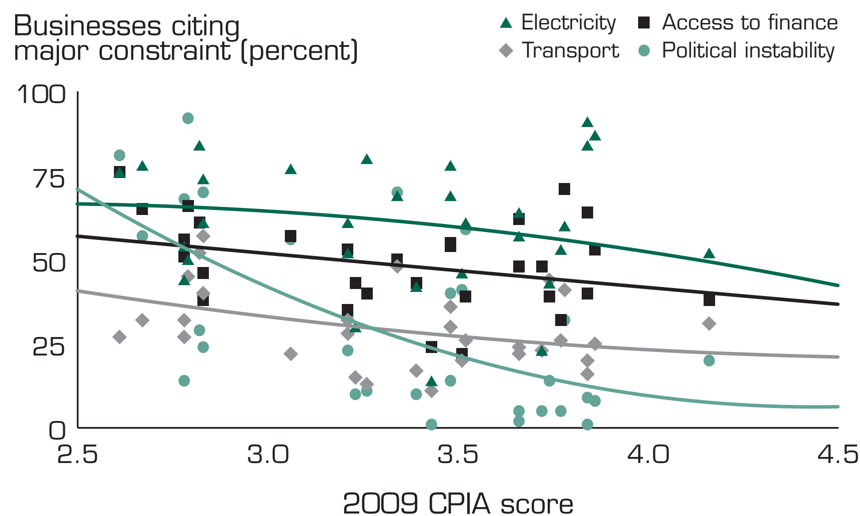
The World Bank Enterprise Surveys compile individual firms' opinions and concerns to assess national and regional business environments. The surveys fill in many of the gaps in the Doing Business reports, such as corruption, physical infrastructure (including transport), crime, informality, competition, and access to finance. Private contractors administer the surveys to firms largely in the manufacturing and service sectors, including construction, transport, and information and communication technology. As of mid-2011, World Bank Enterprise Surveys were available for 12 of our sample of 14 African fragile states.[3]

Despite their significant strengths, World Bank Enterprise Surveys have two key weaknesses. First, they are fairly expensive, time-consuming, and infrequently completed (not annually or according to a clearly defined timetable). So they are not an ideal instrument for identifying country trends over time. Second, the surveys focus almost exclusively on firms in the formal sector.[4] Since the informal sector accounts for the overwhelming majority of businesses and employment in low-income countries, enterprise surveys may not adequately reflect constraints impacting the broader business sector. Even so, while World Bank Enterprise Surveys may have limitations, they remain a very useful tool in gauging firms' views about major constraints.[5]

Ramachandran (2010) summarizes in detail the available survey data for African countries, along with analyzing trends between countries and income groups.[6] Businesses in the poorest African countries—in which most fragile states are included—tend to cite basic infrastructure deficiencies, access to financing, and lack of macroeconomic stability as the primary constraints to profitability and expansion.[7] Other constraints, such as weak governance, low administrative and bureaucratic capacity, and official corruption are cited more frequently in the next highest income tier of Sub-Saharan countries (such as Kenya and Senegal). Businesses in the highest income group (such as Gabon and South Africa), on average, cite the lack of job skills and labor regulation as more binding constraints.

Since country fragility is defined according to policy and institutional quality measures, we also examine business constraints

Figure 3.1
Most frequently cited business constraints in African countries



Source: World Bank Business Enterprise surveys.

in relation to IDA Resource Allocation Index (IRAI) scores (as opposed to income per capita levels). Figure 3.1 illustrates several of the most frequently cited business constraints in African countries—political instability, transport infrastructure, electricity, and access to finance.[8] Across the board, the percentage of firms reporting these issues as "major constraints" declines as countries' IRAI scores increase. Not surprisingly, concerns about political instability decline the most dramatically across our country sample. Nearly twice as many African firms cite concerns about electricity as a "major constraint" compared with concerns about transport infrastructure. And access to finance is also cited more frequently as a "major constraint" than transport infrastructure is.

For African fragile states, the most frequently cited business constraints include: electricity (68 percent), access to finance (56 percent), political instability (56 percent), corruption (48 percent), taxation rates (40 percent), competition from informal firms (40 percent), transport (38 percent), crime (35 percent), customs regulations (28 percent), and worker skills (27 percent; table 3.2).

World Bank Group alignment with business constraints

The aforementioned surveys and analysis provide programmatic prioritization insights for respective donor organizations.

Since the World Bank Group expends significant resources on business diagnostics, we would expect International Development Association (IDA), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) activities to direct their projects toward those factors that pose a "major constraint" to PSD in fragile states.[9] Put differently, the World Bank Group should be drawing upon individual firms' opinions before developing and implementing sizable support programs and investments for PSD-related activities.[10]

Methodology

To gauge the World Bank Group's alignment, we focus on a subset of major business constraints that can be mapped clearly to World Bank Group projects and investments, including

Table 3.2
Most frequently cited business constraints in African fragile states (percent)

Country	Electricity	Access to finance	Political instability	Corruption	Tax rate	Competition from informals	Transport	Crime	Customs regulations	Worker skills
Angola	43.9	55.8	13.6	35.0	22.6	25.4	27.0	35.5	21.6	20.6
Burundi	76.5	56.6	56.3	18.1	33.6	39.8	22.1	21.2	20.4	15.5
Chad	81.6	47.4	68.9	66.9	54.4	71.3	45.9	51.5	58.1	59.7
Congo, Dem. Rep.	78.4	64.9	56.7	21.3	52.6	45.5	32.0	20.6	19.8	16.2
Congo, Rep.	74.4	45.5	70.4	66.4	42.9	49.2	57.0	47.1	49.1	53.9
Côte d'Ivoire	50.1	66.2	92.2	71.7	40.8	32.8	44.7	54.9	27.3	37.7
Guinea	84.2	61.4	28.8	53.8	38.0	25.0	52.2	34.8	12.0	14.1
Guinea-Bissau	75.7	75.7	80.6	40.0	47.9	32.9	27.1	31.4	26.4	15.0
Liberia	60.8	37.7	23.5	38.2	26.0	22.7	40.3	30.6	17.4	13.0
Togo	53.8	50.8	68.3	66.1	40.5	52.0	32.3	22.2	30.2	19.5
Average	**68.0**	**56.2**	**55.9**	**47.8**	**39.9**	**39.7**	**38.1**	**35.0**	**28.2**	**26.5**
Other Sub-Saharan countries	51.0	41.0	17.0	32.0	39.0	34.0	25.0	27.0	20.0	22.0

Source: World Bank Business Enterprise surveys.

electricity, access to finance, and transport infrastructure. The multifaceted dimension of other constraints—such as political instability and crime—makes it difficult to identify overlap with donor programs in a concise manner.[11] For projects and investments, we examine all IDA, IFC, and MIGA activities between 2000 and 2010 in 11 African fragile states with business enterprise survey data.[12] Moreover, we use each institution's classifications to determine the priority sector or area for each project, investment, or guarantee.[13]

IDA

As seen in a number of different measures, IDA projects over the last decade exhibit a significant level of alignment with firm views concerning electricity and transport constraints. The correlation between the number of IDA projects targeting these sectors (measured as the percentage of *all* IDA PSD-related projects) and the percentage of firms citing them as "major constraints" is 0.54 and 0.52, respectively.[14] As expected, there is almost no correlation between the *total value* of IDA projects targeting these sectors (measured as the percentage of *all* IDA projects). Put differently, IDA has prioritized electricity and transport projects within its PSD-related portfolio while not necessarily prioritizing them with respect to its *overall* project portfolio value in African fragile states.

Given broader development priorities that commonly exist in African fragile states—such as social service delivery and security sector reform—this is not particularly surprising. By contrast, IDA's alignment with firms' concerns about access to finance is strikingly low. The correlation between IDA projects targeting this constraint (measured as a percentage of all PSD projects) is

Table 3.3
IDA alignment with "major constraints," by country, selected measures

	Electricity						Transport	
Country	Firms citing as major obstacle (percent)	Per capita project value ($)	Total value of all IDA projects ($ millions)	Percentage of all IDA projects (by value)	Percentage of all IDA projects (by number)	Percentage of IDA PSD projects (by value)	Firms citing as major obstacle (percent)	Per capita project value ($)
Angola	44	0.0	0	0	0	0	27	6.1
Burundi	77	8.8	65	7	6	22	22	9.5
Chad	82	5.5	55	10	5	50	46	6.7
Congo, Dem. Rep.	78	0.2	12	0	2	9	32	16.3
Congo, Rep.	74	0.0	0	0	0	0	57	17.6
Côte d'Ivoire	50	18.5	358	31	9	25	45	4.3
Guinea	84	2.0	19	4	17	80	52	3.3
Guinea-Bissau	76	20.4	30	20	13	100	27	0.0
Liberia	61	2.9	10	1	2	10	40	48.0
Sudan	41	0.0	0	0	0	0	22	3.5
Togo	54	0.3	2	0	4	33	32	0.3
Correlation		**0.12**	**–0.19**	**0.02**	**0.47**	**0.54**		**0.22**

Note: All values for projects are given in terms of International Development Association's own commitment to the project, rather than the total project value (that is, with co-financiers, if applicable).

Source: International Development Association and authors' calculations.

only 0.04, suggesting that IDA has deprioritized financial sector projects in African fragile states—in the form of either regulatory reform or support for local financial institutions (table 3.3).[15,16] IDA's low level of access to finance projects could also be attributed to the comparative advantage of other World Bank Group subsidiaries (IFC) in this sector, which may be better-equipped to promote access to finance.

Figure 3.2 provides another illustration of IDA's prioritization across the examined sectors according to the percentage of individual firms citing them as "major constraints." As the aforementioned correlation analysis suggests, IDA appears to prioritize PSD projects in electricity and transport in African fragile states where they present the greatest constraints. Alternatively, IDA appears to pursue fewer financial sector projects when firms cite access to finance more frequently as a "major constraint."

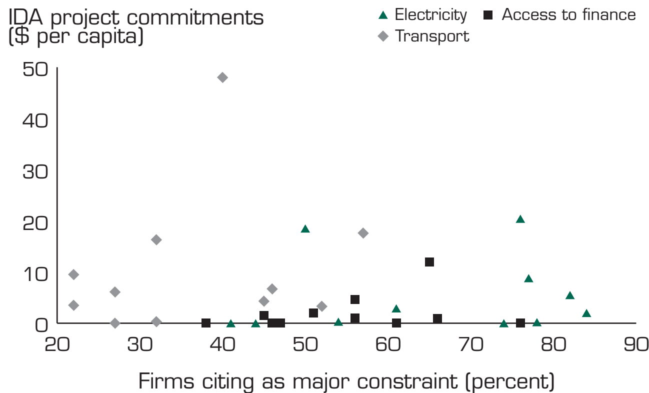
IFC

Unlike IDA, IFC investment services focus on economic sectors (such as manufacturing and services companies) rather than broader constraints to PSD growth. Conversely, IFC advisory services often work with governments to improve the overall investment climate in fragile states such as the Democratic Republic of Congo and South Sudan. Neither investment nor advisory services focus explicitly on electricity and transport constraints, and thus we expect that very few investments have targeted those obstacles to private business growth. However, we could expect IFC investments in the financial services sector (to counteract the "access to finance" constraint).

IFC investments in recent years. Based on a number of different measures, IFC investments in African fragile states over the last decade

Transport				**Access to finance**					
Total value of all IDA projects ($ millions)	**Percentage of all IDA projects (by value)**	**Percentage of all IDA projects (by number)**	**Percentage of IDA PSD projects (by value)**	**Firms citing as major obstacle (percent)**	**Per capita project value ($)**	**Total value of all IDA projects ($ millions)**	**Percentage of all IDA projects (by value)**	**Percentage of all IDA projects (by number)**	**Percentage of IDA PSD projects (by value)**
102	18	8	50	56	1.0	17	3	8	50
70	8	6	22	56	4.6	35	4	9	33
67	12	5	50	47	0.0	0	0	0	0
966	25	10	45	65	12.0	710	19	6	27
60	17	11	100	46	0.0	0	0	0	0
83	7	14	38	66	0.9	17	1	9	25
30	6	4	20	61	0.0	0	0	0	0
0	0	0	0	76	0.0	0	0	0	0
164	20	16	70	38	0.0	0	0	0	0
134	19	7	38	45	1.5	58	8	7	38
2	0	4	33	51	2.0	12	3	4	33
–0.15	**0.00**	**0.32**	**0.52**		**0.27**	**0.28**	**0.17**	**0.19**	**0.04**

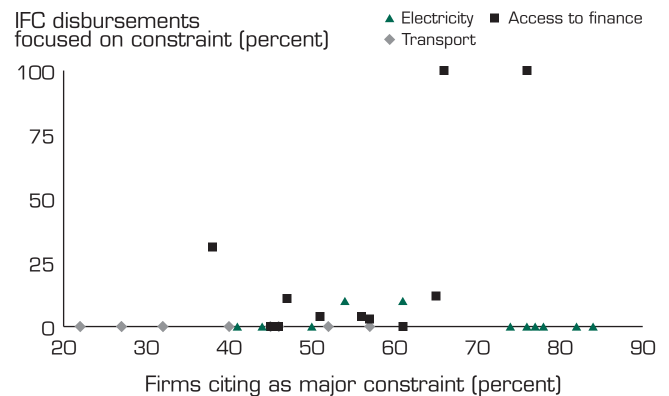
Figure 3.2
IDA alignment, fragile state commitments



Note: Each shape represents one of the 14 African fragile states' alignment with that country's business environment priorities, as determined by World Bank Enterprise Surveys.

Source: International Development Association and authors' calculations.

Figure 3.3
IFC alignment with business constraints, selected measures, 2000–11



Note: Includes projects in countries with CPIA scores below 3.2 at project signing date. Does not include projects with "pending" status.

Source: International Finance Corporation and authors' calculations.

Table 3.4
IFC alignment with constraints, 2000–11 (percent)

	Electricity			Transport			Access to finance		
Country	**Firms citing as major obstacle**	**In-country project value**	**In-country project count**	**Firms citing as major obstacle**	**In-country project value**	**In-country project count**	**Firms citing as major obstacle**	**In-country project value**	**In-country project count**
Angola	43.9	0.0	0.0	27.0	0.0	0.0	55.8	4.4	50.0
Burundi	76.5	0.0	0.0	22.1	0.0	0.0	56.6	3.3	40.0
Chad	81.6	0.0	0.0	45.9	0.0	0.0	47.4	10.5	50.0
Congo, Dem. Rep.	78.4	0.0	0.0	32.0	0.0	0.0	64.9	12.4	53.8
Congo, Rep.	74.4	0.0	0.0	57.0	0.0	0.0	45.5	0.0	0.0
Côte d'Ivoire	50.1	0.0	0.0	44.7	0.0	0.0	66.2	100.0	100.0
Guinea	84.2	0.0	0.0	52.2	0.0	0.0	61.4	0.0	0.0
Guinea-Bissau	75.7	0.0	0.0	27.1	0.0	0.0	75.7	100.0	100.0
Liberia	60.8	9.5	20.0	40.3	0.0	0.0	37.7	30.7	40.0
Sudan	41.0	0.0	0.0	22.0	0.0	0.0	45.0	0.0	0.0
Togo	53.8	9.7	20.0	32.3	0.0	0.0	50.8	3.8	20.0
Correlation		**–0.25**	**–0.25**					**0.61**	**0.64**

Source: International Finance Corporation and authors' calculations.

exhibit almost no alignment with firm concerns about binding electricity and transport constraints (figure 3.3 and table 3.4).[17] Indeed, the correlation between the number of IFC investments targeting these sectors (measured as the percentage of *total* number of IFC investments) and the percentage of firms citing them as "major constraints" is −0.25 and 0, respectively.[18] For electricity, possible reasons for the misalignment are the highly regulated nature of electricity sectors in African countries and the limited openings for private investment in public power projects. IFC has been successful in investing in Togo's power sector, and it has been able to contribute to the electricity-related regulatory dialogue in Liberia.

Ultimately, the IFC is less likely on average to support investment deals in environments with more binding constraints, apart from access to finance. The data illustrate IFC's recent concerted

Table 3.5
IFC investments in African fragile states by sector, 1980–2000

Sector	Total commitments (2000 $ millions)	Commitments in African fragile states (2000 $ millions)	Commitments in African fragile states (percent)
Infrastructure	12,742	63	2.4
Telecommunications	3,694	15	0.6
Roads	1,090	5	0.2
Electricity	5,851	42	1.6
Water and sanitation	699	0	0.0
Railways and ports	1,408	1	0.0
Regulatory	1,927	5	0.2
Trade	532	0	0.0
Economic management	292	0	0.0
Financial sector	1,103	5	0.2
Extractive	9,352	1,664	63.2
Oil and gas	927	0	0.0
Mining	8,425	1,664	63.2
Social services	554	4	0.1
Education	65	0	0.0
Health	457	4	0.1
Finance	9,649	83	3.2
Banking	9,649	83	3.2
General agriculture	2,697	69	2.6
General PSD	38,511	744	28.3
Environment	16	0	0.0
Total	**75,449**	**2,632**	**100.0**

Source: International Finance Corporation.

efforts to target access to finance constraints in several African fragile states, including Côte d'Ivoire and Guinea-Bissau. Recent IFC investments in these two countries are wholly concentrated in finance-related sectors.[19] While firm concerns could signify strong market demand opportunities for IFC, the high respondent rates likely also signify regulatory distortions and other market risks that could jeopardize IFC's financial returns. While these findings are striking, they should not be overemphasized given IFC's historical focus on market sectors (as noted above). IFC alignment with these sectors is explored in chapter 4.

IFC investments before 2000. When we extend our country sample prior to recent years and beyond the 14 current African fragile states, historical IFC investment trends show little focus on constraints such as electricity, roads, and access to finance. Between 1980 and 2000, IFC invested $2.6 billion in *all* African fragile states that fit our definition of "chronically fragile" states (table 3.5).[20] Of this $2.6 billion, 63 percent went to mining projects alone, while just 0.7 percent went to electricity and 0.5 percent to roads. Nineteen banking and finance projects accounted for just 3.2 percent of the total. Assuming that business constraints in African fragile states have remained relatively unchanged over the past few decades, IFC's investment record does not show a commitment toward addressing some of these limitations.[21]

MIGA

Between 2000 and 2010, MIGA provided only one banking sector guarantee in our sample of 14 African fragile states. It did not provide any guarantees to support foreign investments to improve electricity or transport infrastructure networks. As a result, there is no alignment between MIGA activities and firms' concerns about "major constraints" to growth and profitability. Historical MIGA guarantees mirror this trend when we extend our country sample beyond the 14 current African fragile states. Between 1990 and 2011, MIGA provided guarantees totaling $797 million in African fragile states—of which 27 percent went to telecommunications projects (a low priority for businesses; table 3.6). Also during this time, MIGA guarantees for electricity and roads projects were just 2 percent and 0 percent of total guarantees in African fragile states. However, as with IFC, MIGA has traditionally been focused on market sectors instead of broader PSD-related constraints. MIGA alignment with these sectors is explored in the chapter 4.

Conclusion

While the World Bank Group has made significant strides in *assessing* the constraints to business growth in fragile states over the past 10 years, two of its subsidiaries (IFC and MIGA) have not committed significant financial resources to address the most binding business constraints. As noted above, both organizations' business models prioritize financial returns as opposed to development returns. Given this, IFC and MIGA, for various reasons, have been reluctant, unable, or unwilling to execute investments and guarantees in African fragile states that target the most binding business constraints. By contrast, IDA displays a significant level of alignment with business constraints in African fragile states—with the possible exception of access to finance.

Notes

1. This disparity is not driven solely by landlocked status. Only four of the examined African fragile states are landlocked (Burundi, the Central African Republic, Chad, and Zimbabwe).
2. In general, the World Bank Group's efforts to improve country business environments are based on the assumption that higher institutional quality will lead to increased business performance. But the literature does not unanimously support this assumption. For instance, Commander and Nikoloski (2010) do not find a statistically significant relationship between many of the Doing Business indicators and actual business and investment performance. Even so, the World Bank's current initiatives aimed at promoting investment in developing countries place a strong emphasis on business constraints, such as those determined by Doing Business Surveys.
3. These include Angola, Burundi, Chad, Côte d'Ivoire, the Democratic Republic of Congo, Eritrea, Guinea, Guinea-Bissau, Liberia, the Republic of Congo, Sudan, and Togo. However, the Eritrea business enterprise survey is excluded from our analysis due to methodology and quality deficiencies. The World Bank Enterprise Survey team had planned to publish its Zimbabwe survey data in late 2011, but at time of publication had not yet done so.
4. But the World Bank occasionally departs from its standardized methodology and surveys informal and micro enterprises as well.

Table 3.6
MIGA investments in African fragile states by sector, 1990–2011

Sector	Total MIGA guarantees ($ millions)	Guarantees to African fragile states ($ millions)	African fragile state guarantees (percent)	Total MIGA project count	Project count in African fragile states	Africa fragile state projects (percent)
Infrastructure	9,354	255	32.0	170	12	32.4
Telecommunications	2,074	213	26.7	39	9	24.3
Roads	2,626	0	0.0	20	0	0.0
Electricity	3,571	20	2.5	85	1	2.7
Water and sanitation	748	4	0.4	21	1	2.7
Finance	8,849	173	21.7	254	8	21.6
Agriculture	501	165	20.7	36	6	16.2
Banking	8,347	8	1.0	218	2	5.4
Extractive	2,794	38	4.7	56	2	5.4
Oil and gas	1,132	24	3.0	17	1	2.7
Mining	1,662	14	1.7	39	1	2.7
General PSD	4,641	332	41.7	213	15	40.5
Total	**25,637**	**797**	**100.0**	**693**	**37**	**100.0**

Source: Multilateral Investment Guarantee Agency.

5. Doing Business reports and Enterprise Surveys do not fully encapsulate the business environment picture in African fragile states. Fragile state business environments often face constraints that do not appear in business surveys, such as the criminalization of the private sector or the infiltration of military groups into commercial activities (as a means by which to collect rents). Also, the lack of long-term sustained investment in infrastructure places fragile and conflict-affected states at an even greater disadvantage than a typical low-income country.
6. Ramachandran and Shah (2011).
7. Ramachandran, Gelb, and Shah (2009).
8. IRAI scores and GDP per capita levels are largely uncorrelated (coefficient of 0.06 among African countries).
9. When selecting projects for approval, World Bank staff are fully cognizant of two key project attributes: the feasibility of a project's success, and the project's cost. These factors can sway project decisions, regardless of alignment with business constraints or host government priorities. For example, country directors in fragile states often approve technical assistance projects, as they are significantly less expensive and carry less risk of failure. Sometimes these technical assistance projects will address regulatory constraints to businesses and can help relieve those constraints. But using our methodology, these projects will appear to be smaller, as their commitment values indicate. Our use of project count (as opposed to commitment value) attempts to illustrate this dynamic and draw out these subtleties.
10. The intentions or stated aims of World Bank Group strategy may not always lead to project alignment with business priorities. For example, Bank Group staff may decline to implement an electricity project (despite the business community's strong demand for electricity) because an urban-based electricity generation project could exacerbate inequalities between politically powerful urban populations and rural areas. Bank Group

staff may also be unable to implement projects in desired business areas due to regulatory restrictions and constraints.

11. For example, political instability and crime may have a multitude of underlying causes relating to ethnicity, demographic changes, and employment opportunities, as well as factors within governments' direct control (such as policing, political openness, and transparency).
12. Eritrea is excluded from this analysis due to the poor representational quality of the Business Enterprise survey.
13. For projects with multiple programmatic areas, we use a sector threshold of 50 percent or more of the total project value. By illustration, the $15.4 million Burundi Emergency Energy Project focuses 54 percent of total project funds on power-related investments. As a result, the project would be classified as an electricity sector project.
14. Since individual firms can cite multiple constraints as "major," these correlations are very high.
15. Up until the late 1980s, IDA regularly extended loans to national development banks and other local financial intermediaries. But an influential report by World Bank researcher Fred Levy revealed that many of these loans had poor development outcomes and that the funds often were not reextended from development banks to local projects. In the wake of the report and its presentation to the World Bank board of directors, the Bank heavily reduced its lending to national development banks.
16. Smaller correlations between business priorities and IDA-allocated funds do not necessarily imply that IDA is uninterested in finance-related projects and/or unwilling to implement them. Other factors are involved in the project design process, including available technology or resources or the level of expected involvement from other World Bank Group subsidiaries (for example, IFC has recently focused more of its projects on improving access to finance).
17. Data for IFC investment projects are taken from its annual reports, accounting for IFC's final commitment value. Also included are IFC B loans (syndicated loans that are recorded as liabilities on IFC's books.) Data on IFC advisory projects are included only for projects of more than $2 million, as other advisory projects are not disclosed on a project-by-project basis.
18. IFC, like the other World Bank Group subsidiaries, continues to actively engage in postcrisis and countercyclical spending. As a result, many of the recent IFC commitments are geared toward rehabilitating trade. These trade finance guarantees can artificially inflate the value of IFC investments in both fragile and nonfragile states.
19. Also over the past decade, IFC has invested large amounts of capital in telecommunications projects in fragile states. According to our analysis of business enterprise surveys, lack of telecommunication capacity in fragile states is not a major concern for business owners. While IFC arguably has made a significant contribution to the telecommunications sector in several African fragile states (Burundi, Chad, and the Democratic Republic of Congo), it is impossible to determine whether investment would have flowed into this sector regardless of IFC involvement. The telecommunications sector accounts for some of the most profitable projects in Sub-Saharan Africa and many of the continent's most encouraging success stories. Further, telecommunications sectors in other fragile states (in which IFC was not involved) still saw rapid growth.
20. This methodology, outlined in chapter 1 and appendix 7, considers states to be fragile if they maintain a Country Policy and Institutional Assessment score of below 3.2 for five consecutive years leading up to (and including) the project sign date.
21. For this analysis, we assume that business constraints in the most fragile environments have remained fairly stable over time (for example, electricity, transport infrastructure, and access to finance).

Chapter 4

Government priorities in fragile states

This chapter examines the alignment between fragile state governments' private sector development (PSD) priorities and World Bank Group activities over the past decade. As illustrated by the Paris Declaration, Accra Declaration, and various other international initiatives, donor institutions have strived to empower country ownership and improve alignment with recipient government strategies and development objectives. Against this backdrop, how has the World Bank Group performed with respect to PSD in African fragile states?

Methodology

Overall, we categorize governments' PSD priorities into two general areas: broader business environment constraints and cost drivers (such as regulatory framework and infrastructure); and key business growth sectors (such as agriculture and extractive industries). To determine individual country priorities, we draw on several types of government documents, including national development plans (Angola's Vision 2025 plan); poverty reduction strategy papers; economic growth strategies (the South Sudan Growth Strategy); and government budget reports.[1,2] Given the widespread prevalence of conflict and relative lack of national development strategies during the 1990s, we focus on the period between 2000 and 2010. Our analysis excludes Eritrea and Zimbabwe due to the lack of either a publicly available national development strategy (Eritrea) or significant World Bank Group activities during the examined period (Zimbabwe).[3]

In some cases, government documents delineate an explicit PSD strategy, including the top business constraints and priority growth sectors.[4] In others, it is more difficult to ascertain the government's strategic focus or priorities. For example, a given poverty reduction strategy paper may include an exhaustive list of proposed PSD-related interventions covering the range of economic sectors as well as regulatory, trade, infrastructure, finance, and supply chain issues. In these instances, we have attempted to identify priority constraints and growth sectors that appear more central to the government's broader strategy.[5] Despite our best efforts, this approach is prone to measurement error given the subjective nature of our assessments. So while our analysis provides a constructive overview of the World Bank Group's alignment with specific government priorities, it should be considered indicative and subject to further consideration and adjustment.[6]

Country government priorities

Not surprisingly, there is a significant amount of consistency across African fragile state governments' priorities for addressing PSD-related constraints (table 4.1). The most frequently cited

Table 4.1
Country PSD constraint priorities, by frequency

PSD constraint priorities	Frequency	Countries (percent)	Firm survey results (average percent)
Regulatory framework	12	100	32
Transport	12	100	38
Electricity	11	92	68
Finance	10	83	56
Macroeconomic stability	9	75	—
Security	6	50	35
Telecom	6	50	—
Tax policy	2	17	37
Water	1	8	—
Human capital	1	8	27
Customs	1	8	28

— is not available.

Source: Various country government reports and authors' calculations.

priorities include regulatory framework (100 percent); transport infrastructure (100 percent); electricity infrastructure (92 percent); access to finance (83 percent); and macroeconomic stability (75 percent). In addition, half the African fragile state governments cite the improvement of security and telecommunications infrastructure as priority areas.

Government constraint priorities illustrate a somewhat mixed picture when compared with firm-level views about the most binding constraints to business growth.[7] First, government priorities appear well aligned with the two constraints cited most frequently by individual firms—electricity and access to finance. By contrast, two top government objectives—improving the regulatory framework and transport infrastructure—are cited much less frequently by surveyed firms.[8] For example, every African fragile state includes expansion or rehabilitation of transport infrastructure as a primary component of its PSD strategy.[9] But less than 40 percent of surveyed firms cited transportation as a "major" obstacle.

Economic sector priorities

As with PSD-related constraints, African fragile state governments overwhelmingly prioritize a few economic sectors—namely, agriculture and extractive industries (table 4.2).[10] Only Togo has not targeted the extractive sector as a priority growth driver. Roughly one-third of fragile state governments have specifically prioritized the industry, manufacturing, and tourism sectors. Surprisingly, only Togo has explicitly prioritized the financial sector as a strategic driver of private sector activity and economic growth.

Table 4.2
Country economic sector priorities, by frequency

Economic sector priorities	Frequency	Countries (percent)
Agriculture	12	100.0
Extractive industries	11	91.7
Industry	5	41.7
Manufacturing	4	33.3
Tourism	4	33.3
Services	3	25.0
Retail	2	16.7
Finance/banking	1	8.3
Utilities	1	8.3

Source: Various country government reports and authors' calculations.

World Bank Group alignment with government priorities

IDA PSD constraint alignment. Since 2000, the International Development Association (IDA) has supported 70 PSD-related projects in our sample countries, of which 65 have been focused on the governments' priority constraints. In monetary terms, these priority projects account for nearly 100 percent of total PSD-related activities. Indeed, IDA programs are entirely focused on government priorities in 10 of 12 African fragile states—that is, there is 100 percent alignment in those 10 countries (table 4.3). The one notable outlier is the Central African Republic, which is driven by several finance and banking projects that fall outside the scope of the government's core priorities. Taken together, this suggests that IDA activities are very aligned with fragile state government objectives.

IFC PSD alignment. The International Finance Corporation (IFC) also exhibits a decent alignment track record between its investment operations and governments' sectoral priorities—though much lower than IDA's performance.[11] More than half of IFC investments in African fragile states (by monetary value or number of transactions) since 2000 have focused on priority economic sectors or priority constraints (table 4.4). Four telecommunications projects located in Burundi, Chad, and the Democratic Republic of Congo account for nearly all the nonaligned IFC investments during the specified period ($265 million of $266 million). So while aggregate alignment figures illustrate a largely positive picture, the IFC has room for improvement.

MIGA PSD alignment. Since 2000, the Multilateral Investment Guarantee Agency (MIGA) has supported only 19 guarantees in African fragile states, of which slightly more than half are aligned with the governments' priority economic sectors (table 4.5). Put differently, MIGA has supported one *aligned* guarantee per

Table 4.3
IDA project alignment with government priority constraints

	Priority constraint projects				Total PSD projects	
Country	**Value ($ millions)**	**Projects (number)**	**Percentage of projects (by value)**	**Percentage of projects (by number)**	**Value ($ millions)**	**Projects (number)**
Angola	118.6	2	100	100	118.6	2
Burundi	213.8	8	97	89	221.3	9
Central African Republic	18.5	3	50	43	37.0	7
Chad	121.8	2	100	100	121.8	2
Congo, Dem. Rep.	2,022.0	11	100	100	2,022.0	11
Congo, Rep.	60.0	2	100	100	60.0	2
Côte d'Ivoire	460.3	8	100	100	460.3	8
Guinea	49.0	5	100	100	49.0	5
Guinea-Bissau	29.9	3	100	100	29.9	3
Liberia	177.5	10	100	100	177.5	10
Sudan	209.4	8	100	100	209.4	8
Togo	15.4	3	100	100	15.4	3
Total	**3,496.1**	**65**	**99**	**93**	**3,522.2**	**70**

Source: International Development Association and authors' calculations.

Table 4.4
IFC investments and priority sector mapping

	Priority sector/constraint investments				Total PSD investments	
Country	**Value ($ millions)**	**Investments (number)**	**Percentage of investments (by value)**	**Percentage of investments (by number)**	**Value ($ millions)**	**Investments (number)**
Angola	38.7	4	100	100	38.7	4
Burundi	1.6	4	6	80	26.6	5
Central African Republic	0	0	0	0	0.1	1
Chad	40.4	7	66	88	61.6	8
Congo, Dem. Rep.	53.4	11	20	85	272.4	13
Congo, Rep.	0	0	0	0	0	0
Côte d'Ivoire	1.9	2	100	100	1.9	2
Guinea	35.0	2	100	100	35.0	2
Guinea-Bissau	0	0	0	0	0.3	1
Liberia	24.4	5	100	100	24.4	5
Sudan	5.8	2	100	100	5.8	2
Togo	141.9	3	99	60	144.0	5
Total	**343.1**	**40**	**56**	**83**	**610.8**	**48**

Source: International Finance Corporation and authors' calculations.

Table 4.5
MIGA PSD project and priority sector mapping

Country	Priority sector/constraint guarantees				Total PSD guarantees	
	Value ($ millions)	Investments (number)	Percentage of guarantees (by value)	Percentage of guarantees (by number)	Value ($ millions)	Guarantees (number)
Angola	183.7	3	100	100	183.7	3
Burundi	0.0	0	0	0	0.9	1
Central African Republic	0.0	0	0	0	0.0	0
Chad	0.0	0	0	0	0.0	0
Congo, Dem. Rep.	22.9	3	39	60	59.0	5
Congo, Rep.	0.0	0	0	0	8.7	1
Côte d'Ivoire	0.0	0	0	0	0.0	0
Guinea	68.4	2	63	67	108.4	3
Guinea-Bissau	25.9	1	98	50	26.5	2
Liberia	142.2	1	98	50	145.7	2
Sudan	0.0	0	0	0	0.0	0
Togo	7.4	1	41	50	18.1	2
Total	**450.5**	**11**	**82**	**58**	**551.0**	**19**

Source: Multilateral Investment Guarantee Agency and authors' calculations.

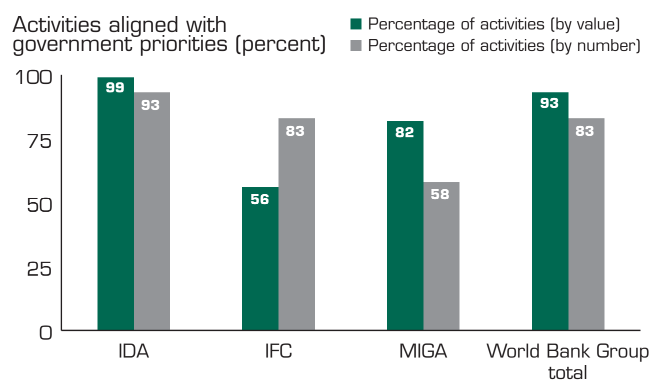
country, on average, over the last decade. In monetary terms, slightly more than 80 percent of MIGA guarantees have been aligned with government priorities. But a small number of transactions account for the overwhelming majority of guarantees (as with IFC).[12] If compared with the total number of guarantees in African fragile states, MIGA's alignment with government priorities falls to less than 60 percent. Taken together, these data suggest that the limited MIGA activities are only modestly aligned with fragile state governments' priorities—with significant room for improvement.

Conclusion

Overall, World Bank Group activities illustrate strong alignment with fragile state government priorities for addressing private sector constraints and supporting key economic growth sectors. In monetary aggregates, more than 90 percent of World Bank projects and investments have targeted priority areas (figure 4.1). However, as noted above, this is largely driven by IDA's sizable project commitments (nearly 80 percent of total World Bank Group support) and strong alignment. By contrast, IFC and MIGA have additional room for improvement. (This is discussed in greater detail in chapter 6.)

There is considerable cross-country disparity in World Bank Group alignment. For example, IDA, IFC, and MIGA support is almost universally aligned with government priorities in Angola and Liberia. By contrast, World Bank support exhibits only low overlap in several other African fragile states, such as the Democratic Republic of Congo. And IFC and MIGA have not completed any transactions in a few country markets, including the Central African Republic, the Republic of Congo, and Sudan.[13] These trends emphasize the need for the World Bank Group—including its individual subsidiary organizations—to improve alignment performance not only at the aggregate fragile states level, but also at the individual country level.

Figure 4.1
World Bank Group alignment with countries' PSD priorities



Source: World Bank and authors' calculations.

Notes

1. The exact ranking of government priorities is often impossible to determine from government documents. So we have not ranked government priorities in any particular order.
2. For private sector business constraint priorities, we limit the number of country priorities to six. For key business growth sectors, we limit the number of country priorities to between three and five. For example, Burundi's private sector business constraint country priorities (as found in its 2010 PRSP Evaluation Report) are, in no particular order, macroeconomic stability, regulatory framework, transport, electricity, finance, and security. Its economic sector priorities are agriculture, fishing, manufacturing, mining, and tourism. World Bank Group project alignment with Burundi government priorities has been assessed using these priorities. We have completed similar analyses for each of the African fragile states in our sample.
3. Since Zimbabwe has been in continuous arrears to the World Bank since 2000, support from IDA, IFC, and MIGA has mainly been limited to small, grant-based technical assistance programs.
4. By illustration, Liberia's Interim PRSP clearly outlines the government's priorities for addressing business constraints: "The government will begin to address critical structural constraints and impediments to private investment and economic activity," which include: large informal sector; access to energy; access to finance; investment code; telecommunications; land ownership and tenure; tax policy; and administrative and regulatory issues (IMF 2007, pp. 43–44). For the purposes of this analysis, we group the latter three issues together under a broader "regulatory framework" category.
5. This includes gauging how frequently specific constraints or economic sectors are referenced as well as the depth and scope of the related proposed interventions. To the extent possible, we supplemented this assessment with an examination of government budget priorities as well as other development strategy documents.
6. A more authoritative approach would include explicit input from fragile state governments concerning their priorities for addressing private sector constraints and supporting specific economic sectors. Information sourced directly from policymakers (such as that obtained by World Bank Group country teams) could more accurately assess government priorities.
7. Firm-level data are drawn from the respective World Bank Enterprise Surveys cited earlier in the report. Results are reported as a simple average for 10 of the 12 fragile state countries (excluding the Central African Republic and Sudan due to the lack of business enterprise survey data). For the purposes of this comparison, "regulatory framework" is measured as the simple average of five separate business enterprise survey categories: political instability, business licensing, labor regulation, corruption, and access to land. Two constraint categories (security and human capital) are compared with the enterprise survey categories of "crime" and "worker skills." The "tax policy" constraint is compared with the simple average of two enterprise survey categories ("tax rate" and "tax administration"). Finally, the business enterprise surveys do not include response data on three of the examined categories: macroeconomic stability, telecommunications, and water.
8. One reason that fewer businesses cite transport infrastructure as a major constraint could be that poor roads are a greater obstacle for exporting businesses. These businesses would have higher costs associated with shipping cargo, and therefore would consider transport to be a more binding constraint. This is not true of all businesses that export goods, however. Regulatory constraints may be less of a concern for many

businesses because less-complex regulations could lead to increased competition—something that might be undesirable for firms that are already in operation.

9. The Liberian government's emphasis on transportation infrastructure is examined in greater detail below.
10. See appendix 10 for country-specific information.
11. Additional analysis of the overlap between IFC advisory services and governments' priorities about private sector constraints (such as business climate issues) would be worthwhile. But project-level data are not publicly available.
12. Three projects in Côte d'Ivoire, Angola, and Guinea account for more than 83 percent of all MIGA projects in our sample of 14 countries.
13. Several of these countries, such as Sudan, had World Bank Group arrears during this period, which explains IFC's lack of engagement.

Chapter 5

What works—proven PSD successes in fragile environments

This chapter examines the effectiveness of World Bank Group projects in fragile states over time. In other words, have the International Development Association (IDA) and the International Finance Corporation (IFC) prioritized their financing and programmatic support in high-performing sectors? As noted previously, project performance in fragile state environments has lagged significantly compared with outcomes in other low- and middle-income countries. So it is even more important for IDA and IFC to identify the private sector development (PSD)–related sectors and subsectors with adequate project performance, prioritize development and investment operations accordingly, and consider innovative ways to improve project outcomes in historically low-performing areas.

IDA alignment with what works

To identify sectors with high-performing IDA projects, we use World Bank Independent Evaluation Group (IEG) project outcome ratings during the period between 1980 and 2006. The IEG rates individual World Bank Group project outcome performance on a range between 0 and 5 (the latter being defined as a "highly satisfactory" outcome).[1] IEG ratings are available for more than 4,800 IDA projects completed during the examined time period.[2] We define IDA recipient countries as "fragile" if their average Country Policy and Institutional Assessment (CPIA) score was below 3.2 during the project implementation period. This provides for a broader country sample, important for determining what types of IDA projects have worked in fragile environments globally and over time. As with previous analysis, we use IDA's sectoral classifications to the extent possible to determine the priority sector or topic for each project.[3] Under this methodology, there are 1,924 PSD-related projects, of which 321 are in African and non-African countries defined as fragile states (table 5.1). In addition, our dataset includes nearly 2,900 non-PSD projects (health, education), of which 533 are in African and non-African fragile states.

IDA PSD-related project performance

Overall, IDA projects in fragile states have performed at a consistently low level over time. On average, they have received an IEG project outcome rating of 2.5, falling between "moderately unsatisfactory" and "moderately satisfactory." But PSD-related projects

Table 5.1
IDA PSD-related project evaluation data, 1980–2006

	Fragile states			Nonfragile states		
	PSD	Non-PSD	Total	PSD	Non-PSD	Total
Number of projects	321	533	854	1,603	2,360	3,963
Percentage of total projects	38	62	100	40	60	100
Total IDA commitments ($ millions)	5,083	9,152	14,235	29,755	55,929	85,684
Percentage of total commitments	36	64	100	35	65	100
Average project value ($ millions)	15.8	17.2	16.7	18.6	23.7	21.6

Source: World Bank Independent Evaluation Group and authors' calculations.

in fragile states have performed at a slightly higher level when compared with non-PSD–related projects, with an average IEG rating of 2.60 versus 2.43. The same is true for nonfragile states as well (3.23 versus 3.16). Within PSD-related areas, extractive industry and regulatory reform projects have produced the best outcomes, followed by infrastructure (table 5.2). Financial sector and general PSD (that is, multisector) projects have produced the lowest outcome scores on average. Compared with nonfragile states, the

Table 5.2
IDA project outcome ratings by PSD-related sector, 1980–2006

PSD sector	Fragile states				Nonfragile states			
	Average IEG outcome rating	Number of projects	Percentage of all PSD projects	Commitments ($ million)	Average IEG outcome rating	Number of projects	Percentage of all PSD projects	Commitments ($ million)
Infrastructure	2.6	156	49	3,155	3.4	810	51	14,352
Telecommunications	3.3	14	4	172	3.6	57	4	827
Roads	2.9	79	25	1,635	3.5	336	21	7,623
Electricity	2.4	44	14	920	3.1	310	19	4,951
Railways	2.0	5	2	134	3.1	52	3	640
Ports	1.6	14	4	294	3.7	55	3	311
Regulatory	2.7	45	14	714	3.2	229	14	6,706
Legal system	3.6	5	2	21	2.9	16	1	115
General industry	3.5	6	2	80	3.6	20	1	449
Trade	2.8	6	2	11	3.3	48	3	1,243
Economic management	2.5	19	6	312	3.2	45	3	1,957
Financial sector	2.0	9	3	290	3.1	100	6	2,943
Finance	2.2	26	8	254	3.0	177	11	3,222
Agriculture	2.4	13	4	131	3.0	80	5	1,489
Banking	1.7	3	1	21	3.2	19	1	275
Micro, small, and medium enterprise	1.9	8	2	52	2.9	77	5	1,447
Extractive	3.0	48	15	340	3.3	161	10	1,365
Oil and gas	3.2	37	12	283	3.4	111	7	1,028
Mining	2.3	11	3	58	3.0	50	3	337
General PSD	2.2	46	14	620	2.9	226	14	4,111
Total	**2.6**	**321**	**100**	**5,083**	**3.2**	**1,603**	**100**	**29,755**

Note: Several sectors have very low project counts, which can skew their average ratings. Further, the averages here do not capture the country-specific information contained in the project evaluations. When making project decisions in fragile states, the World Bank should consider both fragile states aggregates *and* country-specific evaluations.

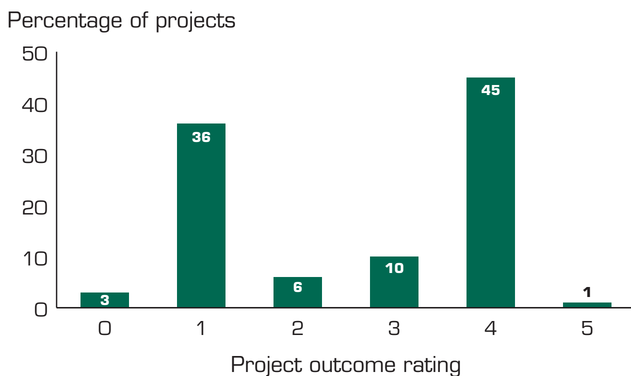
Source: World Bank Independent Evaluation Group and authors' calculations.

largest lagging sectors are finance and infrastructure, with average IEG project outcome ratings roughly one-third lower than in non-fragile state environments.

There is a wide distribution of IEG project outcome ratings within sectors and subsectors. In simple terms, IDA projects in fragile states are not universally poor-performing ("unsatisfactory"). Instead, roughly the same share of projects have either "unsatisfactory" or "satisfactory" outcome ratings (36 percent and 45 percent, respectively; figure 5.1).[4] Despite relatively low average outcome ratings overall, at least half of IDA projects had "satisfactory" outcomes in the following subsectors: telecommunications, roads, general industry regulatory reform, trade policy reform, agricultural financing, and oil and gas (see appendix 11 for details).

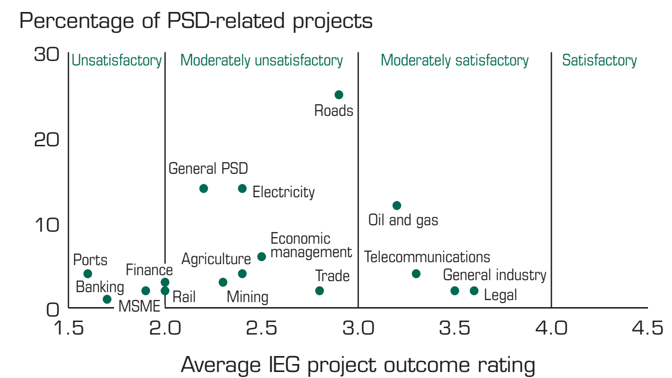
Over time, IDA's prioritization of higher performing PSD sectors has been mixed. Figure 5.2 maps the percentage of IDA projects targeting PSD-related subsectors against the average IEG outcome rating for that sector. On the positive side, IDA appears to have deprioritized those subsectors with very low project outcome ratings (ports, banking, railways). At the same time, IDA has pursued a relatively modest number of projects in higher performing areas, such as industry regulation reform, telecommunications, and trade policy reform. Importantly, this analysis does not control for several potentially influential issues, such as client government demand, intertemporal differences in project performance regional factors, and determinants of project outcomes. We explore the latter issue in some detail below, though not exhaustively. Even so, it does provide some indication of IDA's portfolio performance management over time.

Figure 5.1
PSD-related project rating distribution in fragile states, 1980–2006



Source: World Bank Independent Evaluation Group and authors' calculations.

Figure 5.2
Historical IDA prioritization and outcome ratings, by PSD subsector



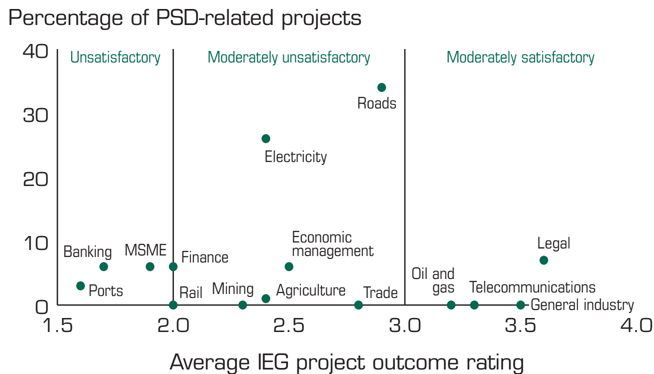
MSME is micro, small, and medium enterprise.

Source: World Bank Independent Evaluation Group.

IDA's current alignment with what works

On the basis of historical IEG project outcome ratings, how much is IDA *currently* focusing on fairly strong performing PSD-related areas in African fragile states? As with other areas, the answer is mixed and somewhat complex. As figure 5.3 illustrates, there is almost no correlation between IDA sector prioritization (measured relative to the total PSD commitments or number of projects) and project outcome ratings.[5] Overall, roughly 84 percent of IDA's PSD portfolio in African fragile states lies in subsectors with "moderately unsatisfactory" project outcomes between 1980 and 2006. By contrast, only 1 percent of IDA's existing PSD-related portfolio is targeting subsectors with "moderately satisfactory" project outcomes. This tentative result appears to be driven by two factors: IDA's heavy relative focus on the slightly lower performing road and electricity subsectors;[6] and IDA's modest (or nonexistent) focus on relatively well-performing subsectors, such as general industry reform.

Figure 5.3
Current PSD subsector prioritization and outcome ratings, African fragile states



MSME is micro, small, and medium enterprise.

Source: World Bank Independent Evaluation Group, International Development Association, and authors' calculations.

But this does not necessarily mean that IDA's projects have a poor alignment with PSD subsectors with strong, proven results. As noted above, more than half of road projects in fragile state environments have provided "satisfactory" outcomes—despite the subsector's overall average rating of "moderately unsatisfactory." This illustrates the imperative to focus also on the micro, macro, and operational factors that influence project outcomes, explored extensively in the literature. Several studies find that operational factors—such as project preparation, quality-at-entry, and project supervision—have significant explanatory power in determining project outcome ratings.[7] By illustration, electricity projects in fragile states with strong quality-at-entry ratings had "satisfactory" *outcome* ratings nearly 80 percent of the time.[8] So it is theoretically possible that IDA's existing PSD-related portfolio may be well aligned with what works in a broader context. This assumes that IDA has only pursued projects after strong preparatory work and favorable initial conditions, and subsequently has taken steps to ensure strong supervision over time. Additional regression analysis by the World Bank Group and other researchers examining the empirical impact of these factors in fragile states would be a constructive contribution.

IFC alignment with what works

The IFC evaluates its investment projects using two core metrics: development outcome performance and financial performance. This section outlines the criteria for each metric and determines whether IFC is committing its resources and projects toward relatively well-performing sectors.

Development outcome performance

The IFC uses its Development Outcome Tracking System (DOTS) to determine the development effectiveness and reach of its projects. According to IFC, the DOTS tracks four performance benchmarks:

- *Financial performance.* Financial returns in excess of a project's weighted average cost of capital.
- *Economic performance.* "Economic rate of return" in excess of 10 percent (for example, benefits beyond those generated to project financiers).
- *Environmental and social performance.* Conformity to IFC's environmental and social performance standards, which include measures of pollution prevention and abatement, community health and safety, and land acquisition and involuntary resettlement procedures.[9]
- *Private sector development impact.* Improvement of the general private sector environment, which often is measured by the number of follow-up investments by other in-sector private companies.

The IFC also uses additional, specific development effectiveness subcriteria, such as the number of jobs created, increase in sales volume, reduction in emissions, and return on equity.

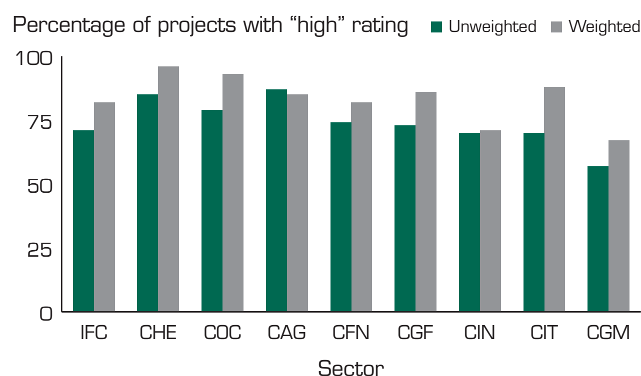
Currently, the IFC does not make its project-by-project evaluation data available publicly, which prevents us from analyzing IFC alignment in fragile states in a targeted manner. In light of the World Bank Group's Open Data Initiative, steps should be taken immediately to post this IFC information on its website in a user-friendly format.[10] Even so, the IFC's Annual Portfolio Performance Review provides regional and sector breakdowns of development effectiveness outcomes. According to sectorwide DOTS evaluations, health and education projects have the highest development outcome ratings. Oil, gas, and mining projects also receive consistently high DOTS ratings. Global manufacturing projects have the lowest percentage of highly rated projects. However, when weighted according to project commitment values (as opposed to the number of projects), most projects in each sector

receive high DOTS ratings with little discrepancy between sectors (figure 5.4). Since these results reflect projects aggregated across all regions, income levels, and CPIA ratings, they provide limited value and insights for African and non-African fragile states.

Financial performance

The IFC also uses project profitability to gauge operational performance. The IFC's principal measures of financial performance include loan income, loan returns, and equity returns.[11] Table 5.3 illustrates how financial performance fluctuates widely across sectors and fiscal years. For example, financial services accounted for 70 percent of total IFC equity income in fiscal year (FY) 2009 compared with only 17 percent in FY10. Conversely, oil, gas, and mining projects had an equity return of 13 percent in FY09 and a 291 percent return in FY10—which illustrates how a few large IFC investments can drive respective sectors' financial performance. Since these results reflect projects aggregated across all regions, income levels, and CPIA ratings, they provide limited value and insights for African and non-African fragile states.

Figure 5.4
DOTS development outcome ratings by sector, weighted and unweighted



IFC is all IFC projects; CHE is health and education; COC is oil, gas, and mining; CAG is agribusiness; CFN is private equity and investment funds; CGF is global financial markets; CIN is infrastructure; CIT is information technology; CGM is global manufacturing services.

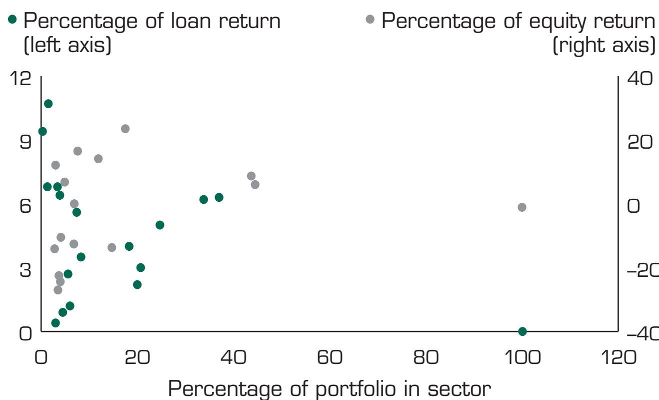
Source: International Finance Corporation.

Table 5.3
IFC loan and equity portfolio income, 2009–10

	Loans						Equity						Total	
	Loan income		Percentage of total loan income		Loan return (percent)		Equity income		Percentage of total equity income		Equity return (percent)		Total return (percent)	
Sector	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**	**FY09**	**FY10**
Agriculture	33	39	2.9	3.6	0.4	6.8	–9	22	–0.9	1.2	–27.0	12.1	–6.1	8.7
Chemicals	37	44	3.3	4.0	0.9	6.4	26	74	2.6	4.0	–22.5	39.7	–3.4	12.3
Collective investment vehicles	1	3	0.1	0.3	25.3	9.4	–49	196	–4.8	10.7	–13.7	23.5	–12.8	24.4
Financial services	496	412	43.7	37.5	6.3	6.2	708	311	69.8	16.9	6.0	8.7	6.2	6.8
Industrial and consumer services	55	43	4.9	3.9	1.2	2.7	3	–1	0.3	–0.1	–24.4	–14.1	–2.8	0.4
Infrastructure	202	274	17.8	25.0	3.0	5.0	198	199	19.5	10.8	14.1	30.9	4.6	8.2
Manufacturing	205	175	18.1	15.9	2.2	4.0	56	77	5.5	4.2	0.0	16.5	2.0	5.2
Oil, gas, and mining	90	77	7.9	7.0	5.6	3.5	81	946	8.0	51.4	–12.6	291.4	1.6	53.9
Social services	15	30	1.3	2.7	6.8	10.7	1	17	0.1	0.9	–10.5	6.8	0.2	8.9
Total IFC	**1,134**	**1,098**	**100.0**	**100.0**	**4.1**	**5.2**	**1,015**	**1,840**	**100.0**	**100.0**	**–1.1**	**32.2**	**3.1**	**10.9**

Source: International Finance Corporation.

Figure 5.5
IFC investment return versus portfolio share, 2009–10



Source: International Finance Corporation and authors' calculations.

Financial performance versus annual disbursements

To determine whether IFC is committing its entire investment portfolio toward relatively high-performing sectors, we compare IFC annual disbursements with the financial performance metrics presented above. Figure 5.5 shows the strong relationship between these two indicators in IFC's equity and loan portfolios. This indicates that IFC effectively aligns its investment in each sector according to that sector's expected annual financial returns. Again, since these results reflect projects aggregated across all regions, income levels, and CPIA ratings, they provide limited value for our exercise. With the availability of project-level performance data, additional targeted analysis should be pursued for IFC activities in African fragile states.

Notes

1. The range of the IEG rating scores is as follows: (0) highly unsatisfactory; (1) unsatisfactory; (2) moderately unsatisfactory; (3) moderately satisfactory; (4) satisfactory; and (5) highly satisfactory.
2. Due to the extended time period, these IEG ratings include countries that subsequently graduated from IDA assistance, such as Ecuador, Egypt, and Thailand—the only condition being that the average CPIA of the country over the life of the project was below the 3.2 threshold.
3. PSD-related categories include: infrastructure (telecommunications, transport, electricity); regulatory (legal system, trade policy, economic management, financial sector, and general industry-related policies); finance (agriculture, banking, and micro, small, and medium enterprise); extractive sector (oil and gas, mining); and general PSD projects. For projects with multiple programmatic areas, we use a sector threshold of 50 percent or more of the total project value. See appendix 9 for additional details on our project reclassification methodology.
4. Despite its sliding scale, we find that the IEG rates a significant percentage of IDA project outcomes on a binary basis. Nearly 80 percent of IDA's PSD-related projects in fragile states are rated as either "unsatisfactory" or "satisfactory." And IDA projects in nonfragile states exhibit a similar tendency, with more than 70 percent of projects rated as having either "unsatisfactory" or "satisfactory" outcomes.
5. The availability of natural resources can constrain IDA's ability to implement projects in certain sectors, such as oil, gas, and mining. For instance, IDA cannot implement oil and gas projects in Côte d'Ivoire, despite the subsector's relative historical success in fragile states.
6. These two subsectors account for roughly 60 percent of IDA's PSD projects in African fragile states.
7. The World Bank's own internal evaluation group has completed robust regression analyses that show the strong correlations between these operational factors and overall project outcomes. For more information, see IEG (2011).
8. Of the 14 electricity projects in fragile states with a quality-at-entry score of 3 (of a range between 0 and 3), 11 projects had "satisfactory" outcome ratings. Appendix 12 contains correlation analysis of PSD-related project outcome ratings in African and non-African fragile states between 1980 and 2006 with several operational performance factors, including project duration (number of years), project preparation, quality-at-entry, supervision, compliance, and implementation.
9. For a full list of IFC environmental and social performance standards, see www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards.

10. See World Bank (2010c).
11. Another core measurement of financial performance is IFC's internal rate of return (IRR). IRR is a measure of an investment's financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.

Chapter 6

Country case study—South Sudan

This chapter applies the proposed private sector development (PSD) guiding framework to the specific case study of South Sudan. First, it examines the private sector profile and major business constraints. Next, it outlines the guiding priorities of the government of South Sudan. Then it gauges how well donor institutions' PSD-related projects are aligned to what matters in South Sudan and what has worked well over time.

Contextual overview

In July 2011, the Republic of South Sudan became the world's newest nation. When Sudan's destructive two-decades-long civil war ended in 2005, South Sudan was left with almost no physical or institutional infrastructure. Since then, substantial rebuilding and rehabilitation of destroyed or damaged structures has taken place. National, state, and local governments have been established along with the passage of a broad range of new legislation. Modern banking services have been introduced, and courts, schools, and health clinics across the region have been established.

Despite this significant progress, the new nation still faces monumental challenges in fostering broad-based private sector growth and economic opportunities for its people. Among the major economic challenges facing South Sudan: weak or nonexistent physical infrastructure (especially power and transport); inadequate access to and cost of finance; dependence on subsistence agriculture; a poor business regulatory climate; and the overwhelming dominance of the oil sector for national output, exports, and government revenues. At the same time, the nation is endowed with significant natural resources beyond oil, such as timber, gold, and plentiful water for agriculture. Moreover, South Sudan will undoubtedly receive strong support from bilateral donors and international financial institutions, which have already initiated comprehensive economic and social support programs.

Private sector overview

Despite significant challenges, the private sector in South Sudan has expanded rapidly over recent years, shown by the registration of more than 6,000 new firms since 2005.[1] Despite the strong new business growth, the private sector in South Sudan remains constrained and is dominated by micro and small firms in the retail sector. As of 2010, roughly 93 percent of registered firms had fewer than six employees (table 6.1). By extension, there is a nearly complete lack of medium or large firms, with only 20 firms having 50 or more employees.

As noted previously, private enterprises are heavily concentrated in the wholesale and retail trade sector, accounting for 70 percent of registered firms (see table 6.1). Another 14 percent of firms operate in hospitality-related sectors, such as lodging and food service. Less than 5 percent of registered South Sudanese firms are in industry-related sectors, such as manufacturing, construction, or mining. In geographical terms, nearly two-thirds of private enterprises are located in South Sudan's three largest cities (Juba, Malakal, and Wau). Even in these urban areas, business density remains very low, whether measured in per capita or per household terms. For example, there are only 0.014 businesses per household in Juba and 0.006 in Malakal.

Given the business profile in South Sudan, the government and its donor supporters face a dual challenge of both creating enabling conditions for micro-entrepreneurs to grow and simultaneously preparing the environment for the establishment of larger, formal sectors such as food processing, mining, or light manufacturing.[2] In this context, the government must take concerted steps to reduce operating costs and associated investment risks through an improved policy framework, infrastructure network (such as reliable electricity and transport), supply chains, access to finance, and technical and managerial skills. The next section examines these constraints in greater detail.

Table 6.1
Private enterprises in South Sudan, by number and distribution of employees

Number of employees	Number of firms	Percentage of firms
1	2,892	39.4
2	2,490	34.0
3	864	11.8
4	341	4.7
5	213	2.9
6–9	273	3.7
10–49	240	3.3
50+	20	0.3
Total	**7,333**	**100.0**

Sector	Number of firms	Percentage of firms
Wholesale and retail trade	5,116	69.8
Hospitality (lodging/ food service)	1,037	14.1
Health and social services	361	4.9
Manufacturing	199	2.7
Information and communication	97	1.3
Construction	89	1.2
Other	434	5.9
Total	**7,333**	**100.0**

Source: SSCCSE (2010).

Major business constraints

Our business constraint analysis draws upon several recent private sector diagnostics and surveys, including the Sudan Investment Climate Assessment, the Juba Doing Business report, and the 2009 Population and Household Survey. The World Bank's Investment Climate Assessment is based upon firm-level surveys in the manufacturing, services, and informal sectors. While the survey was conducted nationally, information was collected in Juba and Malakal. The Doing Business report, produced in partnership by the World Bank and the U.S. Agency for International Development (USAID), examines the business environment for a typical manufacturing firm in Juba. Based upon these sources, the largest obstacles to private sector activity in South Sudan concern access to electricity, access to and cost of finance, transportation, corruption, and customs.

Reliable electricity

Reliable access to electricity is the most commonly cited business obstacle in South Sudan. In Juba, 87 percent of the business survey respondents cited electricity as the most significant constraint on their operations. This proportion reaches 100 percent for manufacturing firms located in Malakal. Electricity delivery has improved recently in Juba following the installation of oil-fueled generators. But two power stations (of three) are out of service, contributing to frequent power cuts.[3]

Most businesses in South Sudan own or share generators due to the lack of reliable power generation. These generators account for a significant share of their businesses energy consumption—83 percent of firms based in Juba rely upon generator power, which accounts for 93 percent of their energy consumption. Not surprisingly, generator-based electricity significantly increases businesses' operating costs—both through fairly expensive fuel imports and inconsistent supply. Spending capital on purchasing and operating generators often directly reduces firms' resources for investing in fixed assets and other productivity-enhancing factors. This undermines the ability of South Sudanese firms to compete in both regional and global markets. However, according to the World Bank's Investment Climate Assessment survey, companies with generators do experience fewer production interruptions and lower associated output losses.

Access to finance

The second most frequently cited business obstacle in South Sudan is access to and cost of finance. Roughly 75 percent of firms located in Juba cited these issues as "major" to "severe" constraints on their ability to operate and expand. Most available financial products

relate to foreign exchange transactions, bank transfers, and remittance services—with only a handful of commercial banks providing more traditional services such as loans, trade finance, and savings accounts. Almost all bank lending is short-term, with relatively high interest rates (15–20 percent).[4] According to the Bank of South Sudan, commercial bank exposure totaled only SDG 139 million (roughly $60 million) as of 2009 (table 6.2). This exposure is highly concentrated in retail trade and service companies (60 percent) because of their ability to generate short-term cash flow and capture government procurement and guarantees. Only a quarter of existing commercial bank exposure is targeted toward industry-related sectors such as manufacturing, construction, and transport. Not surprisingly, constrained access to operating capital has contributed to the underuse of capacity in the manufacturing sector.

This trend extends to the household level as well. Due to various factors, South Sudan remains heavily underbanked.[5] Only 1 percent of South Sudanese households had a bank account as of 2010. And only 18 percent of households borrowed or obtained money that must be repaid (table 6.3).

The exit of several Islamic banks in February 2008—following the Bank of South Sudan ruling that all financial intermediation must be implemented on conventional terms—sharpened households' lack of access to finance. Border states such as Northern Bahr El Ghazal and Warrap were impacted the most by this exit (table 6.4). However, several banks from neighboring countries (Ethiopia and Kenya) have been issued operating licenses in recent years, expanding rapidly. Despite this, competition in the banking sector remains limited, with correspondingly high margins and service concentration in the larger urban areas.

In addition to commercial banks, many microfinance institutions operate in South Sudan. But they currently service less than 1 percent of the potential market in South Sudan and only 5 percent of available clients in the greater Juba region, offering a limited range of products.[6] As of 2010, microfinance institutions had not started addressing the rural and agricultural sectors

Table 6.2
Commercial bank exposure, by sector (SDG millions)

	2007			2008			2009		
Sector	**SDG**	**$ equivalent**	**Percentage of total**	**SDG**	**$ equivalent**	**Percentage of total**	**SDG**	**$ equivalent**	**Percentage of total**
Agriculture	0	0	0	19.3	9.2	16.2	28.0	12.2	20.1
Industry	28.0	13.6	58.3	34.5	16.4	29.0	37.0	16.1	26.6
Manufacturing	0	0	0	0	0	0	0	0	0
Mining	0	0	0	0	0	0	0	0	0
Construction	28.0	13.6	58.3	19.4	9.2	16.3	22.0	9.6	15.8
Transport	0	0	0	15.1	7.2	12.7	15.0	6.5	10.8
Storage	0	0	0	0	0	0	0	0	0
Imports	0	0	0	0.6	0.3	0.5	2.0	0.9	1.4
Exports	0	0	0	0.0	0.0	0.0	0	0	0
Local trade	6.0	2.9	12.5	57.6	27.4	48.4	66.0	28.7	47.5
Other	14.0	6.8	29.2	7.0	3.3	5.9	6.0	2.6	4.3
Total	**48.0**	**23.3**	**100**	**119.0**	**56.7**	**100**	**139.0**	**60.4**	**100**

Note: U.S. dollar equivalent figures are based on annual exchange rate averages of 2.06 for 2007, 2.1 for 2009, and 2.3 for 2009.
Source: Bank of South Sudan.

Table 6.3
Use of banking services among households, by state (percent)

State	Banking service use: Has an account	Banking service use: No account	Borrowing prevalence: Borrowed/ obtained	Borrowing prevalence: Not borrowed/ obtained
Upper Nile	2	98	33	67
Jonglei	0	100	19	81
Unity	1	99	31	69
Warrap	0	100	9	91
Northern Bahr El Ghazal	1	99	14	86
Western Bahr El Ghazal	3	97	18	82
Lakes	2	98	11	89
Western Equatoria	1	99	19	81
Central Equatoria	4	96	18	82
Eastern Equatoria	1	99	15	85
Total	**1**	**99**	**18**	**82**

Note: Borrowing prevalence indicates the borrowing rate from both banks and nonbank lending institutions. Therefore, lending prevalence greatly exceeds banking penetration.

Source: Bank of South Sudan and SSCCSE (2009).

effectively—where most households derive their primary source of income.[7] Lending rates are comparable with those of other developing countries, ranging between 15 percent and 35 percent.[8]

Banking sector growth and coverage going forward, for both commercial and microfinance institutions, will depend on strengthening land registry systems,[9] improving legal and enforcement mechanisms, enhancing bank management capacity (risk management, corporate governance), and reducing high transaction costs driven in part by poor infrastructure (electricity, telecommunications, transport).

Transport infrastructure

As with electricity and financing, the lack of transport infrastructure acts as a binding constraint to almost all productive sectors in South Sudan. There are approximately 4,100 kilometers of year-round gravel trunk roads and almost no rehabilitated feeder road network (see additional details below).[10] The government budget allocated little funding to upgrade and maintain these trunk roads, raising serious concerns about their sustainability over the medium to long term.[11] The only rail line in South Sudan connects Wau (Western Bahr el Ghazal state) to Muglad (West Kordofan state) in northern Sudan. Plans to extend the rail network to Juba have not been realized to date—nor are there any rail linkages to neighboring countries.[12]

Since South Sudan imports the most product inputs from neighboring countries or from northern states, the lack of adequate road and rail networks has the greatest relative impact in regions located far from international borders. This is particularly problematic in such states as Upper Nile, Lakes, Warrap, and Western Equatoria. As a result, input and product costs are substantially higher than in southern cities—such as Juba—which are closer to the borders with Kenya and Uganda (table 6.5). While transport requirements and costs may be lower in southern areas, they still remain extremely high relative to those in neighboring countries.

Corruption

Corruption is yet another leading constraint to PSD in South Sudan. The weak legal framework and relatively poor administrative capacity of the government has contributed to this problem. Overall, research suggests that corruption can severely distort competition and impose high direct costs on firms in developing countries, particularly among small and medium enterprises.[13] Given that South Sudan is dominated by micro and small enterprises, the potential negative impact may be substantial. But corruption appears to be a larger concern in certain regions (Juba) and among informal firms—for example, 74 percent of surveyed firms in Juba cited it as a major constraint, while only 60 percent did in Malakal.

Trading across borders

As South Sudan is a landlocked country, the time and cost of trading across borders has been a major negative driver of its firms' operating costs and international competitiveness. Indeed, there are only Afghanistan and the Central African Republic score worse on the Doing Business rankings.[14] While poor transport

Table 6.4
Distribution of commercial banking services, by state (number of branches)

State	Bank of South Sudan	Nile Commercial		Ivory Bank		Buffalo Commercial	
	2010	2008	2010	2008	2010	2008	2010
Upper Nile	1	3	2	2	2		
Jonglei		1	1				
Unity		1	1		1		
Warrap		1					
Northern Bahr El Ghazal		1	1	1	1		
Western Bahr El Ghazal	1	2	1	1	1		1
Lakes		1	1				
Western Equatoria		1	1				
Central Equatoria	2	4	3	2	2		2
Eastern Equatoria		1	1				
Total	**4**	**16**	**12**	**6**	**7**	**0**	**3**
# of ATMs							

Source: Bank of South Sudan.

Table 6.5
Price comparison of select intermediate inputs, Malakal and other cities

Product input	Price in Malakal (SDG)	Comparator city	Comparator city price (SDG)	Price differential (percent)
Iron sheet (per sheet)	30	Kosti	20	33
Water pipe (per ton)	910	Kosti	790	13
Tire (per piece; Yokohama)	600	Juba (imports from Uganda)	300	50
Sand (per bag)	2,000	Rumbek	90	96

Source: World Bank (2009).

infrastructure is the largest cost driver (as discussed earlier), firms also face an extremely burdensome customs process and multiple checkpoints that add significant time delays.[15] On average, firms located in Juba spend 34 days to obtain 11 documents required for importing, and 28 days for the 9 documents required for exporting (table 6.6).[16] According to the World Bank, the main cause of document delays is the letter of credit requirement, which must be approved by the Bank of South Sudan.[17] And it costs firms in Khartoum or Kampala roughly $2,900 to import products, or roughly 30 percent of the costs faced by South Sudanese firms.

Government priorities

According to the South Sudan Growth Strategy, the government is pursuing a broad-based approach for reducing the country's "absolute dependence" on oil and establishing a diversified, inclusive, and sustainable economy.[18] A central component of the Growth Strategy is adopting policies designed to stimulate growth in low-skill, labor-intensive sectors.

- *Business constraints*. For business environment constraints, the government has prioritized improvements in five key areas:

Agricultural Bank		Kenya Commercial		Equity Bank		Commercial Bank of Ethiopia		Total		
2008	**2010**	**2008**	**2010**	**2008**	**2010**	**2008**	**2010**	**2008**	**2010**	**Δ**
2	2					—		7	7	0
			1			—		1	2	1
			1			—		1	3	2
						—		1	0	–1
1						—		3	2	–1
1	1					—		4	5	1
		1	1			—		2	2	0
			1			—		1	2	1
1	1	1	4	1	1	—	3	9	18	9
						—		1	1	0
5	**4**	**2**	**8**	**1**	**1**	**0**	**3**	**30**	**42**	**12**
			10		1				11	—

Table 6.6
Time and cost to import a container, Juba and comparator cities

	Time (days)			Cost ($)		
Importation step	**Juba**	**Kampala**	**Khartoum**	**Juba**	**Kampala**	**Khartoum**
Document preparation	34	10	24	525	350	750
Port and terminal handling (Mombasa)	6	5	11	390	150	350
Customs clearance	3	6	7	430	390	300
Inland transportation	17	13	4	8,075	2,050	1,500
Total	**60**	**34**	**46**	**9,420**	**2,940**	**2,900**

Source: World Bank.

transport infrastructure, rule of law, taxation policies, access to finance, and macroeconomic stability.[19]

- *Economic sector priorities.* For economic sectors, the government has heavily prioritized agriculture given the country's plentiful arable land and rainfall endowments as well as the overwhelming percentage of the national labor force engaged in agriculture. To increase agricultural productivity and market opportunities, the government has pursued a three-track approach: increasing information dissemination (capacity-building), distributing inputs (seeds, fertilizer, irrigation), and supporting market integration and access through physical infrastructure improvements (feeder roads). The government

also recognizes the growth potential within the services and light manufacturing sectors, but it plans to support them as secondary priorities.

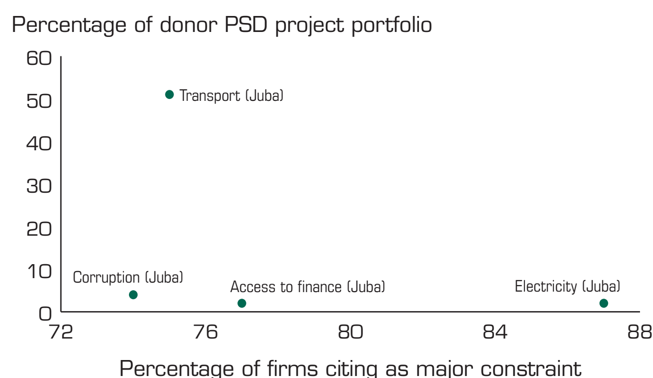
Existing donor programs

As of 2010, donors' private sector–related project portfolio totaled almost $730 million (table 6.7).[20] Actual donor expenditures totaled roughly $212 million for PSD in 2009, or roughly a quarter of total outlays for *all* donor projects. Slightly more than half of this total was allocated to the construction of roads throughout South Sudan. Agriculture programs—dominated by capacity-building and distribution of inputs (for example, seeds)—are the second-largest sector by project portfolio (roughly $196 million).

Donor alignment with business constraints

Overall, donor programs are not aligned with many of South Sudan's greatest business environment obstacles—particularly electricity and access to finance (figure 6.1). Despite these being the two largest business constraints, donors supported only one electricity project and one microfinance-related program as of 2010.[21] Taken together, these two projects total less than 4 percent of all private sector–related projects ($26 million of roughly $730 million; see table 6.7).[22] Going forward, donor funding for power generation and banking programs could have a significant positive impact on business activity in South Sudan. However, donor programs are focusing on several important private sector

Figure 6.1
Donor alignment with major business constraints



Source: Government of South Sudan and authors' calculations.

Table 6.7
Donor funding for private sector–related projects, 2010

Sector	Number of projects	Project portfolio ($ millions)	Average project size ($ millions)	Percentage of total
Agriculture	28	195.9	7.0	27
Infrastructure	11	386.5	35.1	53
Electricity	1	13.2	13.2	2
Transport	10	373.3	37.3	51
Regulatory	15	134.9	89.9	18
Economic policy and financial management	7	41.3	5.9	6
Labor	2	29.4	14.7	4
Legal system	6	30.3	5.0	4
Finance	1	12.6	12.6	2
Total	**55**	**729.9**	**13.3**	**100**

Source: Government of South Sudan (2010b) and authors' calculations.

obstacles, such as transport infrastructure and economic and regulatory institutions. As noted previously, the expansion of South Sudan's nearly nonexistent road network is one positive area of donor engagement.

Ideally, donor institutions would take a division-of-labor approach both among themselves and with the recipient country government. But that does not appear to be the case in South Sudan for the aforementioned neglected constraints to private sector growth. Between 2006 and 2010, the government directed only 1 percent of its total budget expenditures toward expanding access to reliable electricity.[23] By contrast, it provided roughly 8.4 percent of budget expenditures for transport construction and rehabilitation (SDG 1.8 billion). Put differently, both the government and donor institutions are crowding into several important sectors while almost completely ignoring several major constraints to more urban-based business activity.

Donor alignment with government priorities

In contrast to business constraints, donors are very well aligned with the South Sudanese government's priorities. Overall, roughly 90 percent of PSD-related projects are focused on the government's priority business constraints and economic sector (agriculture). The alignment ratio rises to 95 percent if measured as a percentage of total PSD-related project commitments (table 6.8).

The one outlier is the nearly complete lack of donor assistance to improve access to financing. As noted previously, donors have supported only one microfinance project in South Sudan. This suggests that donors should explore ways of helping South Sudanese farmers and business owners to better access affordable expansion and operating capital.

Donor alignment with what works

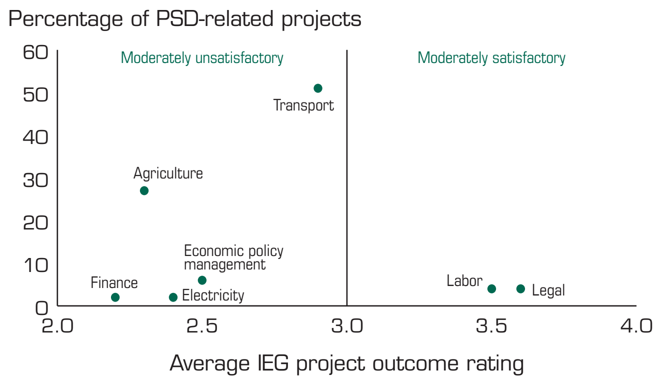
Next, we examine donor alignment with PSD-related sectors and subsectors that exhibited higher project outcome ratings in African and non-African fragile states over time.[24] Given the impracticality of gauging historical project performance across the 15 different donor organizations with active PSD-related programs in South Sudan, we use the World Bank's Independent Evaluation Group project outcome rating figures as a proxy (see chapter 5). As figure 6.2 illustrates, existing donor projects exhibit mixed alignment results with higher performing PSD-related sectors. Except for two regulatory subsectors (legal system reform and labor policy), the percentage of donor projects targeting specific PSD-related areas is higher in subsectors with better average project outcome ratings. But donors' heavy focus on road transport and agriculture sectors—accounting for 80 percent of all PSD-related projects—may be considered excessive based solely on their historical outcome performance in fragile state environments.

Table 6.8
Donor alignment with government priorities

	Donor alignment		Priority PSD projects	
Government priorities	**Percentage of all projects (by value)**	**Percentage of all projects (by number)**	**Total value ($ millions)**	**Number of projects**
Business constraints	63	44	457.5	24
Transport	51	18	373.3	10
Rule of law	4	11	30.3	6
Economic policy management	6	13	41.3	7
Access to finance	2	2	12.6	1
Agriculture	27	51	195.9	28
Total	90	95	653.3	52

Source: Government of South Sudan and authors' calculations.

Figure 6.2
Donor alignment with what works



Source: World Bank Independent Evaluation Group, Government of South Sudan, and authors' calculations.

Conclusion

Overall, donors exhibit strong alignment with one of the proposed guiding PSD framework pillars (government priorities) and modest alignment with what has worked in other fragile state environments over time. Alignment with firm views about major constraints is mixed at best—stemming largely from the disconnect between what South Sudanese firms and the government believe are the most pressing PSD constraints. This apparent conflict illustrates the operational and strategic complexities of balancing rural development–based growth strategies with the needs and priorities of largely urban firms that are represented in World Bank Enterprise Surveys. The World Bank Group can respond to this phenomenon by better reflecting the views of rural businesses (including smallholder farmers) in their survey diagnostics, particularly for African countries with sizable employment shares in the agriculture sector.

Regardless of this issue, there is a clear need for donors to give greater priority to PSD-related programs to improve access to and cost of finance, for both South Sudanese farmers and other economic sectors. But with finance projects' poor performance in fragile states over time, careful consideration should be given to ensuring an improved track record in South Sudan. Moreover, donors should give additional consideration to whether a heavier emphasis on electricity infrastructure would be justified, both in the context of addressing firms' views and of broader economic and social development imperatives.

Notes

1. SSCCSE (2010).
2. World Bank (2010d).
3. World Bank (2011c).
4. Bank of South Sudan.
5. The most commonly cited factor is South Sudan's long civil war, which devastated formal institutions, market linkages, and traditional relationships in the private sector. Other related factors include: limited bank presence and competition, extensive usage of barter-based trading (low money usage), weak or nonexistent credit bureaus, and lack of borrower collateral. Several of these issues are examined in subsequent sections.
6. Atil (2009).
7. Nearly 80 percent of South Sudanese households rely on crop farming and animal husbandry for their main source of income. SSCCSE (2010), p. 45.
8. SSCCSE (2010). By comparison, microfinance institution lending rates average roughly 30 percent in Kenya.
9. The Land Act of 2009 permits land title holders to use their title as collateral for loans and financial institutions to foreclose on the associated land title in the event of default. But poor institutional capacity and systems for land registry has continued to deter collateralized lending. In February 2010, the South Sudan Land Commission announced a new five-year strategic plan to address many of these deficiencies, such as improving land mapping, survey activities, and computerization of the land registry.
10. Between 2004 and 2010, the World Food Programme (WFP), USAID, Ministry of Transport and Roads, and other donor organizations constructed these 4,100 kilometers of trunk roads (2,600 by WFP and 1,500 by the ministry). In March 2011, the WFP announced an $80 million program to construct about 500 kilometers of feeder roads, which will link existing trunk roads and improve access to food assistance beneficiaries and agricultural production areas (WFP 2011).
11. For example, operating expenses (including road maintenance) accounted for only 1.3 percent of the Ministry of Transport and Roads budget in 2010. See Government of South Sudan (2010a).
12. As of 2010, Reuters reported that plans to build a "Sudan East Africa Railway" through Juba and into Uganda were still in the discussion phase (Reuters 2010).

13. Emerson (2006).
14. World Bank (2011c).
15. World Bank (2011c). Imports must pass through six separate checkpoints along the 200 kilometers between Juba and the Ugandan border crossing (Nimule).
16. World Bank (2011c).
17. This is required every time a firm imports or exports products and involves the submission of six separate documents to the Bank of South Sudan. On average, this step takes more than 20 days to complete.
18. Government of South Sudan (2010c).
19. Government of South Sudan (2010c).
20. Additional donor programs have been initiated or proposed since the publication of the Government of South Sudan's *Donor Book 2010*. For example, the IFC proposed a modest new program in early 2011 focused on generating at least 15 new high-quality investments in non-oil sectors, especially agribusiness; increasing new business registrations from 8,000 to 13,000; decentralizing the business registration to locations in at least three states; and using alternative dispute resolution in at least 200 business disputes. For more information, see www.ifc.org for all available project documents.
21. USAID's Sudan Infrastructure Services Project (Electrification Program) will provide $13 million to support the construction of electricity infrastructure in Kapoeta and Maridi and the training of Electricity Corporation personnel. The 894-kilowatt power plant was inaugurated in February 2011. See Ruati (2011). USAID's Generating Economic Development through Microfinance in Southern Sudan will provide $12.6 million to improve microfinance institution's managerial capacity and to provide loan capital for the expansion of microfinance facilities and geographic coverage. See Government of South Sudan (2010b).
22. Of course, donor projects across sectors will vary in terms of size and cost. As such, relative funding volume is an imperfect measure for comparing donor priorities.
23. Government of South Sudan (2010b) and authors' calculations.
24. As in chapter 5, this analysis is based on average IEG project outcome ratings by sector and subsector.

Chapter 7

Conclusion

The World Bank Group and other development institutions have committed to further prioritize programmatic operations in fragile states. The strategic imperative for this focus is particularly warranted given the projected IDA graduation by more than half of its existing client countries by 2025. And the World Bank Group's existing efforts to devise a new Group-wide strategy for fragile states present an opportune time to reexamine one key aspect of its operations—promoting private sector development. This report examines three key private sector–related factors in African fragile states: what businesses cite as the most binding constraints to private sector growth; what government priorities are for business climate improvements or strategic economic sectors; and what types of projects have been more effective over time. Subsequently, we assess the alignment of World Bank Group operations within these three areas over the past decade. Overall, we find that project alignment varies widely across the World Bank Group's three largest subsidiaries—the International Development Association (IDA), International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA).

- *IDA exhibits very strong alignment with government priorities and reasonably good prioritization in sectors with higher project outcome ratings.* But it has a more mixed performance with respect to focusing on what businesses cite as the most binding private sector–related constraints. IDA has pursued comparatively few projects focusing on the most binding constraints, such as electricity and access to finance.
- *By contrast, IFC and MIGA projects are only modestly aligned with the private sector's most binding constraints or fragile state government priorities.* Instead, projects have been heavily concentrated in low-risk sectors, such as the extractive sector. Taken together, IFC activities over time suggest that the organization lacks a comprehensive, systematic strategy in African fragile states.[1]

Moving forward

Despite several bright spots, our analysis suggests that strategic changes in the World Bank Group's operations are needed—particularly for IFC and MIGA. Given this, we propose a new methodology by which they could prioritize and structure assistance and investment programs in fragile states. Our conceptual model brings together three simple, yet fundamental, components for policy design—what is needed, what is wanted, and what works.

- *What is needed*. To generate growth, policymakers must create a conducive environment for business owners and managers of small, medium, and large firms. Understanding the business community's concrete and most binding constraints is the crucial first step toward good policy design.
- *What is wanted*. Policymakers in fragile states operate in very difficult environments. Understanding their perspective and private sector objectives is important, especially for policymakers in multilateral institutions.
- *What works*. We must use the lessons learned from past projects and policy interventions. Understanding what has worked in very difficult environments will be useful to the design of new policies, programs, and projects—particularly when these findings are referenced against public and private sector constraints and priorities.

When viewed together, these three analytical components can help the World Bank Group and other development organizations prioritize private sector–related programs in fragile states. Ideally, donor institutions would pursue projects in sectors or areas where all three components intersect (what the private sector needs, what the government wants, and what donors do effectively). But there will be situations or environments in which multilateral organizations may wish to pursue projects or investments that do not meet this condition.

The challenge will be ensuring flexible operational and institutional structures to implement these objectives. Broadly speaking,

three main areas need to be addressed: improving managerial capacity to enable a bolder approach to fragile states; significantly changing human resources strategies to attract and retain staff who are willing to take risks and understand the conditions of operating in fragile states; and improving the incentives of existing staff so that they are more willing to take on riskier projects. Each of these areas is enormously challenging, but must receive concerted efforts in order for a fragile states–specific agenda to be implemented.

Note

1. As chapter 5 notes, evaluation results vary widely by country and sector. IDA, IFC, and MIGA might consider country priorities, business constraints, and evaluation results on a country-level basis. Further, evaluation results by sector might be considered *in relative terms* compared with other sectors. For example, if single country evaluation results are low across the board (as, for example, in the Democratic Republic of Congo), road projects with an average score of just 2.5 might be prioritized over oil, gas, and mining projects, which have an average score of 1.5.

Appendix 1

IFC investments in African fragile state sample, 2000–11

Country	Investment/ advisory	Sign date	Project
Angola	Investment	2011	Banco de Fomento. S.A.R.L.
Angola	Investment	2005	CNO Angola
Angola	Investment	2004	Enterprise Bank of Angola
Angola	Investment	2004	NOSSA Seguros
Angola	Investment	2009	Secil Lobito
Burundi	Investment	2000	AEF V&F Export
Burundi	Investment	2011	AMSME Interbank
Burundi	Investment	2009	Diamond Trust Bank Burundi
Burundi	Investment	2002	Florex Limited
Burundi	Investment	2011	Leo Burundi
Central African Republic	Investment	2010	Ecobank CAR
Chad	Investment	2010	Aubaine Graphic SA Printing Chad
Chad	Advisory	2007	Chad Enterprise Center
Chad	Investment	2000	Chad-Cameroon Petroleum Development and Pipeline Project
Chad	Investment	2010	Ecobank Chad
Chad	Investment	2003	Finadev Tchad
Chad	Investment	2003	Financial Bank - Tchad
Chad	Investment	2009	Geyser SA
Chad	Investment	2009	Millicom Tchad S.A.
Congo, Dem. Rep.	Investment	2008	Advans Banque Congo
Congo, Dem. Rep.	Investment	2007	Africo Resources Limited
Congo, Dem. Rep.	Investment	2009	AMSME Rawbank
Congo, Dem. Rep.	Investment	2003	Celtel DROC II
Congo, Dem. Rep.	Investment	2010	Central Africa SME Fund C.V.
Congo, Dem. Rep.	Advisory	2006	DRC SME Development Program

Company	Sector	Subsector	Investment ($ millions)
Banco de Fomento. S.A.R.L.	Finance	Banking	31.8
OSEL	Industry	Construction	10.0
Enterprise Bank of Angola	Finance	Micro, small, and medium enterprise	0.7
Nossa Seguros	Finance	Insurance	1.0
Secil - Companhia de Cimentos do Lobito, S.A.	Industry	Construction	27.0
Vegetables and Flowers Exports S.A.	Agriculture	Horticulture	0.5
Interbank Burundi	Finance	Banking	0.1
Diamond Trust Bank Burundi S.A.	Finance	Banking	0.8
Florex Limited	Agriculture	Fruits and vegetables	0.3
U-com Burundi S.A.	Infrastructure	Telecommunications	25.0
Ecobank Centrafrique SA	Finance	Banking	0.1
Imprimerie Aubaine Graphic SA	Industry	Paper products	2.8
Chad Enterprise Center	Finance	Micro, small, and medium enterprise	2.1
Tchad Oil Transportation Company, S.A	Extractive	Oil and gas	27.8
Ecobank Tchad S.A.	Finance	Banking	2.9
Finadev Tchad	Finance	Micro, small, and medium enterprise	0.5
Financial Bank - Tchad	Finance	Banking	1.0
Geyser SA	Industry	Construction	3.3
Millicom Tchad S.A.	Infrastructure	Telecommunications	21.2
Advans Banque Congo	Finance	Micro, small, and medium enterprise	2.2
Africo Resources Limited	Extractive	Mining	7.9
Rawbank Commercial Banking	Finance	Banking	9.9
Celtel Congo (RDC)	Infrastructure	Telecommunications	139.0
Central Africa SME Fund C.V.	Finance	Micro, small, and medium enterprise	12.5
DRC SME Development Program	Finance	Micro, small, and medium enterprise	2.4

(continued)

Country	Investment/ advisory	Sign date	Project
Congo, Dem. Rep.	Investment	2005	Kingamyambo Musonoi Tailings SARL
Congo, Dem. Rep.	Investment	2009	Millicom DRC
Congo, Dem. Rep.	Investment	2004	Pro Credit Bank SARL
Congo, Dem. Rep.	Advisory	2005	Pro Credit Bank TA
Congo, Dem. Rep.	Advisory	2008	Special Economic Zones in DRC
Congo, Dem. Rep.	Investment	2006	Stanbic DRC
Côte d'Ivoire	Investment	2011	Advans CI
Côte d'Ivoire	Investment	2011	Ecobank Cote d'Ivoire
Guinea	Investment	2007	Simandou II
Guinea	Investment	2006	Simandou Iron Ore
Guinea-Bissau	Investment	2000	Banco de Africa Occidental
Liberia	Investment	2008	AccessBank Liberia
Liberia	Investment	2011	Ecobank Liberia
Liberia	Advisory	2007	Liberia Power
Liberia	Advisory	2006	Liberia PSD
Liberia	Investment	2008	Salala Rubber Corporation
Sudan	Advisory	2006	Removing Barriers to Investment in S Sudan
Sudan	Advisory	2011	S. Sudan Investment Climate Reform (2)
Togo	Investment	2000	AEF
Togo	Investment	2007	AEF Societe Transam
Togo	Investment	2010	CG Togo
Togo	Investment	2011	Ecobank Togo
Togo	Investment	2011	Togo LCT
Zimbabwe	Investment	2000	AEF Bell Medical Centers

Note: Unsigned projects are not included here. All projects were signed in countries with Country Policy and Institutional Assessment scores at or below 3.2 at sign date. Advisory projects include only those with value in excess of $2 million.

Source: International Finance Corporation.

Company	Sector	Subsector	Investment ($ millions)
Kingamyambo Musonoi Tailings SARL	Extractive	Mining	5.4
Millicom DRC	Infrastructure	Telecommunications	80.0
Pro Credit Bank SARL	Finance	Micro, small, and medium enterprise	1.3
Pro Credit Bank TA	Finance	Banking	2.5
Special Economic Zones in DRC	Industry	Other	3.3
Stanbic DRC	Finance	Insurance	3.0
Advans Côte d'Ivoire	Finance	Micro, small, and medium enterprise	1.0
Ecobank Côte d'Ivoire	Finance	Banking	0.9
SIMFER S.A.	Extractive	Mining	30.0
SIMFER S.A.	Extractive	Mining	5.0
Banco de Africa Occidental	Finance	Banking	0.3
AccessBank Liberia	Finance	Micro, small, and medium enterprise	1.5
Ecobank Liberia	Finance	Banking	6.0
Liberia Power	Infrastructure	Electricity	2.3
Liberia PSD	Industry	Other	4.6
Salala Rubber Corporation	Industry	Natural fibers	10.0
Removing Barriers to Investment in S Sudan	Industry	Other	2.8
S. Sudan Investment Climate Reform (2)	Industry	Other	3.0
Centre d'Assistance de Formation et d'Etudes Informatique	ICT	Internet	0.4
Societe Transam-P	Industry	Other	1.7
ContourGlobal Togo S.A.	Infrastructure	Electricity	14.0
Ecobank Togo	Finance	Banking	5.4
Lome Container Terminal	Infrastructure	Ports	122.4
Bell Medical Centers	Services	Health	0.8
Total			**640.4**

Appendix 2

MIGA guarantees in African fragile state sample, 2011

Country	Total value		Number of projects	
	Total value ($ millions)	Percentage of total	Number of projects	Percentage of total
Angola	204.5	35.2	5	21.7
Burundi	0.9	0.2	1	4.3
Congo, Dem. Rep.	59.7	10.3	6	26.1
Congo, Rep.	8.7	1.5	1	4.3
Guinea	116.8	20.1	4	17.4
Guinea-Bissau	26.5	4.6	2	8.7
Liberia	145.7	25.1	2	8.7
Togo	18.1	3.1	2	8.7
Total	**580.8**	**100**	**23**	**100**

Source: Multilateral Investment Guarantee Agency.

Project	Fiscal year	Guarantee holder
Secil Companhia de Cimentos do Lobito SA	2010	Secil-Companhia Geral De Cal e Cimento, S.A.
Barloworld Equipamentos Angola Limitada	2006	Barloworld Equipment UK Limited
Desco Angola Lda.	2001	Desco A.B.
Barlows Equipamentos Companhia Limitada	1999	Barlows Tractor International Limited
Fabrica de Lixivia Corasol, Ltda	1998	Mr. Jari Peltokangas & Vaasan Saippua Oy - Vasa Tval Ab
Africell S.A.	2003	Mauritius Telecom Ltd.
ProCredit Group Central Bank Mandatory Reserves Coverage	2011	ProCredit Holding

Investor country	Sector	Host country	Gross ($ millions)
Portugal	Manufacturing	Angola	168
United Kingdom	Manufacturing	Angola	14.7
Sweden	Services	Angola	1
United Kingdom	Manufacturing	Angola	18.5
Finland and Portugal	Manufacturing	Angola	2.3
Mauritius	Telecommunications	Burundi	0.91
Germany	Banking	Congo, Dem. Rep.	5

(continued)

MIGA guarantees in African fragile state sample, 2011

Project	Fiscal year	Guarantee holder
Global Network Solution	2011	Global Broadband Solution
Congo Oils and Derivatives SARL	2009	African Company for Oil Derivatives & Freiha Feed Company & Ralph Freiha & Yousef Freiha and Sons
Congo International Company SPRL	2008	AMCO Fabrics Private Limited
Congo Equipment SPRL	2008	Bartrac Equipment
Anvil Mining Congo, SARL	2005	Anvil Mining Ltd. of Canada & RBM International (Dublin) Limited
Cotecna Inspection Congo S.A.R.L.	2011	Cotecna Inspection S.A.
Orange Guinée S.A.	2007	Sonatel
Société des Grands Moulins de Guinée S.A.	2001	Agro-Industrial Investment and Development, S.A.
Alumina Company of Guinea Ltd	2001	Banque Belgolaise, S.A. & Guinea Investment Company Ltd. & Rand Merchant Bank & Westdeutsche Landesbank (West LB)
Société des Grands Moulins de Guinée, S.A	1997	Agro-Industrial Investment and Development, S.A. & Banque Belgolaise, S.A. & Credit Lyonnais Belgium & Faisal Finance, S.A. & Promofin Outremer S.A. & Societe de Promotion Financiere et d'Investissement, S.A.
Orange Bissau S.A.	2008	Société Nationale des Télécommunications du Sénégal S.A. (Sonatel)
Société Guinéenne de Promotion Hôtelière	2007	Société Malienne de Promotion Hôtelière
Buchanan Renewables Fuel Inc.	2011	Vattenfall AB
Whein Town Landfill Gas Recovery	2011	Gazprom Marketing and Trading Joint Venture
Cotecna Inspection S.A. Bureau de Liaison du Togo	2011	Cotecna Inspection S.A.
Societe Cotonniere des Savanes S.A.	2001	Banque Belgolaise, S.A. & Joseph Fermon
Total		

Source: Multilateral Investment Guarantee Agency.

Investor country	Sector	Host country	Gross ($ millions)
United States	Telecommunications	Congo, Dem. Rep.	11.1
Lebanon andVirgin Islands (British)	Agribusiness	Congo, Dem. Rep.	4.32
India	Manufacturing	Congo, Dem. Rep.	0.63
Mauritius	Services	Congo, Dem. Rep.	25
Canada and Ireland	Mining	Congo, Dem. Rep.	13.6
Switzerland	Services	Congo, Rep.	8.7
Senegal	Telecommunications	Guinea	59.4
Panama	Agribusiness	Guinea	9
Cayman Islands	Manufacturing	Guinea	40
Belgium, Luxembourg, and Switzerland	Manufacturing	Guinea	8.35
Senegal	Telecommunications	Guinea-Bissau	25.9
Mali	Tourism	Guinea-Bissau	0.6
Sweden	Agribusiness	Liberia	142.2
United Kingdom	Solid waste management	Liberia	3.5
Switzerland	Services	Togo	10.7
Belgium	Agribusiness	Togo	7.4
			580.81

Appendix 3

Traditional aid modality limitations in fragile states

The effectiveness of traditional aid (as opposed to private sector development) programs in fragile states can provide helpful, albeit cautionary, lessons for private sector–focused efforts. In examining the World Bank's performance-based allocation process, Gelb (2010) highlights the alarmingly low success rate of International Development Association (IDA) projects in fragile states.[1] Gelb attributes much of this failure to improper incentive structures and poor performance feedback loops. His paper contends that the extended time between project preparation, approval, and formal results evaluation (either intermediate or final) is inconsistent with staffing timelines—diffusing any potential incentive effects.[2] In other words, project designers and often task managers have long since left the scene by the time the projects receive their formal evaluations.

In addition, recipient countries' project portfolio performance scores have little effect on their overarching IDA allocations, an attribute that often perpetuates the low success rate of future projects.[3] Currently, portfolio performance scores account for only 8 percent of the total IDA allocation determination formula.[4] But a host country's Country Policy and Institutional Assessment (CPIA) score accounts for a much larger portion. For example, a 10 percent increase in a given country's CPIA rating would produce a 55 percent increase in its total IDA allocation. By contrast, a 10 percent increase in its portfolio rating would only raise a country's total IDA allocation by slightly more than 4 percent. Therefore, the existing IDA allocation process may provide little incentive for fragile state governments and IDA staff to maximize the effectiveness of development funds in the short and medium term.[5]

Notes

1. States with CPIA scores below 3.0 are considered "core" fragile states, while those with scores between 3.0 and 3.2 are considered "marginal" fragile states.
2. Gelb (2010).
3. Portfolio performance scores account for only 8 percent of the IDA allocation determination formula.
4. The African Development Fund has a similar project portfolio performance weighting.
5. Gelb (2010).

Appendix 4

Private sector–related donor projects, South Sudan, as of end-2010

Project name	Sector	Subsector	States	Donor
Generating Economic Development through Microfinance in Southern Sudan	Finance	Microfinance	Western Equatoria, Central Equatoria, Unity, Western Bahr el Ghazal, Northern Bahr el Ghazal, Jonglei	U.S. Agency for International Development (USAID)
Sudan Infrastructure Services Project (Electrification Program)	Infrastructure	Electricity	Central Equatoria, Eastern Equatoria, Western Equatoria	USAID
Government Institutional Capacity-Building Project (Core Institutional Structures Program)	Regulatory	Economic policy	All	USAID
Private Sector Development Project	Regulatory	Economic policy	All	Multi-Donor Trust Fund (MDTF)
Accelerated Infrastructure Program	Infrastructure	Transport	Western Equatoria	USAID
Juba Urban Transport Infrastructure and Capacity Development Study	Infrastructure	Transport	Central Equatoria	Japan International Cooperation Agency (JICA)
SPCRP - Wau-Tambura Road Project	Infrastructure	Transport	Western Equatoria, Western Bahr el Ghazal	European Commission (EC)
Sudan Infrastructure Services Project (Capacity-Building)	Infrastructure	Transport	All	USAID

Overview	Project total ($)	Disbursements ($)			
		2009	2010	2011	2012
Technical assistance and managerial capacity for microfinance institutions. Increased support for the microfinance sector in Southern Sudan. Expanding microfinance facilities by providing loan capital. Creating new products and extending services to new locations.	12,615,000	4,615,000	4,295,000	3,705,000	—
Constructing electricity infrastructure in Kapoeta and Maridi. Training and capacity-building for public sector to improve electricity services. Developing an electricity policy.	13,202,600	4,000,000	4,500,000	3,702,600	—
Support for Bank of South Sudan operations through technical assistance and focus on key areas associated with government of South Sudan priorities.	13,767,562	3,190,000	3,190,000	—	—
Developing a policy and regulatory framework that promotes trade and investment. Drafting of trade bills. MCI Institutional Capacity Review. Establishment of Public Private Dialogue Forum. Developing a microfinance policy framework.	20,200,000	18,196,653	2,000,000	—	—
Rehabilitating 100 kilometers (km) of Yambio-Tambura road, regrading the 75-km Dabio-Ezzo road, constructing the Bandame Bridge in Yei. Rehabilitating remaining 85 km of the Yambio-Tambura road and regrading the 75 km Dabio-Ezzo road.	40,289,703	17,000,000	1,500,000	—	—
Formulating a transport network master plan for Juba and its surrounding area with a target year 2025. Formulating a project for reconstruction of bridge/culverts. Conducting feasibility studies on high-priority projects. Preparing capacity development plan for engineers in charge of road improvement/maintenance in MTR/MoPI and supporting execution of the capacity development plan. Supporting planning and implementation of pilot projects as an important part of capacity development.	4,000,000	2,000,000	900,000	—	—
Constructing the Busheri, Duma, and Bo bridges on Wau-Tambura road.	8,400,000	4,340,000	4,060,000	—	—
Capacity-building for MTR and state Ministries of Physical Infrastructure to procure services and maintain roads. Training people in transportation-related policy and regulatory practices. Providing training, equipment, and contracts for private sector to rehabilitate and maintain up to 1,000 km of feeder roads.	13,850,000	5,750,000	5,550,000	4,550,000	—

(continued)

Project name	Sector	Subsector	States	Donor
Sudan Infrastructure Services Project (Juba-Nimule Road)	Infrastructure	Transport	Central Equatoria, Eastern Equatoria	USAID
WFP Emergency Road Project	Infrastructure	Transport	Warrap, Western Bahr el Ghazal	U.K. Department For International Development (DfID)
WFP Road Repair	Infrastructure	Transport	Eastern Equatoria, Central Equatoria, Western Equatoria, Lakes, Warrap, Western Bahr el Ghazal	CHF International
WFP Road Repairs	Infrastructure	Transport	Central Equatoria, Western Equatoria, Lakes	Japan Bank for International Cooperation
Sudan Emergency Transport and Infrastructure Project	Infrastructure	Transport	All	MDTF
Capacity Project for Urban Street Improvement and Maintenance in Juba	Infrastructure	Transport	Central Equatoria	JICA
Community Livelihood Security	Agriculture	Product inputs	Western Bahr el Ghazal	Sudan Recovery Fund (SRF)
Creating Opportunities through Livestock and Dairy Development Project	Agriculture		Eastern Equatoria	SRF
Emergency Agriculture Assistance to Vulnerable Groups in Central and Western Equatoria States	Agriculture	Product inputs	Central Equatoria, Eastern Equatoria	Central Emergency Response Fund
Enhancing Self-Reliance for Communities in Northern Bahr el Ghazal State	Agriculture	Capacity-building, inputs	Northern Bahr el Ghazal	SRF
Gogrial Livelihoods and Income Production Recovery Project in Warrap State	Agriculture	Capacity-building	Warrap	SRF
Bridging the Gap between Relief and Rural Economic Development in Juba County	Agriculture	Capacity-building	Central Equatoria	SRF

Overview	Project total ($)	Disbursements ($)			
		2009	2010	2011	2012
Rehabilitating the 192-km Juba-Nimuli road and seven bridges.	135,044,000	35,600,000	63,444,000	16,000,000	—
Repairing the Wau-Wunrock road; socioeconomic report; emergency bridging.	6,011,525	150,000	—	—	—
Repairing road sections and structures to keep access open on key roads (including repairs to 20 bridges).	754,000	754,000	—	—	—
Maintaining three roads: Yei-Faraksika, Faraksika-Rumbek, and Rumbek-Yirol.	11,990,826	6,000,000	—	—	—
Studying 7,000 km of rural roads in 10 states. Doing design, social, environmental, and economic studies for Kaya-Yei-Juba and Nadapal-Juba roads. Carrying out emergency road repairs by rehabilitating 285 km of roads, maintaining 579 km of roads, doing gravel road construction of 170 km, and providing technical assistance to MTR.	150,000,000	4,150,000	41,500,000	—	—
Establishing MoPI's system and organization for urban street improvement/maintenance. Improving MoPI's capacity in resurfacing and gravel pavement construction and maintenance. Studying how to efficiently maintain resurfacing and gravel pavement roads and finding a means of improving their serviceable period.	3,000,000	—	1,000,000	1,000,000	1,000,000
Providing agricultural inputs to 1,400 households. Specifically supporting 270 households for crop diversification. Assisting 240 individuals to become commercial vegetable producers.	503,178	288,312	214,867	—	—
N/A	1,499,940	1,059,071	440,869	—	—
Providing seeds and tools to low resource–affected internally displaced persons and refugees.	385,414	385,414	—	—	—
Organizing farmers into larger groups. Providing seeds and training. Establishing 24 large farms benefiting 260 households	974,347	—	—	—	—
Constructing one training center. Supporting eight groups. Providing seeds to 3,000 households. Supporting 40 adaptive research farmers. Training 3,000 farmers in horticulture.	745,389	626,904	118,485	—	—
Poultry production, seeds and agricultural tools provision; skills training	1,834,804	1,454,401	380,403	—	—

(continued)

Project name	Sector	Subsector	States	Donor
Lakes State Sustainable Livelihoods Recovery Project	Agriculture	Capacity-building	Lakes	SRF
Livestock Epidomo-Surveilance Project	Agriculture	Capacity-building	All	EC
Livelihood Development Eastern Equatoria State	Agriculture	Capacity-building	Eastern Equatoria	SRF
Livelihood Recovery, Stabilization, and Rehabilitation of Community Services in Upper Nile State	Agriculture	Capacity-building	Upper Nile	SRF
Livelihoods Development Project	Agriculture		Central Equatoria, Eastern Equatoria, Jonglei	International Fund for Agricultural Development (IFAD)
Livestock and Fisheries Development Project	Agriculture	—	Eastern Equatoria, Central Equatoria, Upper Nile, Unity State, Jonglei	MDTF
People's Aid Agriculture Project	Agriculture	Capacity-building, inputs	Jonglei	USAID
Sudan Institutional Cap Building: Food Security for Action	Agriculture	Capacity-building	All	EC
Southern Sudan Emergency Food Crisis Response Project	Agriculture	Capacity-building	Western Equatoria, Central Equatoria, Upper Nile, Unity State, Warrap, Northern Bahr el Ghazal	MDTF
Southern Sudan Livelihoods Development Project	Agriculture	Capacity-building	Jonglei, Central Equatoria, Eastern Equatoria	IFAD, Netherlands
SPCRP - Aweil Rice Production Project	Agriculture	Infrastructure	Lakes, Northern Bahr el Ghazal, Western Bahr el Ghazal, Western Equatoria, Warrap	EC

Overview	Project total ($)	Disbursements ($)			
		2009	2010	2011	2012
Providing agricultural inputs and small-scale irrigation. Promoting poultry production.	1,278,328	912,912	365,416	—	—
N/A	4,970,000	1,631,409	1,631,409	—	—
Constructing seven marketplaces. Establishing seven demonstration farms. Constructing 5,000 meters of feeder roads to agricultural marketplaces. Training 420 farmers in agricultural production and 140 persons in management.	1,500,000	870,606	629,394	—	—
Establishing three cooperative farms with 50 members, three livestock production and health cooperatives with 50 members each, and three animal health centers. Training 500 individuals in basics of horticulture.	1,476,453	1,004,867	471,586	—	—
Supporting community-based development of productive activities in agricultural, livestock, and fisheries sector, including access to markets.	25,900,000	500,000	3,500,000	4,500,000	4,500,000
N/A	7,670,000	14,236,700	4,692,706	—	—
Providing seeds (141 tonnes) and tools to returnees and the flood-affected. Training 2,200 farmers, 170 promoters, and 147 outreach groups, and doing additional training.	1,494,996	1,494,996	—	—	—
Food security policymaking and planning systems component covers the support to the various processes needed to convert data collection into food security and livelihoods analysis and decisionmaking. Developing baseline and information systems component that covers different surveys and supports existing and future food security–related information systems. Increasing food security research and capacity-building fund to support small-scale interventions in food-insecure areas.	14,000,000	2,619,516	1,876,184	800,000	—
Providing targeted agricultural technologies to groups and extension through nongovernmental organizations.	5,000,000	850,000	2,500,000	—	—
Sensitizing and training 62 boma committees. Benefiting 3,800 households with productivity programs. Training 186 interest groups and managing their agriculture projects effectively. Strengthening technical capacity and office environment of six county offices. Supporting increase of county capacity to prevent or resolve conflicts over access to grazing and water.	25,900,000	2,113,100	3,591,900	5,671,000	3,560,000
Rehabilitating 30 percent of the Aweil Rice Scheme, especially the irrigation channels and dykes. Producing rice and other crops in collaboration with local farmers.	7,000,000	2,500,000	2,500,000	852,373	—

(continued)

Project name	Sector	Subsector	States	Donor
SPCRP - Capacity-Building Component	Agriculture	Capacity-building	Lakes, Northern Bahr el Ghazal, Western Bahr el Ghazal, Western Equatoria, Warrap	EC
SPCRP - Livestock Production and Marketing Project	Agriculture	Capacity-building	Lakes, Northern Bahr el Ghazal, Western Bahr el Ghazal, Western Equatoria, Warrap	EC
SPCRP - Micro Projects	Agriculture	Capacity-building	Lakes, Northern Bahr el Ghazal, Western Bahr el Ghazal, Western Equatoria, Warrap	EC
SPCRP - Model Project: Fish Development and Marketing Project	Agriculture	Capacity-building	Central Equatoria, Lakes, Upper Nile	EC
Sudan Institutional Capacity Program: Food Security Information for Action	Agriculture	Capacity-building	All	EC
Sudan Property Rights Program	Regulatory	Legal system	All	USAID
Support to Agriculture and Forestry Project	Agriculture	Capacity-building	Eastern Equatoria, Central Equatoria, Upper Nile, Jonglei	MDTF
Support to Community-Based Seed Production and Supply System Development	Agriculture	Capacity-building, inputs	N/A (five states)	France
Support to Sustainable Reintegration and Improvement of Basic Food Security for Vulnerable Populations	Agriculture	Capacity-building, inputs	All	CHF
Southern Sudan Forest Sector Program	Agriculture	Capacity-building	All	Norway
Building Responsibility for the Delivery of Government Services	Agriculture	Capacity-building	Upper Nile, Northern Bahr el Ghazal, Unity, Warrap	USAID

Overview	Project total ($)	Disbursements ($)			
		2009	2010	2011	2012
Undertaking strategic planning for all the five states. Constructing state headquarters for the Ministry of Agriculture and Animal Resources and at least three county offices from each of the five states. Providing equipment for the offices to support implementation.	25,900,000	8,470,000	4,470,000	4,470,000	—
Increasing knowledge and improving management of livestock production and marketing. Improving and increasing trade in livestock and livestock products and the livelihoods of livestock owners and traders.	5,880,000	2,000,000	1,500,000	525,431	—
Making micro grants to support private institutions and rural businesses such as development corporations, private sector organizations, cooperatives and farmers, pastoralists, and fishers' unions, and to develop a mechanism to support investment in agribusiness initiatives and marketing systems.	2,800,000	500,000	1,800,000	500,000	—
Doing needs assessment and baseline surveys. Procuring fishing equipment. Supporting production, processing, and marketing activities.	4,500,000	—	—	—	—
Building the institutional capacity for food security information collection. Strengthening government food security and livelihoods policy analysis capacity. Supporting a functioning crop and livestock information system, and functioning crop and livestock monitoring and forecasting systems. Establishing food security natural resources information system.	12,360,000	3,500,000	3,300,000	1,770,000	—
Improving laws and regulations affecting property rights of the urban and rural poor.	5,000,000	2,000,000	3,000,000	—	—
Developing legislation, codes, and guidelines. Helping benefit 81,000 people with improved technologies. Forming a research forum. Developing a research framework. Increasing support to adoptive research.	10,000,000	7,000,000	14,000,000	—	—
Training extension agents and farmers in seed production and quality control. Multiplying the locally preferred seeds in the five selected states.	781,371	590,000	191,371	—	—
Supporting 100,000 beneficiary households in accessing their seeds and tools needed to improve their food security and livelihoods. Training 1,500 farmers in improved agronomic practices.	4,500,000	4,500,000	—	—	—
Developing methodologies and systems for forest resource assessment of plantations and natural forests. Implementing forest inventories in selected pilot areas. Developing a concession agreement baseline for Southern Sudan based on the interim government constitution and emerging forest law.	1,558,950	1,558,950	—	—	—
Providing an increased number of livestock owners with extension services and training. Increased incomes from animal and fish resources.	15,000,000	4,402,000	5,410,000	—	—

(continued)

Project name	Sector	Subsector	States	Donor
Food Security Thematic Program	Agriculture	Capacity-building	Lakes, Northern Bahr el Ghazal, Western Bahr el Ghazal, Western Equatoria, Warrap	EC
Capacity-Building, Institutional, and Human Resource Development	Regulatory	Labor regulation	All	MDTF
Capacity-Building Activities	Regulatory	Financial management	All	African Development Bank
Government Institutional Capacity-Building Project	Regulatory	Labor regulation	All	USAID
Promoting Rule of Law in Southern Sudan	Regulatory	Legal system	All	Canada

Overview	Project total ($)	Disbursements ($)			
		2009	2010	2011	2012
Supporting various productive activities including crop farming, livestock production, and income generation.	10,448,769	3,000,000	4,000,000	2,500,000	948,769
Renovating, reactivating, equipping, and furnishing three labor offices in 2009. Training 37 labor officers in labor administration in 2009. Establishing three emergency employment centers in 2009. Finalizing labor policy and handing it over to the government in 2009. Training ex-combatant men and women in vocational skills in the three vocational training centers in 2009. Finalizing vocational training policy and handing it over to the government in 2009. Equipping and furnishing four labor offices in 2010. Training 20 labor officers in labor administration. Establishing four emergency employment centers. Rehabilitating three vocational training centers by 2010. Training about 1,800 students in vocational skills by 2010. Furnishing and equipping one vocational training center.	13,732,000	8,134,081	2,788,706	—	—
Enhancing capacities at Budget Sector Working Groups at state levels and at Independent Commissions. Building training center built and making it operational. Training support for public financial management courses. Developing a robust public procurement policy and regulation and regulations on public financial management law. Doing a study on non-oil revenue taxation. Conducting three growth seminars. Providing a policy advisor at the Ministry of Finance and Economic Planning (Fragile States Facility).	11,589,000	2,500,000	1,000,000	1,000,000	2,500,000
Supporting the organizational capacity of the Ministry of Labor, Public Service, and Human Resource Development in development and implementation of the government Public Service Act and regulations. Supporting public sector reforms, developing human resource information system, developing training policy, supporting the Capacity-Building Unit, and developing/updating the ministry's three-year strategic plan.	15,666,536	3,630,000	3,630,000	—	—
Constructing a court building in a location to be decided upon by the judiciary. Consultancy on e-Library for the Judiciary. Planning and procurement of the Judiciary of South Sudan furniture and equipment. Training support for professional and support staff. Recruiting a capacity development specialist. Judicial training program (to be decided by the judiciary). Computer skills training for staff of the judiciary. Distributing legal documents in the judiciary. Publishing, printing, and distributing legal documents to the courts of the judiciary around South Sudan. United Nations Development Programme project management for activities to support the judiciary.	3,049,582	2,712,290	337,292	—	—

(continued)

Project name	Sector	Subsector	States	Donor
Strengthening the Judiciary of Southern Sudan	Regulatory	Legal system	All	DfID
Strengthening the Ministry of Legal Affairs and Constitutional Development	Regulatory	Legal system	All	DfID
Anti-Corruption Commission in Southern Sudan	Regulatory	Legal system	All	Norway
Government Institutional Capacity-Building Project	Regulatory	Financial management	All	USAID
Support to Southern Sudan Anti-Corruption Commission	Regulatory	Legal system	All	Switzerland
Core Fiduciary Systems Support Project	Regulatory	Financial management	All	Various
LICUS Trust Fund Grant for Rapid Impact Public Financial Management	Regulatory	Financial management	All	World Bank
Support to Economic Planning	Regulatory	Financial management	All	DfiD, Netherlands, Sweden
Private sector subtotal	—	—	—	—

— is not available.

Source: Government of South Sudan (2010b).

Overview	Project total ($)	Disbursements ($) 2009	2010	2011	2012
Constructing and rehabilitating/renovating judiciary infrastructural facilities. Procuring equipment and furniture for the judiciary. Providing capacity development support to the judiciary, and advisory, research, and technical support on judicial issues.	10,994,995	3,785,885	—	—	—
Facilitating policy dialogue and developing policy development capacity. Developing legal training capacity through technical, logistical, and infrastructural support, including the Legal Studies Institute. Developing customary law regulatory framework through technical, logistical, and infrastructural support, including of the Customary Law Development Center.	10,640,060	2,671,478	—	—	—
N/A	464,000	294,000	—	—	—
Supporting the Ministry of Finance and Economic Planning, which includes developing efficient and transparent payment and approval systems called the Financial Management Information System (FMIS) and a pilot of the FMIS in two states, Northern Bahr El Ghazal and Upper Nile. In addition, supporting the establishment of the treasury, the development and implementation of revenue administration policies and procedures, and the provision of training and capacity-building.	8,490,000	5,300,000	3,190,000	—	—
N/A	107,000	29,000	—	—	—
Providing a project accounting agent to the government. Tasks include processing replenishment, processing payments, recording all financial transactions and keeping records, preparing financial reports, and supporting line ministries on financial matters.	5,573,600	2,799,407	2,500,000	1,500,000	—
Supporting the government to process payments to government suppliers, record all government financial transactions, and keep records. Preparing financial reports for the public funds. Supporting the government to develop structured accounting procedures manuals. Supporting the government internal audit to develop internal audit programs and manuals.	3,500,000	1,500,000	2,000,000	—	—
Increasing alignment of government budget allocations and expenditures with donor projects in line with the government's stated development priorities.	12,098,064	3,098,064	3,000,000	3,000,000	3,000,000
—	**729,891,992**	**212,269,016**	**210,969,588**	**56,046,404**	**15,508,769**

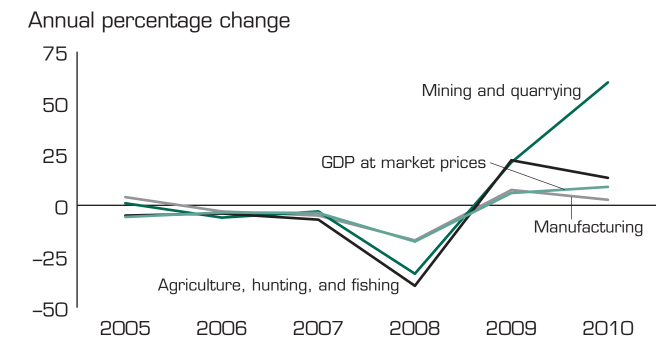
Appendix 5

Country case study—Zimbabwe

As a onetime beacon of inclusive opportunity and a regional breadbasket, Zimbabwe has suffered a near-complete collapse over the last decade that provides an interesting case study for promoting private sector development. According to various measures, Zimbabwe remains one of the worst-governed countries in the world—even with recent reforms driven by the Movement for Democratic Change (MDC) political party and reform-minded Zimbabwe African National Union–Patriotic Front (ZANU-PF) officials.[1] Over the last decade, it has suffered from extreme hyperinflation and unemployment and an almost complete collapse of the productive sector, and has been governed by a violent, kleptocratic ZANU-PF–led government that is highly antagonistic to the private sector. By 2009, Zimbabwe's economy was contracting by more than 6 percent, and per capita incomes had fallen nearly threefold since independence.[2] Poverty levels had more than doubled since 1993 (from 35 percent to 72 percent) and unemployment rates reached a recent high of more than 80 percent.[3] Indeed, Zimbabwe's rapid economic meltdown and soaring political instability have produced a highly unusual situation; it exhibits nearly all of the characteristics of a postconflict country even though it has not experienced civil conflict since its independence in 1980.[4]

Zimbabwe's economy has largely stabilized following the Global Political Agreement between the two main political parties (ZANU-PF and MDC) in February 2009.[5] For example, Finance Minister Tendai Biti arrested the country's hyperinflation —which reached an annualized rate of roughly 489 billion percent in 2009—by abolishing the Zimbabwean dollar and adopting a multicurrency system. Moreover, the government has significantly improved fiscal and monetary policies by suspending highly distortionary price controls, implementing a "cash budget" system, and improving tax policies and resource mobilization. As a result, Zimbabwe's GDP growth has been strong—expanding by roughly 8 percent in 2010—with most of the growth coming from agriculture and mining (figure A5.1). But Zimbabwe's current account deficit and highly unsustainable external debt burden remain major concerns. Moreover, Zimbabwe still has almost no access to international financial institution assistance due to large, protracted arrears to the World Bank, African Development Bank (AfDB), and International Monetary Fund.[6]

Figure A5.1
GDP and sector growth, 2005–10



Source: World Bank (2011d).

Private sector

Over the past decade the Zimbabwean private sector has experienced extreme volatility due to a highly unstable macroeconomic environment. The government's unsustainable debt burden, poor monetary policy, and irresponsible fiscal policy have greatly burdened private industries and firms. But the inflation rate has stabilized, the political situation has gradually improved, and the private sector has begun a tentative recovery. Much of the data on the Zimbabwean private sector are currently unpublished or unavailable, including an up-to-date World Bank Enterprise Survey and other statistics on firm size, geographic distribution, and constraints to business growth. Limited data are available only for the manufacturing sector, which contributes 17 percent to Zimbabwe's GDP, mostly by supplying its output to the agriculture

sector (fertilizer, stock feeds, insecticides).[7] Further, manufacturing as a share of total GDP has steadily declined over the past decade, making way for other sectors such as services, mining, and tourism.

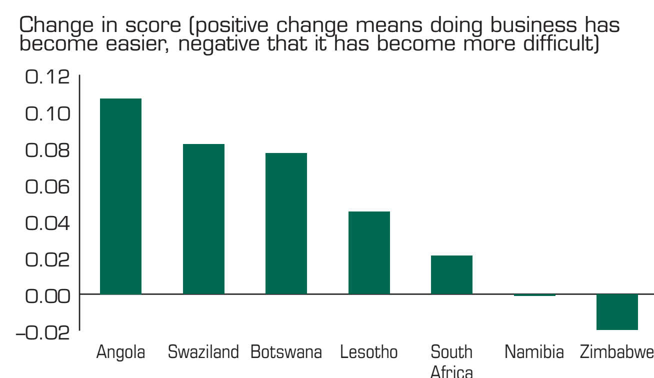
While the private sector in Zimbabwe has sustained steep losses during the past decade of economic decline, several sectors such as tourism, services, and mining could provide a boost to the country's fragile economy. But more data must be collected on the composition of these sectors (and others) to determine the most pertinent constraints on which the government must concentrate its efforts.

Major constraints

Zimbabwe's business environment remains extremely weak despite its recent economic stabilization. The World Bank's *Doing Business 2011* ranked Zimbabwe 157th of 183 countries.[8] It is one of the few countries in the world where conducting business has actually become more difficult over the past five years (figure A5.2). But Zimbabwe did implement several business climate reforms in 2010, such as reducing business registration fees, corporate income tax rates (from 30 percent to 25 percent), and the capital gains tax rate (from 20 percent to 5 percent).

Overall, private sector growth in Zimbabwe is significantly constrained by five major factors: political patronage and corruption, lack of investor confidence, access to and cost of finance, low human capital, and deteriorating infrastructure. The World Bank is completing a business enterprise survey, which will help identify what firms perceive as the most binding constraints in Zimbabwe. The Enterprise Survey team had planned to publish survey results in late 2011, but had not done so at the time of this report's publication.

Figure A5.2
Change in Doing Business scores, 2006–11



Source: World Bank (2010a).

Political involvement and instability

While the MDC and some reform-minded ZANU-PF officials have pursued business-friendly policies, Zimbabwe's overall policy direction remains unduly influenced by the politics and confiscatory tendencies of the mainstream ZANU-PF party. For example, the Indigenization and Economic Empowerment Act of 2010 stipulates that "no restructuring, merger, or de-merger will be approved unless indigenous Zimbabweans hold majority shares."[9] This means that all firms must have at least 51 percent local ownership within five years. The Indigenization Act's heavy-handed and confiscatory approach mirrors those of previous government regulations, such as the Land Reform Act of 2000—which effectively destroyed Zimbabwe's once-productive commercial farming sector. While implementation has been delayed, this legislation could greatly dampen Zimbabwe's ability to attract foreign capital.

Businesses in the private sector have little legal protection due to the politicization of all branches of government, particularly the judiciary and security forces.[10] As noted previously, Zimbabwe has the lowest property rights and rules-based governance performance scores of all low-income countries.[11] The lack of judicial protection has been particularly problematic due to the government's efforts to terrorize and extort private businesses. ZANU-PF has actively used partisan militias (such as "war veterans" and "Green Bombers") to suppress individuals or businesses considered a threat to the state.[12] They are responsible for continued farm occupations, have increasingly targeted businesses over labor allegations, and have used thinly veiled threats and bribes to prevent legal involvement.[13] Overall, the guiding objective is twofold: to undermine financial and constituency support for the MDC political party, and to maintain the ZANU-PF's extensive patronage network.

But there are pockets of promise within the Zimbabwean government. As a part of the Global Political Agreement, government ministry portfolios have been divided between the two main political parties. As such, several of the MDC-led ministries—such as

finance, state enterprises and parastatals, information and communication technology (ICT), energy, and water—have pursued reform agendas with varying degrees of success. On the other hand, many critical government posts—including agriculture, mining, justice, and transport and infrastructure—are led by largely old-guard or reactionary ZANU-PF officials.[14]

Investor confidence

Political instability and risk will remain prohibitively high until parliamentary and presidential elections take place in 2012.[15] Due to various factors, Zimbabwe likely will continue to experience political instability for an extended period after the next electoral cycle.[16] In the meantime, the rival ZANU-PF and MDC political parties will struggle for economic policy dominance through the respective ministries within their control. The net result is uncertainty about the overall direction of government policies, regulations, and enforcement mechanisms. All these factors combine to undermine investor confidence in Zimbabwe (figure A5.3).

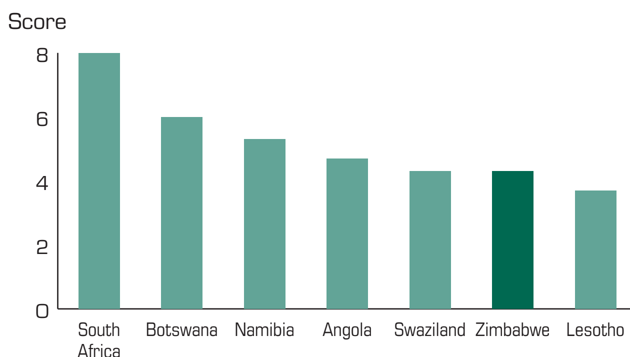
Access to finance

Zimbabwe's economic recovery and private sector growth have been constrained partly by poor management within the banking sector, contributing to a high interest rate environment, reliance on short-term lending, and overall domestic liquidity constraints (figure A5.4). There are 26 deposit-taking institutions in Zimbabwe—only four of which are commercial banks.[17] There is no lender of last resort or interbank market. This leaves domestic banks exposed to high-liquidity risk and vulnerable to bank runs resulting from sudden shifts in customer confidence (figure A5.5). Most available bank financing is only short term (90 days or less). Interest rates tend to be high, reaching between London Interbank Offered Rate plus 10 percentage points and 20 percentage points for a one- to three-month loan.[18] Despite high interest rates, many businesses still depend on bank lending to import inventory and raw materials.[19] Dairibord, a producer of dairy products, is forced to pay cash up-front to import milk solids and powders from a supplier in Denmark, with a three-month delay before delivery.[20]

Human capital

Due to its prolonged economic and political crisis, Zimbabwe's human capital base is a mere shadow of its former self. Before 2000, Zimbabwe had one of the most educated workforces in Sub-Saharan Africa. Since then, millions have fled the country for either political or economic reasons, creating skill shortages across all sectors (particularly teachers, nurses, and doctors).[21] While emigration estimates vary widely, most experts believe that more than a third of Zimbabweans live abroad. Going forward,

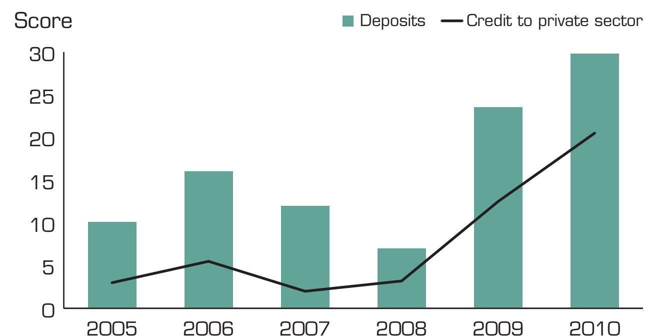
Figure A5.3
"Protecting investors" score, Zimbabwe and comparator economies



Note: The score is based on indicators on a scale of 1–10 that measure minority shareholder rights, including disclosure requirements, the liability of CEO and board of directors in related party transactions, and the ease of shareholder suits.

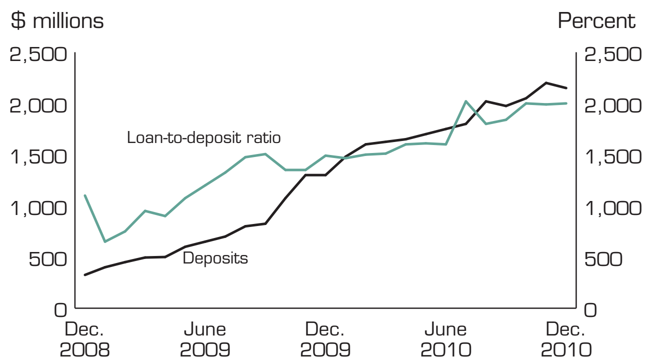
Source: World Bank (2010a).

Figure A5.4
Deposits and credit to private sector



Source: World Bank (2011d).

Figure A5.5
Deposits (left axis) and loan-to-deposits ratio (right axis), 2008–10



Source: World Bank (2011d).

Zimbabwe's human capital will remain constrained by the government's more recent underinvestment in social service delivery. Public expenditure declined by 83 percent between 2005 and 2008, which effectively suspended many services (medical care, education).[22] Moreover, the country's collapsed health sector is further challenged by one of the highest HIV-prevalence rates in the world (one in five adults are HIV-positive).

Infrastructure

Over the past decade, Zimbabwe's physical infrastructure has deteriorated significantly—particularly road, rail, and electricity networks.[23] The rail network, suffering from large, periodic fuel shortages, is operating at only 15 percent of its precrisis capacity.[24] Power generation also has declined dramatically due to lack of maintenance, poor management, and unsustainable pricing regimes. As a result, Zimbabwe's power grid currently operates at 50 percent capacity (1,000 megawatts of 2,000 megawatt generation capacity).[25]

Taken together, Zimbabwean firms' poor access to and the high costs of infrastructure-related services limit growth and operations. Table A5.1 illustrates the time and cost of obtaining utility services (electricity, water and sewage, and telephone connections) related to building a warehouse. It takes a Zimbabwean business 4 times longer to obtain infrastructure connections than a comparable firm in South Africa does and more than 11 times longer than a firm in Botswana. Moreover, it costs eight times more in Zimbabwe than it does in South Africa. Due to these delays and high costs, many entrepreneurs build structures illegally with little concern for safety.[26]

Poor infrastructure also impacts the time and cost of trading across borders, thus further constraining local firms' competitiveness. As a landlocked country, Zimbabwe inherently faces higher costs and longer delays in transporting goods. But in contrast with

Table A5.1
Time and cost associated with building a warehouse, Zimbabwe and comparator countries

	Time (days)			Cost ($)		
Connection	**Zimbabwe**	**South Africa**	**Botswana**	**Zimbabwe**	**South Africa**	**Botswana**
Electricity	447	77	30	1,750	0	1,217
Water and sewage	1	33	8	2,390	202	1,141
Telephone	76	21	7	180	334	380
Total	**524**	**131**	**45**	**4,320**	**536**	**2,738**

Note: Totals do not include time or cost for other development and construction procedures, such as applications, inspections, and submission of notification when applicable for these three services. Prices converted from the South African rand and the Botswana pula are based on July 2011 exchange rate.

Source: World Bank Doing Business reports and authors' calculations.

many poor landlocked countries, Zimbabwe has access to multiple reasonably efficient ports in Mozambique and South Africa. Even so, firms must spend $4,000 and 19 days, on average, for inland transport of physical goods (table A5.2). Both figures are almost twice as high as Zimbabwe's fellow landlocked neighbor Botswana.

As in many other low-income countries, the prevalence of inefficient public monopolies has contributed to infrastructure constraints in Zimbabwe. Nine state enterprises directly provide basic services with limited or no competition from private companies. But parastatals have consistently maintained net operating losses due to unsustainable pricing regimes and poor payment collection practices. As of end-2009, these nine enterprises had more than $1.8 billion in current liabilities, including $1.2 billion of accounts payable.[27] In recent years, the Zimbabwean government has pushed aggressively for greater use of public-private partnership (PPP) models as well as increased competition in monopolistic sectors. However, investor appetite for PPPs likely will remain low until Zimbabwe's regulatory environment and political uncertainty are addressed.[28] The legal framework also needs to be revised to facilitate the creation of various forms of PPPs—such as management contracts and build-operate-transfer approaches.[29] And the Zimbabwean government reportedly is considering legislation to address these issues.

Government priorities

According to Zimbabwe's Medium Term Plan, the government is pursuing 10 development objectives to encourage broad-based economic opportunities and resuscitate the country's previously productive agricultural, manufacturing, and services industries.[30]

- *Business constraints.* In terms of business environment constraints, the government has prioritized improvements in six key areas: increasing power generation capacity, rehabilitating and expanding the national trunk road infrastructure, revising investment regulations, further reforming taxation policies, improving access to and cost of finance, and achieving macroeconomic stability.[31]
- *Economic sector priorities.* Under the Plan, the government has identified four economic sectors as priority growth drivers: agriculture, manufacturing, extractive industries (such as mining), and tourism.

PSD support opportunities

Going forward, donors may wish to consider a near- and medium-term approach for promoting private sector development (PSD) in Zimbabwe. While Zimbabwe's significant political and economic uncertainty diminishes the scope for action in many areas, there are still opportunities to reach targets that may help to facilitate private sector–driven growth and job creation.

Identifying concrete PSD priorities

As with Somaliland, the donor community should seek to identify both what is needed and what is wanted in Zimbabwe and then compare that with what has worked in other similarly fragile environments. Given the government's schizophrenic and often

Table A5.2
Time and cost required to import, Zimbabwe and comparator countries

	Time (days)			Cost ($)		
Connection	**Zimbabwe**	**South Africa**	**Botswana**	**Zimbabwe**	**South Africa**	**Botswana**
Document preparation	42	14	15	402	397	440
Port and terminal handling	8	14	11	349	349	450
Custom clearance	4	4	5	350	75	100
Inland transportation	19	3	10	4,000	986	2,400
Total	**73**	**35**	**41**	**5,101**	**1,807**	**3,390**

Source: World Bank Doing Business reports.

antagonistic approach to private enterprise, these efforts should focus on firms' priorities in the near term, and government ministries controlled by MDC and progressive ZANU-PF officials. The forthcoming World Bank Business Enterprise survey will help to identify opportunities and develop approaches for addressing the most important PSD-related constraints. Once the political environment stabilizes, donors could incorporate government priorities into a broader PSD strategy.

Near-term approach

In the short term, opportunities for donor organizations to constructively support the Zimbabwean private sector are somewhat limited. But there are achievable targets in select areas and sectors, which can help to create economic and employment opportunities.

- *Regulatory framework*. Donors can provide targeted capacity-building support to several PSD-related government ministries that are led by progressive MDC officials, such as finance, energy, state enterprises and parastatals, ICT, and water. Several possibilities include revising national investment regulations and policies, streamlining customs documentation requirements, and improving banking sector policies and oversight.
- *Infrastructure development*. Donors should consider ways to help address Zimbabwe's deteriorating infrastructure, particularly power generation, coupled with policy reforms designed to boost coverage and financial sustainability.
- *Enclave investments*. Donors could consider supporting direct and indirect investments in selected sectors with potentially lower political risk, such as tourism (game parks, hotels), services (consulting, business process outsourcing), and banking.

Medium-term approach

Once the political environment in Zimbabwe stabilizes with the installation of a uniformly responsible, representative government supportive of private sector activities, donors could incorporate government priorities wholesale into a broader PSD strategy and expand to additional areas with active government involvement, including in the following areas:

- *High operating costs*. Donors should consider holistic approaches for reducing high operating costs for Zimbabwean businesses, such as rehabilitating the trunk road network, rehabilitating the national rail network, and improving access to and cost of finance.
- *Regulatory environment*. Donors could expand capacity-building and advisory assistance to additional government ministries controlled by ZANU-PF officials and hostile to the private sector, such as Mines and Mining Development, and Justice and Legal Affairs.
- *Sector-specific investments*. In a more benign political environment, agriculture, manufacturing, and mining could present sizable opportunities for raising livelihoods and creating jobs.

Notes

1. For example, its World Bank Country Policy and Institutional Assessment (CPIA) score of 2.0 puts it behind every other low-income country. Moreover, Zimbabwe has the lowest performance rating in 11 of the 16 CPIA indicators, such as property rights, corruption, and fiscal policy. It is tied for the second-worst performance on an additional three indicators (financial sector policies, business regulatory environment, and gender equality). In fact, Zimbabwe scores reasonably well on only two CPIA indicators: trade policy and resource mobilization effectiveness. For additional details, see www.worldbank.org/ida.
2. Makochekanwa and Kwaramba (2011).
3. AfDB (2011).
4. Moss and Patrick (2005).
5. In September 2008, the two parties reached a power-sharing agreement whereby Robert Mugabe (ZANU-PF) remained president and Morgan Tsvangirai (MDC) became executive prime minister. Due to various conflicts, the agreement was not implemented until February 13, 2009.
6. The only assistance is provided through World Bank and AfDB trust funds.
7. Confederation of Zimbabwe Industries (2010).
8. World Bank (2010a).
9. IHS (2010).
10. Over time, President Mugabe has systematically undermined judicial independence by replacing court justices with political supporters. In July 2001, he appointed four partisan supporters to the previously five-member Supreme Court, three of whom had no experience. Moreover, a September 2005 constitutional amendment ensured that the judiciary branch had no power to protect human or property rights. See IHS (2010).

11. According to IDA's 2010 CPIA ratings, Zimbabwe's score for the property rights and rules-based governance indicator was 1.5 (of 6).
12. Economic Intelligence Unit (2010).
13. IHS (2010).
14. They include Joseph Made (Agriculture, Mechanization, and Irrigation Development); Obert Mpofu (Mines and Mining Development); Patrick Chinamasa (Justice); and Nicholas Goche (Transport and Infrastructural Development). Both Made and Chinamasa hold these ministerial positions despite being defeated in the 2008 parliamentary elections.
15. The timing for these elections remains in dispute. President Mugabe has insisted that they take place in 2011, while the MDC and the Southern Africa Development Community have argued that they should take place in 2012 after the country's constitutional process and electoral reforms are completed.
16. The presidential and parliamentary elections of 2008 provide an illustrative cautionary tale. After losing the first round of elections by a sizable margin, President Mugabe initiated a systematic, vicious campaign of violence to ensure his victory in the run-off election. Following this, Zimbabwe was gripped by a political impasse for nearly a year while the international community attempted to broker the Global Political Agreement.
17. In 2004, Zimbabwe's banking system collapsed, resulting in 11 financial institutions being placed under curatorship of the central bank. Those that remain are highly vulnerable and depend on the distressed central bank, leading many customers to flee to subsidiaries of foreign banks. See Imara Africa Securities (2010).
18. IMF (2010).
19. Economic Intelligence Unit (2010).
20. Imara Africa Securities (2010).
21. Economic Intelligence Unit (2010).
22. Makochekanwa and Kwaramba (2011).
23. AfDB (2011).
24. AfDB (2011).
25. Low public expenditure for maintenance has directly contributed to the deterioration of Zimbabwe's infrastructure. For instance, the government spends only $10 million annually to maintain the nation's transportation infrastructure while actual costs are estimated to total roughly $4 billion. See AfDB (2011).
26. World Bank (2010a).
27. AfDB (2011).
28. Of 118 countries examined, the African Competitiveness Report currently ranks Zimbabwe's regulatory environment as the worst. See AfDB (2011).
29. AfDB (2011).
30. The Medium Term Plan builds upon Zimbabwe's previous strategy documents, such as the Short-Term Economic Recovery Plan (STERP) and STERP-II.
31. Republic of Zimbabwe (2011).

Appendix 6

Country case study—Somaliland

While Somaliland claimed formal independence in May 1991, the international community still considers it an autonomous region within Somalia. It is self-governed with an elected democratic government and a relatively stable society—especially compared with the rest of Somalia. Somaliland's economy has continued to grow while broader Somalia has been devastated by continual civil conflict over the past two decades. According to rough estimates, its income and human development levels are significantly higher than those of its parent nation.[1] Indeed, relatively robust economic development has been the crucial ingredient in its existence as a political entity.[2] In the absence of a strong public sector and regulatory oversight, the private sector has flourished, making for a unique, illustrative case study.

What makes Somaliland unique is the government's overwhelming reliance on the private sector. As an unrecognized territory, Somaliland is not eligible for most traditional aid programs. Except modest funding delivered through broader regional Somali programs, it receives very limited levels of bilateral or multilateral contributions. Therefore, the Somaliland government has relied on the business sector for significant financial backing. Business leaders provided the government with a crucial start-up loan of $7 million in 1993 and have continued to provide loans since then. In practice, the loans often are repaid in tax breaks, hindering the government's ability to raise revenue.[3] As a result, government revenue mobilization is precarious—between 1999 and 2007, it ranged from only $20 million to $40 million a year.[4] Eighty-five percent of total revenue is from customs tariffs with the rest from inland revenue sources.[5] There is no common inland system for tax collection. And the income tax rate is arbitrarily determined and can be lowered based on oral agreements.[6]

The weakness of the public sector has also led to the dominance of public-private partnerships (PPPs) in providing public goods, such as municipal water supplies, hospitals, and universities. Due to fiscal constraints and other spending priorities, namely security, the government allocates only 10 percent of its budget for social projects.[7] So the private sector has filled the void—for instance, private businesses or individuals have taken over supplying water to most municipalities.[8] Although this has ensured a more reliable service supply than otherwise would be provided by a fiscally constrained government, it also has resulted in the monopolization of key resource flows and prices for basic services that citizens cannot afford. Taken together, the vague division between private and public sector roles limits the government's ability to effectively and objectively regulate the private sector and encourage competition.[9]

Private sector

Prior to the state's collapse in 1991, much of the Somali economy was dominated by strict regulations and state monopolies. As a result, there was little room for the struggling pastoral economy to expand. As the monopolies and state controls fell apart, the private sector of the newly autonomous Somaliland thrived.[10] Four factors drive Somaliland's economy: livestock production and exports, foreign remittances, transit trade, and an expanding service sector.[11] Livestock accounts for 60–65 percent of the domestic economy, with almost two-thirds of the population relying on it for at least part of their household income.[12] Foreign remittances, however, have become the main source of income, leading to the growth of industries related to money transfers and telecommunications, as mobile phones are increasingly used as mobile banks.[13] Two key sectors with large growth opportunities include telecommunications and air transport.

- *Telecommunications.* Telecommunications, financed mainly through remittances and members of the Somaliland-born diaspora, has been a key driver of recent economic growth. Competition between providers in Somaliland and the rest of Somalia has led phone services to be among the cheapest in all of Africa.[14]
- *Air transport.* In recent years, air traffic has grown rapidly. The number of flights to Hargeisa rose from 419 in 1997 to more than 3,000 in 2003. Daallo Airlines, Somaliland's

second-largest company, provides a fascinating case study for how private firms can develop and thrive in fragile environments. Daallo initially began its operations with only one used plane and a $30,000 investment. A decade later it had grown into an international carrier, offering flights as far as Paris and Amsterdam.[15]

Data limitations

Due to Somaliland's uncertain international status and weak central government capacity, little information is available publicly on the specific breakdown of private businesses by sector, revenues, and number of employees. Moreover, there is a near-complete lack of quantitative and authoritative data on business constraints and operating obstacles. Instead, existing information has been gathered through academic field research, informal interviews, and collected anecdotes from Somaliland's businesspeople. Going forward, donor organizations should work with the government and business community to fill this analytical gap, such as through business enterprise surveys and subnational Doing Business indicators.

Major business constraints

Despite the strength of the private sector, Somaliland faces dramatic obstacles in creating broad-based economic development and private sector growth. Similar to those in South Sudan and other fragile states, the main challenges relate to lack of international recognition, absence of government regulations and formal financial institutions, limited access to finance, corruption and monopolization, poor physical infrastructure, and dependence on livestock production.

Lack of international recognition

The absence of government regulations in Somaliland has proved to be a double-edged sword. While it allows the private sector to flourish, it also creates major challenges for broader-based private sector development (PSD) efforts. First and foremost, the lack of legitimacy in the international community prohibits Somaliland from attracting foreign direct investment. In 2000, the only substantial foreign company investing in the region was Total Mer Rough, which rebuilt the fuel storage depot at the port of Berbera.[16] Foreign companies are hesitant to invest in a region not recognized internationally and with a government slow to adapt foreign investment laws.

Lack of government regulation

The lack of international recognition and regulations also constrains trade relationships. Although political separation has not hindered trade relationships with Somalia or neighboring countries, the lack of government regulations has. Somaliland suffered a significant blow in 2003 when Ethiopia, its largest trading partner, closed its borders in an attempt to curtail Somali traders' avoidance of customs payments.[17] And Somaliland's government revenues collapsed from $45 million in 1996 to $27 million in 1998 due to a 16-month Saudi ban on livestock trade, driven by the lack of internationally recognized veterinary certifications.[18] In addition, the lack of full diplomatic relations with key trading partners means that it is difficult to facilitate transit agreements. For example, foreign vessels that use Berbera as a port of entry must pay higher insurance premiums and lack access to in-country financial facilities and related letters of credit.[19] The lack of international recognition along with a weak regulatory environment often creates insurmountable barriers. Foreign companies and nations will be reluctant to provide the investment or partnership necessary to fully develop Somaliland's private sector until there are formal financial institutions and state regulations, and the territory's international status is resolved.

Limited access to finance

As noted above, the lack of formal financial institutions constrains business transactions and growth, leading to dependency on neighboring banking and financial sectors. Somaliland businesses have been forced to creatively maneuver the lack of financial institutions, with many resorting to offices incorporated in Djibouti or Dubai. The Somaliland government holds its foreign reserves in Ethiopia.[20] The lack of international banks also has led to the emergence of hawaala (money transfer agents), who offer financial services ranging from business loans to check-cashing facilities.[21] A leaked cable revealed that an official of the United Kingdom's largest Somalia remittances transfer firm believed that the lack of a legislative framework in the financial services sector was hindering economic growth.[22]

Corruption

Partly due to the proliferation of PPPs in Somaliland, corruption and a lack of competition in the private sector also remain key obstacles to growth. Put simply, when private elites bankroll

the public budget, the government is left precariously vulnerable to their interests. Large private businesses, often run by the wealthiest Isaaq (one of Somalia's main clans) merchants, control social services and dominate important economic sectors. Moreover, they often push smaller, non-Isaaq traders out of the market.[23] PPPs, often managed without parliamentary oversight, do not always pass through state ledgers, exacerbating a culture of nontransparency. For example, one report cited that of $1.7 million that flowed to the Berbera Port Authority, only $158,000 was transferred to the treasury.[24] Petty corruption also is common as public servants seek to supplement salaries that are substantially less than those in the private sector.

Lack of physical infrastructure

As in many other fragile states, a lack of physical infrastructure acts as a binding constraint to PSD in Somaliland. After the Somali civil war, much of the Somaliland territory was left in ruins. According to a War-Torn Societies report, Hargeisa (the future capital) was left with less than 10 percent of its physical infrastructure intact. The city was "only a vast field of blasted rubble strewn with explosives. … Burco, to the east, had suffered roughly 70 percent destruction, and countless villages in the interior had been razed to the ground."[25] But Somaliland has substantially rebuilt much of its physical infrastructure since then, including utilities and telecommunication systems.[26] On a household level, private remittances have been key sources for funding the reconstruction of homes and businesses.[27]

Partly due to neighboring countries' strategic interests, the port of Berbera has been the focus of development.[28] There is ongoing collaboration between the city and UN-HABITAT to create a strategy for effective and integrated urban development. The most urgent problem identified by the Berbera City Consultation concerns the provision of services, including the problems of "inadequate and expensive electricity" and "water scarcity, poor water distribution, and poor water quality."[29] Water supply is sporadic and ill-equipped for hard times, as illustrated by the drought in 2009 that threatened more than 700,000 pastoralists.[30]

Dependence on livestock production

A final constraint to broad-based PSD in Somaliland is a lack of economic diversification. As noted previously, livestock is the foundation of the economy, accounting for about 90 percent of export receipts (roughly $175 million a year).[31] This leaves the economy highly vulnerable to trade restrictions and other market disruptions. Despite their large potential, several key industries remain largely underdeveloped. Fisheries are untapped in Somaliland despite the region's 850-kilometer coastline. According to Food and Agriculture Organization of the United Nations estimates, a maximum of 40,000 tons could be harvested annually without endangering the sustainability of fish stocks.[32] Others believe that the country has the potential for small-scale, low-tech gemstone mining after the discovery of a high-quality emerald reef off the coast.[33] Somaliland may also have an untapped potential for oil extraction given its geological similarities with Yemen.[34] Ultimately, the pursuit of these markets may hinge on a resolution of Somaliland's official status. Further, as with many other low-income countries, there is a danger that concentrating development efforts on extractive industries without proper regulation and transparency may further heighten Somaliland's endemic corruption and monopolistic business structure.

PSD support opportunities

Going forward, donors should consider a near- and medium-term approach for promoting PSD in Somaliland. While Somaliland's uncertain international status diminishes the scope for action in certain areas, there are still opportunities for facilitating private sector–driven growth.

Concrete PSD priorities

Consistent with our proposed PSD framework approach, the donor community should seek to identify both what is needed and what is wanted in Somaliland. In other words, they should solicit specific priorities from both the Somaliland government and businesses.

- *Data diagnostics.* Donor organizations should work with the government and business community to complete PSD-related diagnostics, such as business enterprise surveys. This information will help identify the most pressing constraints to business growth and prioritize areas for donor support. Importantly, the enterprise survey should ensure broad-based participation across disparate regions, clans, and business sizes. This approach will help to ensure that any resulting PSD strategy addresses widespread constraints and not simply those experienced by the existing elite.

- *Government priorities.* Similarly, donor organizations should seek to identify the government's key PSD-related priorities. Since Somaliland does not have a poverty reduction strategy paper or publicly available national growth strategy, this process may take the form of informal consultations with various government entities. The key objective is to identify consistencies, or contradictions, with the private sector's views about the most binding constraints on PSD-related growth.

Regulatory environment

Donor organizations should consider working with the government on targeted, regulatory environmental issues that may unlock significant growth opportunities. Several possibilities include improving livestock certification regimes, investment laws, customs procedures, and banking laws and oversight. Additional consideration should be given to improving the government's revenue mobilization capacity. This will help reduce the government's dependence on large, monopolistic business interests and increase its institutional capacity over time. In addition, donors should seek ways to enhance transparency across all regulatory areas as a means of reducing opportunities for corruption and improving predictability for private firms.

High operating costs

Donor organizations should support approaches for reducing high operating costs for Somaliland businesses, which reduce profitability and prevent the establishment of low-skill sectors, such as light manufacturing and services. Three immediate constraints deserve priority attention: road transport, access to and the cost of reliable electricity, and access to and the cost of capital.

Economic diversification

As noted previously, Somaliland depends highly on livestock production. Donor organizations should carefully consider ways of supporting diversification into other promising economic sectors such as fishing and mining. Due to extensive corruption, weak government capacity, and the power of Somaliland's monopolies, donors should proceed with significant caution, broad-based consultations, and a focus on ensuring proper programmatic transparency. Deploying modest amounts of risk capital on a targeted, pilot basis may be the most effective approach.

Notes

1. Eubank (forthcoming).
2. Bradbury (2008).
3. Bradbury (2008).
4. Eubank (2010).
5. Bradbury (2008). There is no direct tax on remittances, though that revenue is indirectly taxed through customs tariffs. Additionally, one source reports that 12 percent of government revenue comes from taxing the *qaad* trade. *Qaad* is a shrub chewed for its amphetamine-like effects, grown primarily in Ethiopia, Kenya, and Yemen. More than $70 million a year (more than three times larger than government revenue) is spent on importing the good.
6. *JSL Times* (2011).
7. Eubank (2010). The priority of the government has been the maintenance of peace and security, with 50–70 percent of the budget going to the National Security Services. See Bradbury(2008).
8. Bradbury (2008).
9. Eubank (2010).
10. Eubank (2010).
11. Eubank (2010).
12. Somaliland Ministry of Planning and Coordination (2010).
13. Bradbury (2008).
14. Bradbury (2008).
15. Bradbury (2008).
16. Bradbury (2008).
17. Bradbury (2008).
18. *The Economist* (1999).
19. Bradbury (2008).
20. Bradbury (2008).
21. ICG (2003).
22. For more information, see www.telegraph.co.uk/news/wikileaks-files/london-wikileaks/8305259/SOMALILAND-LACK-OF-FINANCIAL-SECTOR-REGULATIONS-INHIBITS-PRIVATE-SECTOR-DEVELOPMENT.html.
23. Bradbury (2008).
24. Gulaid (2003), cited in Bradbury (2008).
25. Eubank (forthcoming).
26. Bradbury (2008).
27. ICG (2003).

28. Ethiopia relies on Berbera as its easiest point of access to the sea. See *The Economist* (2001).
29. UN-HABITAT (2008).
30. *AllAfrica* (2009).
31. ICG (2003).
32. Somaliland Ministry of Planning and Coordination (2010).
33. *The Economist* (2001).
34. Bradbury (2008).

Appendix 7

Fragile states and World Bank CPIA scores, 2005–09

Country	Category	2010	2009	2008	2007	2006	2005
Zimbabwe	All core	2.0	1.9	1.4	1.7	1.8	1.8
Eritrea	All core	2.2	2.2	2.3	2.4	2.5	2.5
Chad	All core	2.4	2.5	2.5	2.6	2.8	2.9
Sudan	All core	2.4	2.5	2.5	2.5	2.5	2.6
Congo, Dem. Rep.	All core	2.7	2.7	2.7	2.8	2.8	2.8
Guinea-Bissau	All core	2.7	2.6	2.6	2.6	2.6	2.7
Côte d'Ivoire	All core	2.7	2.8	2.7	2.6	2.5	2.5
Central African Republic	All core	2.8	2.6	2.5	2.5	2.4	2.4
Angola	All core	2.8	2.8	2.7	2.7	2.7	2.6
Liberia	All core	2.9	2.8	—	—	—	—
Togo	All core	2.9	2.8	2.7	2.5	2.5	2.5
Congo, Rep.	All core	2.9	2.8	2.7	2.7	2.8	2.8
Guinea	All marginal	2.8	2.8	3.0	3.0	2.9	3.0
Burundi	All marginal	3.1	3.1	3.0	3.0	3.0	3.0

— is not available.

Source: International Development Association.

Appendix 8

Other private sector development initiatives in fragile states

While private sector development (PSD)–focused programs face several performance constraints and obstacles, they also have the potential to avoid many of the pitfalls associated with traditional aid programs.[1] Fundamentally, private enterprises are profit-generating operations that should rationally evaluate their own performance and adjust strategies accordingly. And they are reasonably efficient allocators of capital (loans, equity, or convertible debt). In addition, they often are more capable of absorbing new financing because they are capital-constrained.

United States

Overseas Private Investment Corporation. The Overseas Private Investment Corporation (OPIC) provides medium- to long-term financing through direct loans and guarantees. Through these mechanisms, OPIC can provide financing in business environments that otherwise make conventional lending difficult or impossible. OPIC's small and medium enterprise (SME) financing window is available for firms with annual revenues of less than $250 million. OPIC frequently partners with local financial institutions to mobilize project capital requirements. Through its insurance instruments and co-financing mechanisms, OPIC has provided 16 loans and roughly $377 million of project financing in our sample of 14 fragile states since 2004 (table A8.1).[2] Similar to the International Finance Corporation, OPIC invests less capital in African fragile states than in nonfragile states. But OPIC has recently begun several large projects (totaling more than $200 million) in Liberia, with a specific focus on renewable energy.[3] Further, OPIC's numerous investment funds—many devoted specifically to private sector financing in Africa—provide sizable financing to businesses located in fragile states.[4]

Development Credit Authority. The Development Credit Authority (DCA) uses partial credit guarantees (similar to those used by OPIC) to leverage financial resources for an array of development projects, which often extend capital to private sector businesses.[5] DCA shares up to 50 percent of loan default losses with the in-country financial institution. DCA's loan portfolio guarantee is the only lending-based product currently used for fragile states, providing one loan each in Burundi, the Democratic Republic of Congo, Zimbabwe, and Liberia.[6] The guaranteed amounts of the four loans total around $9 million, while the credit leveraged (in relation to actual cost to the U.S. Agency for International Development, or USAID) totals near $55 million.[7] While the leveraging ratio is often higher for loans based in more stable African countries,[8] the loan guarantee instrument could be very useful as DCA expands its operations in fragile states. While DCA experience may not provide large-scale support to private sector growth in fragile states, its leveraging model could provide utility and insight for PSD efforts focused exclusively on fragile state business environments.

African Development Bank

Fund for African Private Sector Assistance. The Fund for African Private Sector Assistance, established in 2005, serves as one of the African Development Bank's (AfDB) key operational instruments.[9] The Fund provides grant financing for technical assistance and capacity-building for both public and private sector clients.[10] Typically these grants complement the AfDB's conventional financing instruments, such as equity investments, project loans, and guarantees. Despite its small capital base (roughly $40 million), the Fund has supported infrastructure and microfinance initiatives in several African fragile states such as the Democratic Republic of Congo, Liberia, and Mauritania. Pending the success of these projects, the Fund could be an effective tool for further extending infrastructure financing and advisory services to other fragile states. The Fund plans to approve an average of 10 new projects annually (totaling roughly $9 million) and progress toward 20 new projects annually ($17 million) by 2012.

Accelerated Co-financing Facility for Africa. The Accelerated Co-financing Facility for Africa operates under the AfDB's Enhanced

Table A8.1
OPIC investments and DCA loan guarantees in African fragile states

OPIC		
Country	Project count	Investments ($ millions)
Burundi	0	0
Central African Republic	0	0
Chad	0	0
Congo, Dem. Rep.	2	31.0
Guinea	0	0
Guinea-Bissau	1	1.7
Liberia	9	171.9
Sierra Leone	0	0
Togo	3	172.7
Zimbabwe	1	0.2
Total	**16**	**377.4**

USAID DCA	
Country	Total credit provided ($ million)
Burundi	3.0
Congo, Dem. Rep.	5.0
Liberia	6.9
Zimbabwe	40.0
Total	**54.9**

Source: Overseas Private Investment Corporation and U.S. Agency for International Development.

Private Sector Assistance Initiative and provides joint concessional financing with the Japanese International Cooperation Agency. As of 2010, the Facility had approved nearly $400 million in infrastructure project loans, which combined with Japanese contributions to total more than $1 billion. Similar to other development-financing initiatives, the Facility does not provide major financing to postconflict or fragile states.

Private Infrastructure Development Group

The Private Infrastructure Development Group, since its inception in 2002, has completed 46 projects and helped to attract $10.5 billion in private sector investment commitments.[11] As of July 2010, $390 million had been disbursed to actual projects. Therefore, while the Private Infrastructure Development Group has quickly and successfully scaled up its operations, overall disbursements have been relatively small. The Group's willingness to make investments in Sub-Saharan Africa—constituting 58 percent of its investments overall—is not mirrored by a desire to operate in postconflict countries or fragile states.

Emerging Africa Infrastructure Fund. The $500 million Emerging Africa Infrastructure Fund was established in 2002 with the objective of extending long-term loans for private infrastructure development in Sub-Saharan Africa. The Fund has grown to $600 million since then and has found greater success in the telecommunications sector. Although it does not specialize in loans to fragile states, the Fund has contributed telecommunications financing in both the Democratic Republic of Congo and Sierra Leone.

Notes

1. Appendix 3 outlines several limitations to traditional aid projects in fragile states.
2. A selected list of OPIC projects in these states is given in appendix 10. The complete list of all OPIC projects is available online at www.opic.gov.
3. For OPIC project documents, see http://opic.gov/projects.
4. Loans for OPIC's investment funds are generally not itemized, making it difficult to gauge each fund's exposure to fragile state environments.

5. The bulk of DCA's loan guarantees come in the SME, microfinance, and agriculture sectors, which comprised 72 percent of DCA's overall portfolio between 1999 and 2010. DCA maintains a smaller portfolio in the energy, housing, and technology sectors.
6. Since its inception in 1999, DCA has continued to expand both in the number of loans guaranteed and in the overall portfolio amount. Loans to the three mentioned fragile states have only begun to be made in the past three years, indicating DCA's willingness to expand into riskier investment climates.
7. Between 2008 and 2010, DCA altered the reporting of the credit extended through its guarantees. Before 2009, DCA disclosed the amount guaranteed by the Authority and the total credit extended. For 2009 and 2010, USAID refers to the leveraging ratio as *total credit loaned* to *cost to USAID*. These new metrics give no indication of the actual amount that DCA is guaranteeing.
8. For instance, a 2010 SME loan in Kenya was leveraged at a 21:1 ratio, while an SME loan in Liberia was leveraged at less than 6:1. Similar patterns exist for other fragile/nonfragile state pairs.
9. AfDB (2009).
10. The Fund for African Private Sector Assistance's principal objectives include creating an enabling business environment, strengthening financial systems, promoting SME development, and promoting trade access and competitiveness.
11. Figures are current as of September 2010. See *Multilateral Aid Review: Assessment of the PIDG*, available at http://www.dfid.gov.uk/Documents/publications1/mar/pidg.pdf.

Appendix 9

Methodology for reclassifying IDA PSD-related projects

The World Bank Group classifies each project into one or more categories. Due to the large number of categories, projects are spread across a wide array of subcategories and sub-subcategories. With the multitude of categories and the broad scope of many projects, the International Development Association (IDA) will often categorize two very similar projects into two different categories. So for the purposes of our analysis, we have reclassified projects and have created a new category for those that have a direct effect on the private sector or the constraints to growth in the private sector. After a complete recategorization of nearly 5,000 IDA projects, we find that IDA private sector–related projects fall under five broad categories: infrastructure, regulatory, finance, extractive, and general private sector development (table A9.1).

Projects not included in PSD projects

- Catchall "Structural Adjustment Programs" or poverty alleviation projects are not included. Many of these projects are spread across sectors, some or all of which may not be in direct support of private sector business.
- Public sector management programs.
- Social service projects, such as health and education projects, unless they exhibit direct relevance to private sector training.
- Environmental projects (except those relating to renewable energy generation, such as solar or geothermal projects).
- Projects missing outcome scores or projects in countries or territories not assigned a Country Policy and Institutional Assessment score (such as in the West Bank and Gaza), as they cannot be defined as fragile or nonfragile.

Table A9.1
Reclassification methodology for World Bank project categories

Sector	Subsector	Types of projects included	Project title examples
Infrastructure	Electricity	Electricity generation, transmission, rehabilitation	Karakaya Hydropower Project, Bogota Power Distribution Project
	Roads	Road and highway construction, maintenance, rehabilitation	National Roads Project, Highway Improvement Project
	Railways and ports		Inland Waterways Project, Doula Port Project
	Telecommunications		Telephone System Expansion Project, Telecommunications Project
Extractive	Oil and gas	Exploration, extraction, refinery modification	Petroleum Transport Project, Petroleum Exploration Project
	Mining	Exploration and engineering, industry technical assistance	Guelbs Iron Ore Project, Mineral Exploration Promotion
Finance	Agriculture	Agriculture credit, rural finance, agro-industries	Private Agriculture Development Project, Agricultural Credit Project
	Banking	Direct financing to banks and nonbank financial intermediaries, technical assistance	Financial Intermediation Project, Bank Modernization Project
	Micro, small, and medium enterprise		Small and Medium Enterprise Project, Microenterprise Project
Regulatory	Legal system		Judicial Reform Project, Model Court Development Project
	General industry	Regulatory support for agriculture, infrastructure, industry	Industrial Restructuring, Ag. Sector Adjustment Project
	Trade		Export Development Project, Trade Policy Loan Project
	Economic management		Economic Management Project
	Financial sector		Financial Sector Adjustment Loan, Financial System Modernization Project
General PSD			General Private Sector Development

Source: Authors' calculations.

Appendix 10

Top PSD-related constraints and economic sectors, African fragile states

Country	Top PSD constraint priorities					
Angola	Regulatory framework	Finance	Transport	Electricity	Tax policy	Customs
Burundi	Macroeconomic stability	Regulatory framework	Transport	Electricity	Finance	Security
Central African Republic	Macroeconomic stability	Regulatory framework	Security	Transport	Electricity	Telecommunications
Chad	Macroeconomic stability	Regulatory framework	Security	Transport	Electricity	Finance
Congo, Dem. Rep.	Macroeconomic stability	Security	Transport	Electricity	Regulatory framework	Finance
Congo, Rep.	Security	Macroeconomic stability	Transport	Telecommunications	Finance	Regulatory framework
Côte d'Ivoire	Transport	Electricity	Finance	Water	Regulatory framework	Human capital
Guinea	Macroeconomic stability	Regulatory framework	Transport	Telecommunications	Finance	Electricity
Guinea-Bissau	Macroeconomic stability	Regulatory framework	Electricity	Transport	Telecommunications	—
Liberia	Security	Regulatory framework	Finance	Electricity	Transport	Telecommunications
Sudan	Macroeconomic stability	Regulatory framework	Transport	Electricity	Finance	Tax policy
Togo	Macroeconomic stability	Finance	Regulatory framework	Electricity	Transport	Telecommunications
South Sudan	Security	Macroeconomic stability	Regulatory framework	Transport	Electricity	Tax policy

— is not available.

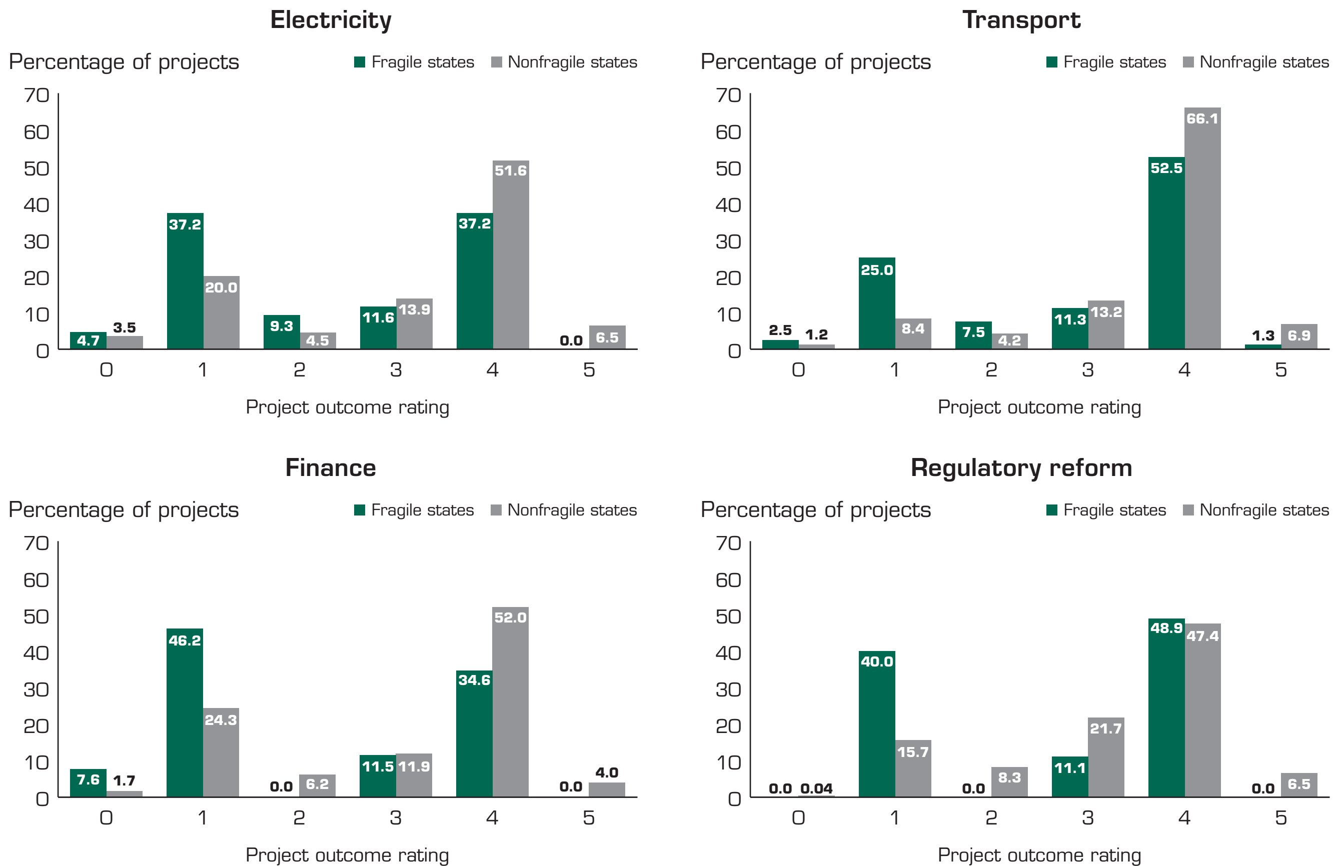
Source: Ministries of Finance, Ministries of Trade & Industry, related government documents, and authors' judgment.

Economic sector—PSD focus	Source documents
Agriculture, manufacturing, services, extractive (oil, mining)	Strategy to Combat Poverty (2003), Vision 2025
Agriculture (food security and export crops), fishing, manufacturing, extractive (mining), tourism	PRSP Evaluation Report (October 2010)
Extractive (mining), agriculture (food security), industry, tourism	Interim PRSP (2000), PRSP (2007)
Agriculture (farming, livestock), extractive (oil, mining), industry (mainly construction-related)	Interim PRSP (2000), PRSP (2003)
Agriculture, extractive (mining, forestry), power, industry	PRSP Progress Report (2010)
Extractive (oil), agriculture, small and medium enterprises	Interim PRSP (2004), p. 29 (PSD strategy overview)
Agriculture (food security and export crops), industry (ag processing, chemicals, utilities, construction, textiles, electrical), extractive, tourism, services (ICT)	Interim PRSP (2002), PRSP (2009)
Agriculture, extractive (mining), retail/hospitality, tourism, fishing	Interim PRSP (2000)
Agriculture, fishing, extractive	Interim PRSP (2000), PRSP Progress Report (2010)
Agriculture, extractive (forestry, mining), manufacturing, construction, agro-processing	Interim PRSP (2007), PRSP (2008)
Agriculture, extractive (oil, mining), manufacturing, services	National Economic Program 2001–2002 (2000), Five Year Strategic Plan (2007–2011), Twenty-Five Year Strategy Plan (2007–2031)
Agriculture, finance/banking, fishing, industry, tourism	Interim PRSP (2007), PRSP Progress Report (2010)
Agriculture, extractive (oil, timber, mining)	Southern Sudan Growth Strategy 2010–2012, Approved GoSS Budgets (2006, 2007, 2008, 2009, 2010)

Appendix 11

IDA IEG project outcome ratings and distributions, 1980–2006

Figure A11.1
Project outcome ratings by sector, fragile and nonfragile states, 1980–2006



Source: World Bank Independent Evaluation Group and authors' calculations.

Table A11.1
PSD-related project ratings, “satisfactory” and “unsatisfactory” outcomes

	Fragile states			Nonfragile states		
PSD sector	**Average IEG outcome rating**	**"Unsatisfactory" projects (percentage of total)**	**"Satisfactory" projects (percentage of total)**	**Average IEG rating**	**"Unsatisfactory" projects (percentage of total)**	**"Satisfactory" projects (percentage of total)**
Infrastructure	2.6	31	44	3.4	15	58
Telecommunications	3.3	7	71	3.6	14	58
Roads	2.9	25	53	3.5	8	62
Electricity	2.4	37	37	3.1	20	52
Railways	2.0	60	20	3.1	23	52
Ports	1.6	79	21	3.7	9	78
Regulatory	2.7	40	49	3.2	16	42
Legal system	3.6	0	60	2.9	13	13
General industry	3.5	17	83	3.6	0	55
Trade	2.8	33	50	3.3	19	56
Economic management	2.5	45	45	3.2	13	56
Financial sector	2.0	67	33	3.1	20	41
Finance	2.2	46	35	3.0	24	52
Agriculture	2.4	50	50	3.0	29	60
Banking	1.7	33	33	3.2	16	53
Micro, small, and medium enterprise	1.9	66	0	2.9	22	44
Extractive	3.0	26	60	3.3	18	62
Oil and gas	3.2	21	67	3.4	17	66
Mining	2.3	36	36	3.0	20	52
General PSD	2.2	44	29	2.9	22	48

Source: World Bank Independent Evaluation Group and authors' calculations.

Appendix 12

Correlation analysis of IDA IEG project rating components

All PSD sectors	Outcome	Average CPIA	Duration	Preparation	Supervision	Quality-at-entry	Compliance	Implemen-tation
Outcome	1.00							
Average CPIA	0.17	1.00						
Duration	–0.07	0.07	1.00					
Preparation	0.47	–0.02	–0.14	1.00				
Supervision	0.49	0.07	–0.13	0.37	1.00			
Quality-at-entry	0.52	0.08	–0.15	0.45	0.44	1.00		
Compliance	0.56	0.14	–0.09	0.28	0.33	0.37	1.00	
Implementation	0.66	0.07	–0.08	0.53	0.49	0.42	0.53	1.00
Infrastructure	**Outcome**	**Average CPIA**	**Duration**	**Preparation**	**Supervision**	**Quality-at-entry**	**Compliance**	**Implemen-tation**
Outcome	1.00							
Average CPIA	0.17	1.00						
Duration	–0.03	0.21	1.00					
Preparation	0.42	–0.03	0.11	1.00				
Supervision	0.49	0.08	–0.01	0.27	1.00			
Quality-at-entry	0.51	–0.01	–0.09	0.31	0.43	1.00		
Compliance	0.65	0.13	–0.07	0.34	0.32	0.45	1.00	
Implementation	0.59	0.07	0.03	0.59	0.35	0.36	0.49	1.00
Regulatory	**Outcome**	**Average CPIA**	**Duration**	**Preparation**	**Supervision**	**Quality-at-entry**	**Compliance**	**Implemen-tation**
Outcome	1.00							
Average CPIA	0.49	1.00						
Duration	–0.24	–0.16	1.00					
Preparation	0.66	0.19	–0.39	1.00				
Supervision	0.50	0.36	–0.31	0.53	1.00			
Quality-at-entry	0.45	0.26	–0.30	0.13	0.52	1.00		
Compliance	0.50	0.24	–0.28	0.52	0.58	0.40	1.00	
Implementation	0.69	0.53	–0.24	0.54	0.55	0.38	0.73	1.00

Finance	Outcome	Average CPIA	Duration	Preparation	Supervision	Quality-at-entry	Compliance	Implemen-tation
Outcome	1.00							
Average CPIA	–0.11	1.00						
Duration	–0.38	–0.34	1.00					
Preparation	0.91	–0.20	–0.08	1.00				
Supervision	0.41	–0.05	0.07	0.71	1.00			
Quality-at-entry	0.67	–0.23	–0.11	0.65	0.63	1.00		
Compliance	0.08	–0.18	0.39	0.09	0.53	0.40	1.00	
Implementation	0.76	0.00	–0.10	0.82	0.60	0.20	–0.07	1.00
Extractive	**Outcome**	**Average CPIA**	**Duration**	**Preparation**	**Supervision**	**Quality-at-entry**	**Compliance**	**Implemen-tation**
Outcome	1.00							
Average CPIA	0.18	1.00						
Duration	–0.03	0.25	1.00					
Preparation	0.26	–0.13	–0.42	1.00				
Supervision	0.45	–0.05	0.20	0.10	1.00			
Quality-at-entry	0.49	0.47	–0.30	0.51	0.15	1.00		
Compliance	0.53	0.28	0.21	0.12	0.24	0.02	1.00	
Implementation	0.66	0.03	–0.06	0.59	0.42	0.22	0.53	1.00

Source: International Development Association and authors' calculations.

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