MEASURING PERFORMANCE IN PRIVATE SECTOR DEVELOPMENT

Asian Development Bank
Indicators for measuring and reporting on the results of private sector development efforts of selected governments and international development agencies, including PSD indicators published by international research organizations.


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Abbreviations and Acronyms

AusAID    Australian Agency for International Development
ADB      Asian Development Bank
Babson Babson College
BEEPS Business Environment and Enterprise Productivity Survey
CAS Country Assistance Strategy (WB)
CBC Commonwealth Business Council
CSP Country Strategy and Program (ADB)
DB Doing Business
DFID Department for International Development (United Kingdom)
DMC Developing member country of ADB
EBRD European Bank for Reconstruction and Development
FDI Foreign direct investment
Fraser Fraser Institute
GCYB Global Competitiveness Year Book
GEM Global Entrepreneur Monitor
GoA Government of Australia
GoS Government of Singapore
GTZ Gesellschaft für Technische Zusammenarbeit
(German Agency for Technical Cooperation)
Heritage Heritage Foundation
IADB Inter-American Development Bank
ICA Investment Climate Assessment (World Bank)
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ICT</td>
<td>information and communication technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMD</td>
<td>IMD International (International Management Development–Lausanne)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OHS</td>
<td>occupational health and safety</td>
</tr>
<tr>
<td>PICS</td>
<td>Productivity and Investment Climate Survey</td>
</tr>
<tr>
<td>PRS</td>
<td>PRS Group (Political Risk Services)</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>PSA</td>
<td>Private Sector Assessment</td>
</tr>
<tr>
<td>PSD</td>
<td>Private Sector Development</td>
</tr>
<tr>
<td>PSOD</td>
<td>Private Sector Operations Department – ADB</td>
</tr>
<tr>
<td>RICS</td>
<td>Rural Investment Climate Survey</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
</tr>
<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WEF</td>
<td>World Economic Forum</td>
</tr>
</tbody>
</table>
Governments around the world set development goals that rely on the private sector growing and competing, nationally and globally. Ministries and other government agencies often invest a lot of time and money in trying to ensure that the business environment is attractive for the private sector and that needed infrastructure is in place. For developing countries, this requires using scarce public funds, as well as borrowing and seeking technical advisory assistance from multilateral and bilateral development agencies.

Development agencies, such as the Asian Development Bank (ADB), the Department for International Development (DFID) of the United Kingdom, the European Bank for Reconstruction and Development (EBRD), and the World Bank, are willing partners of developing countries that strive to enhance their business conditions. As part of their mandate, these agencies seek to identify high-priority issues that hamper private sector development (PSD) in the requesting countries, and fund programs and projects that address them.

In their efforts to create the enabling conditions for the private sector to grow and prosper, development agencies and governments increasingly are embracing what has been termed “managing for results”—one of the latest buzz phrases in international development. This reflects the global trend toward greater transparency and accountability, which requires governments and development agencies to prove to stakeholders—from taxpayers to agency shareholders—that their money is being put to good use. Such proof requires measuring and reporting tangible results.

On the macroeconomic level, it is possible to measure whether the private sector is growing, shrinking, or stagnating. On the microeconomic level, the outcomes of individual projects also can be measured. What had been difficult to assess were the enabling conditions that are critical to business success. In
recent years, various development agencies and governments have filled this gap with PSD performance indicators that are based on their own PSD priorities.

This, however, raises an important question. How can a country know whether it is managing for the right PSD results when development agencies approach PSD from their own perspective and use a performance measurement framework that reflects that perspective? Only a performance measurement framework that is tailored to an individual country’s PSD strategy will provide the government with the comprehensive view and appropriate indicators to determine whether it is on the right track. The development of such a country-specific measurement framework will increase the chances that individual projects will be in synch with the government’s overarching PSD strategy.

This booklet aims to increase awareness that measurement frameworks aligned with a country’s PSD strategy would be a useful tool for results-based management of this vital segment of the economy. The booklet also highlights some of the available PSD indicators, providing readers with important insights into the experiences of selected governments, international development agencies, and research organizations in measuring and reporting PSD results. In this way, the booklet can assist those who want to learn more about PSD indicators and practices, as well as those who want to use this information as a starting point for developing their own PSD measurement frameworks.
The Private Sector and Private Sector Development

PSD can be interpreted in many ways. Is it the same as talking about the private sector or a private firm? Before describing how to measure results in PSD, this chapter will clarify the use of the terminology in this booklet.

Developed and developing countries around the globe acknowledge that economic growth depends on a vibrant and competitive private sector that creates wealth and jobs. The private sector usually is understood to be the part of economic activity not owned by government. Typically, it refers to formal or informal economic units or enterprises that are owned, directly or indirectly, by private citizens.

One gray area concerns enterprises that governments and nongovernment organizations partially own or control. These are often commercial enterprises that are expected to earn profits on invested funds by providing goods and services in a competitive market. If profit motivation, rather than ownership, were used to classify private sector, then the scope of the private sector would be much larger. For the purposes of this booklet, however, the private sector will be defined by ownership.

Private economic units generally operate as individual enterprises within an industry or sector in an economy with specific business conditions. This setup can be separated into four levels:

(i) Individual enterprises.
(ii) All enterprises within an industry.
(iii) All enterprises within an economy.
(iv) Business conditions within which private enterprises are created and operate.
Business conditions can have a major impact on whether private enterprises grow, merge, shrink, or fail. The term can refer to circumstances that apply globally or regionally—for example, trade regulations that affect the ability of an enterprise to export. Within the country, the enabling environment can encompass national, provincial, and local circumstances, such as labor laws, infrastructure, and banking regulations.

The first three levels usually are termed the “private sector”, while the fourth level is described as “private sector development”. PSD also is referred to as developing an enabling business environment or investment climate. Whatever the label, this refers to the many external factors that private enterprises need to operate and grow. Government at all levels typically is responsible for PSD. National, provincial, and local governments need to develop and apply the vision, policies, strategies, laws, treaties, and regulations to enable firms to conduct business—whether that entails registering their operations, hiring staff, shipping goods, borrowing money, using utility services, or enforcing their contracts.
What to Measure and How

In many developing countries, one of the national development goals is to increase the private sector’s contribution to the economy. A prerequisite for achieving that development impact is an economic environment conducive to doing business. In that sense, PSD is a means to an end, rather than an end in itself. A range of outputs is needed to enhance the business environment—policies, practices, regulations, and infrastructure, depending upon the perceived barriers to PSD. The results chain of PSD outputs, the improved business environment as an intermediate outcome, and the increased contribution of the private sector to the economy as a development impact can be depicted as shown in Table 1.

<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Results Expected</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
<td>Desired national goals</td>
<td>Selected macroeconomic indicators</td>
</tr>
<tr>
<td></td>
<td>Greater performance of all private firms</td>
<td>Growth, profitability, viability, etc.</td>
</tr>
<tr>
<td>Outcome</td>
<td>Improved private sector business environment</td>
<td>Selected set of business environment indicators</td>
</tr>
<tr>
<td>Outputs</td>
<td>Policies, practices, laws, regulations, infrastructure etc. put in place—as necessary factors that help business</td>
<td>Selected indicators relevant to the factors targeted</td>
</tr>
</tbody>
</table>

Source: ADB consultant.

Each part of the results chain needs to be measured, typically by defining performance indicators, setting targets, and tracking performance. Private sector performance is generally easier to measure than PSD progress. Private enterprises typically measure their performance in terms of growth in market share and revenues, earnings or profitability, firm productivity, financial viability, and competitive position. The aggregate performance of all enterprises within an industry or sector is often reported by trade associations.
on behalf of their members, or by regulatory agencies on behalf of a regulated, privately owned industry. The aggregate performance of all enterprises within the economy usually is available through government statistics units, tax authorities, or regulatory agencies.

At the impact level, macroeconomic performance indicators are used to assess the aggregate results in terms of the strength of the private sector. Changes in employment, borrowings, and balance of trade are typical private sector indicators. PSD as an outcome—and the outputs that contribute to this outcome—is measured using what can be termed PSD performance indicators. However, determining what outputs are required to achieve PSD remains an issue.

The list of desired PSD outputs would vary depending on country conditions and who was asked. Governments, for example, might have different views on priorities than external development agencies or private sector enterprises. Small-scale farmers would have different needs than high technology manufacturers or financial services providers. Undoubtedly, the list would be long. While all PSD strategies aim to improve the business environment, individual approaches represent different views and starting points for identifying the needed PSD performance indicators. Two examples of contrasting PSD approaches illustrate this point:

**Commonwealth Business Council (CBC):** CBC, an international organization that represents the business interests of Commonwealth countries, emphasizes three strategic areas that contribute to PSD: (i) openness and accountability, (ii) business enablers and outlook, and (iii) policy framework. Under each of these areas, CBC focuses on specific factors of influence that the organization considers priorities. This approach to PSD is shown in Box 1.

**Private Sector:** An alternative approach to PSD is to look at enabling conditions for business from the perspective of a private sector firm. Private firms require PSD to establish the conditions that affect their profits, investment, and regulation. Such factors can be traced to the elements of the private enterprises’ profit statements and financial position statement. Box 2 illustrates this approach.

A single approach to PSD for all countries and all circumstances does not exist. Therefore, each government needs to identify priority areas of intervention for developing PSD strategies to enhance the business environment.  Such PSD strategies should guide a government’s actions and investment.

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as well as provide the basis for a monitoring framework for identifying the development results that should be measured.

Without a monitoring framework aligned with a country’s PSD strategy, PSD initiatives might resemble “shooting without aiming.” Based on the explicit or implicit PSD strategy, governments, funding agencies, and academic and research organizations can define a monitoring framework with appropriate PSD performance indicators to plan and measure results at the strategy or project level. PSD performance indicators from a range of organizations are readily available. These indicators can provide a starting point for developing a monitoring framework. The sources and coverage of these indicators are highlighted briefly in the next chapter.

Figure 1: Business Impact of PSD

![Figure 1: Business Impact of PSD](source: ADB consultant.)
A number of reputable international organizations regularly collect and publish PSD performance indicators that are comparable across countries. Comparability across countries is particularly useful, because it allows countries to set targets and judge how well they are performing relative to their country competitors. However, before using any of the available indicators, the detailed basis of how these indicators are compiled should be understood.

The indicator sets and the agencies providing the indicators discussed in the next few pages are in Box 3.

The country coverage of these surveys is shown by the numbers in parentheses. In addition to these, Transparency International has a survey on corruption that covers 133 countries.

**Global Competitiveness Report (World Economic Forum)**

**Purpose and Coverage**

The Global Competitiveness Report is based on two indexes created from

<p>| Box 3: PSD Performance Indicators |</p>
<table>
<thead>
<tr>
<th>Indicator Set</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness Index (102)</td>
<td>World Economic Forum</td>
</tr>
<tr>
<td>Investment Survey (31)</td>
<td>Commonwealth Business Council</td>
</tr>
<tr>
<td>World Economic Freedom Index (122)</td>
<td>Fraser Institute</td>
</tr>
<tr>
<td>Index of Economic Freedom (155)</td>
<td>Heritage Foundation</td>
</tr>
<tr>
<td>World Competitiveness Yearbook (60)</td>
<td>IMD Lausanne</td>
</tr>
<tr>
<td>Productivity and Investment Climate Survey (80)</td>
<td>World Bank</td>
</tr>
<tr>
<td>Doing Business (130)</td>
<td>World Bank</td>
</tr>
<tr>
<td>Business Environment and Enterprise Performance Survey (26)</td>
<td>EBRD</td>
</tr>
<tr>
<td>Country Risk Assessment (140)</td>
<td>Political Risk Service (PRS) Group</td>
</tr>
<tr>
<td>Entrepreneurship (29)</td>
<td>Global Entrepreneurship Monitor</td>
</tr>
</tbody>
</table>

Source: ADB consultant.
hard data and surveys: the Global Competitiveness Index and the Business Competitiveness Index. The report’s purpose is to evaluate a country’s economic competitiveness, thus allowing contributors to flag the key obstacles to business and growth. The information is intended to fuel policy debate and stimulate change. This major report covers 102 countries, including nine developing member countries (DMCs) of ADB.²

**Frequency**  Annual

**Content**

The World Economic Forum (WEF) considers public institutions, macroeconomic environment, and technology the three pillars of economic growth. Each of these pillars depends on a number of critical factors. Public institutions depend on (i) contracts and law, and (ii) corruption. Macroeconomic environment depends on (i) macroeconomic stability, (ii) government waste, and (iii) country credit. Technology covers (i) innovation, (ii) information and communication technology (ICT), and (iii) technology transfer. For example, the makeup of the ICT subindex embraces cellular subscribers per 100 population, Internet access per 100 population, fixed telephone lines per 100 population, and personal computers per 100 population.

The information to compile the factors is obtained from hard data (existing collected statistics) and survey information. Survey information is drawn from applying a structured set of questions to senior executives of private enterprises, though the hard data is weighted more heavily than the survey results in computing an index.

An example of the three subindexes covering the three pillars of the Growth Competitiveness Index and the overall Growth Competitiveness Index are in Box 4.

Box 4: Country Rankings—Growth Competitiveness Index

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1</td>
<td>6.59</td>
</tr>
<tr>
<td>Finland</td>
<td>2</td>
<td>6.52</td>
</tr>
<tr>
<td>Ireland</td>
<td>3</td>
<td>6.44</td>
</tr>
<tr>
<td>Germany</td>
<td>4</td>
<td>6.34</td>
</tr>
<tr>
<td>Singapore</td>
<td>6</td>
<td>6.54</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
<td>6.51</td>
</tr>
<tr>
<td>Japan</td>
<td>8</td>
<td>6.38</td>
</tr>
<tr>
<td>Australia</td>
<td>9</td>
<td>6.37</td>
</tr>
<tr>
<td>Canada</td>
<td>10</td>
<td>6.19</td>
</tr>
<tr>
<td>France</td>
<td>11</td>
<td>6.05</td>
</tr>
</tbody>
</table>


² Bangladesh, India, Indonesia, Pakistan, Philippines, People’s Republic of China (PRC), Sri Lanka, Thailand, and Viet Nam.
The WEF Business Competitiveness Index comprises two subindexes. One is concerned about the sophistication of company strategies and operations, while the other addresses the quality of the business environment.

The WEF indexes offer indicators for various PSD factors that are likely to be the subject of a country’s or multilateral agency’s PSD strategy.

**Investment Survey (Commonwealth Business Council)**

**Purpose and Coverage**

The survey is intended to help Commonwealth countries and investors improve their understanding of a comprehensive range of factors affecting private sector performance. In turn, such knowledge is expected to stimulate dialogue with government, and lead changes in PSD policy. It covers 31 countries, including three ADB DMCs (Bangladesh, India, and Sri Lanka).

**Frequency**

The Commonwealth Business Council (CBC) published their surveys in 1999, 2001, and 2003. DFID supported the initiative with technical inputs from the consultancy firm, Oxford Analytica.

**Content**

The content is illustrated in Box 5. The survey addresses the investment climate, particularly openness and accountability, business enabling conditions and outlook, and the policy framework. The data is collected through a survey of private firms, which is augmented by interviews.

The Investment Survey report explains the survey parameters (Box 6). In this example, openness and accountability comprise five subfactors that require explanation, and each of them is measured.

**Box 6: Survey Parameters—CBC**

<table>
<thead>
<tr>
<th>Table 2: Parameters and Explanatory Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Openness and Accountability</strong></td>
</tr>
<tr>
<td><strong>Parameters</strong></td>
</tr>
<tr>
<td><strong>Explanations</strong></td>
</tr>
<tr>
<td><strong>Government-Business Relations</strong></td>
</tr>
<tr>
<td>Effective working of Chambers of Commerce and Industry Associations in providing private sector views to government; formal mechanism in government for consultations with the private sector before announcing economic policies and annual budgets; advisory councils involving private sector and government representatives; mechanism for developing private-public partnership in government projects.</td>
</tr>
<tr>
<td><strong>Free Media</strong></td>
</tr>
<tr>
<td>Commercial media permitted to operate freely and within a legal framework which balances freedom of expression against the rights of individual's privacy and good name; absence of direct government control of media, free flow of news and editorial independence; a commitment to plural media and impartial public broadcasting.</td>
</tr>
<tr>
<td><strong>Reliable Justice</strong></td>
</tr>
<tr>
<td>Independent, competent and honest judiciary; the ability to enforce property rights and contracts; straightforward, comprehensive regulations for the conduct of business; modern company legislation; equal treatment under the law; an independent, competent and honest legal profession; enforceable legislation for financial issues-accounting, auditing, reporting and conflict resolution; an effective and enforced intellectual property rights legislation; legislation covering the right to information; freedom for business organisations, trade unions, and consumer organisations to conduct themselves under the law and without political interference.</td>
</tr>
<tr>
<td><strong>Efficient Administration</strong></td>
</tr>
<tr>
<td>Simplified licensing procedure; simple investment processes; clear and objective criteria for granting licences; right of appeal/review by independent referees; government departments and agencies having a charter that clearly sets up the services and standards offered to the public including complaints procedure; government procurement based on published, clear and competitive tender procedures subject to transparent and public scrutiny; an established, published, and timely audit procedure for accounts of government and public bodies; ease of obtaining information from government departments; minimising discretionary powers to officials in implementation of policy.</td>
</tr>
<tr>
<td><strong>Effective Government</strong></td>
</tr>
<tr>
<td>Mechanisms for the smooth and peaceful transition of power at regular intervals; a responsible opposition; civil order with public support; oversight institutions able to ensure accountability of political leaders and public officials; responsive to public complaints; absence of corruption at the political level.</td>
</tr>
</tbody>
</table>


In the published report, CBC develops pointers on which areas still need to be addressed to improve the business climate. For example, the extract on Australia concludes that (i) public administration could be improved at the state level, (ii) business tax policy needs further development, (iii) industrial relations continue to be a challenge, and (iv) state and federal economic policies need better harmonization.

The Investment Survey provides another valuable source of information for those concerned with understanding the status of the investment climate in the countries covered, their issues, and progress.
World Economic Freedom Index (Fraser Institute)

Purpose and Scope

The World Economic Freedom Index is intended to assist members of the Economic Freedom Network, which are public policy institutes around the world. The index is expected to help advance their interest in the concept and factors of economic freedom by feeding into policy debate and change. The World Economic Freedom report covers 122 countries, including 11 of ADB’s DMCs.3

Frequency Annual.

Content

The World Economic Freedom Index covers five major facets of the enabling environment for business: (i) size of government; (ii) legal structure and security of property rights; (iii) access to sound money; (iv) freedom to trade internationally; and (v) regulation of credit, labor, and business. Within each of these categories, more detailed factors are tracked. Data on each factor are obtained from third party sources, such as the International Monetary Fund (IMF), World Bank, and WEF. Members of the Economic Freedom Network compile the data into indexes. The data are converted into ratings on a 0–10 scale, with 10 being the best score. The conversion of data for the countries covered into the same scale allows for comparisons between countries and within a country over time. An example of ratings for one country, Australia, is shown in Box 7.

Over the years, considerable efforts appears to have been made to include appropriate variables, and to test the correlation between factors measured in the Economic Freedom Index and the Government’s desired outcomes, such as economic growth and poverty reduction.

3 Bangladesh, Fiji Islands, India, Indonesia, Nepal, Pakistan, Papua New Guinea, Philippines, PRC, Sri Lanka, and Thailand.
Index of Economic Freedom (Heritage Foundation) with Babson College, Ewing Marion Kauffman Foundation, and London Business School

Purpose and Coverage

Since 1995, the Index of Economic Freedom has provided an annual assessment of the factors that contribute most directly to economic freedom and prosperity. It covers 155 countries, including 20 of ADB’s DMCs.4

Frequency Annual.

Content

The Index of Economic Freedom seeks to report on 10 factors, comprising 50 independent economic variables. It uses a variety of information sources.5

The 10 factors or areas that the Heritage Foundation examined are:

(i) trade policy,
(ii) fiscal burden of government,
(iii) government intervention in the economy,
(iv) monetary policy,
(v) capital flows and foreign investment,
(vi) banking and finance,
(vii) wages and prices,
(viii) property rights,
(ix) regulation, and
(x) informal market activity.

Each factor is rated on a 1-to-5 scale and weighted equally as they are considered of equal importance. For example, the factor trade policy is considered to have three contributing subfactors: weighted average tariff rate, nontariff barriers, and corruption within the customs service. An example of how the raw information on the subfactor weighted average tariff rate is converted into the 1-to-5 scale is shown in Box 8. Subfactor ratings are used to derive average ratings for the factor, and then all factor scores are summed and averaged to develop an overall economic freedom index score.

Box 8: Trade Policy Grading Scale—Heritage Foundation

<table>
<thead>
<tr>
<th>Score</th>
<th>Levels of Protectionism</th>
<th>Trade Policy Grading Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Very low</td>
<td>Weighted average tariff rate less than or equal to 4 percent.</td>
</tr>
<tr>
<td>2</td>
<td>Low</td>
<td>Weighted average tariff rate greater than 4 percent but less than or equal to 9 percent.</td>
</tr>
<tr>
<td>3</td>
<td>Modest</td>
<td>Weighted average tariff rate greater than 9 percent but less than or equal to 14 percent.</td>
</tr>
<tr>
<td>4</td>
<td>High</td>
<td>Weighted average tariff rate greater than 14 percent but less than or equal to 19 percent.</td>
</tr>
<tr>
<td>5</td>
<td>Very high</td>
<td>Weighted average tariff rate greater than 19 percent.</td>
</tr>
</tbody>
</table>


4 Azerbaijan, Bangladesh, Cambodia, Fiji Islands, Indonesia, India, Kazakhstan, Kyrgyz Republic, Lao People’s Democratic Republic, Mongolia, Nepal, Pakistan, Philippines, PRC, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Viet Nam.

5 For example, the following sources were used for the tax component of fiscal burden: Ernst & Young, 2003 The Global Executive and 2003 Worldwide Corporate Tax Guide; International Monetary Fund, Staff Country Report, Selected Issues and Statistical Appendix, 2000 to 2003; Economist Intelligence Unit, Country Commerce, Country Profile, and Country Report, 2002 and 2003; U.S. Department of State, Country Commercial Guide, 2002 and 2003; and official government publications of each country.
When the subfactors and factor ratings are added and averaged to produce an overall index, a score between 1 and 5 will be obtained for each country. This is used to place countries into one of four broad categories:

- **Free.** Countries with an average overall score of 1.99 or less.
- **Mostly Free.** Countries with an average overall score of 2.00 to 2.99.
- **Mostly Unfree.** Countries with an average overall score of 3.00 to 3.99.
- **Repressed.** Countries with an average overall score of 4.00 or higher.

Free means the government interferes minimally in the economy, making these countries more attractive investment destinations. Furthermore, the Heritage Foundation notes that favorable ratings correlate with greater economic growth. If countries address PSD effectively, then their Index of Economic Freedom would be expected to improve. Conceivably, such country index rankings could be used to set targets for the impact of PSD strategies, assuming the contributing factors and subfactors used in the index are those being addressed by their strategies.

An example of a report showing country rankings and scores is shown in Box 9.

**Box 9: Country Rankings 2004—Heritage Foundation**

![Index of Economic Freedom Rankings](image)


**World Competitiveness Yearbook (IMD Lausanne)**

**Purpose and Coverage**

IMD is a major education provider to public and private sector management. The yearbook represents its investment in providing global businesses and government policy makers with comparative information on the country’s business environment. This is intended to facilitate their decision making on investments, the effectiveness of PSD strategies, or the need for further change.
in the factors that create a favorable business enabling environment. This set of indicators covers 60 countries, including four ADB DMCs.\(^6\)

**Frequency** Annual.

**Content**

IMD considers four main factors in assessing the competitiveness of a country: (i) economic performance, (ii) government efficiency, (iii) business efficiency, and (iv) infrastructure. Underpinning each of these factors are five subfactors. For example, the subfactors for economic performance are (i) domestic economy, (ii) international trade, (iii) international investment, (iv) prices, and (v) employment. The subfactors for government efficiency, business efficiency, and infrastructure are shown in Figure 2.

**Figure 2: Competitiveness Breakdown—IMD**

Making up these four factors and 20 subfactors are 323 criteria, which are obtained from two sources: hard statistical data, such as gross domestic product (GDP); and qualitative data, such as perceptions gauged through a 112-page survey of top- and mid-level executives. Hard data constitute two thirds of the criteria. Criteria are scored and ranked by country. These rankings then are used to derive scores for the subfactors and factors, and eventually an overall ranking for a country relative to all countries being rated. IMD then

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\(^6\) India, Indonesia, Philippines, PRC.
produces eight profiles per country to assist decision makers in reviewing its competitiveness. The profiles present the information from different viewpoints: (i) overall trends, (ii) factor results, (iii) strengths, (iv) weaknesses, (v) strongest criteria, (vi) weakest criteria, (vii) evolution of major indicators I, and (viii) evolution of major indicators II. Profiles are only available by subscription.

**Productivity and Investment Climate Survey (World Bank)**

**Purpose and Scope**

World Bank has been trying to improve the robustness and credibility of its policy advice on PSD by comparing the investment climate of countries. To achieve comparability, World Bank launched a survey of firm performance, the World Business Environment Survey, which covered 10,000 firms in more than 80 countries in 2000. Subsequently, this survey was developed and refined to become a core survey instrument called the Productivity and Investment Climate Survey (PICS). This is administered in 58 countries, covering 28,000 firms. PICS is regarded as current best practice in firm-level surveys and a required minimum for the preparation of the World Bank Investment Climate Assessments (ICAs), which are equivalent to the ADB Private Sector Assessments (PSAs). World Bank has targeted 80 countries for PICS in 2002–2006.7

**Frequency**

PICSs are planned to be conducted cyclically (every 5 years).

**Content**

PICS is a survey of formal private enterprises with 83 questions that cover (i) specific information about the firm (e.g., sales and supplies, inventories, imports and exports, finance); (ii) business constraints (e.g., public infrastructure, government services, government regulations); (iii) business-government relations; (iv) conflict resolution and the legal environment; (v) crime impact on business; (vi) capacity; (vii) innovation and learning; (viii) labor relations; (ix) productivity; and (x) financial performance.

The core survey can be augmented by supplementary surveys that address special subject areas, such as finance, training, small- and medium-sized enterprises (SMEs), transport and logistics, administration and regulation costs, labor and human resources, tourism, and suppliers and customer relationships. Some of these supplementary surveys are being developed.

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7 Includes the following ADB DMCs: Cambodia, India, Indonesia, Kyrgyz Republic, Lao People’s Democratic Republic, Mongolia, Pacific Islands, Philippines, PRC, Sri Lanka, Tajikistan, and Uzbekistan.
By robust sampling and application, with a written guide available, World Bank seeks to ensure that the questions are not changed, allowing consistency in data collection and comparability of survey information across all countries surveyed.

The choice of questions has been based upon the experiences of World Bank professionals in dealing with problems constraining the private sector. The survey is continuously under review for improvement. However, changes are restricted in number and frequency (typically once a year), because they have to be applied to all countries to ensure that consistency and comparability are sustained.

PICS provides the information base for the informed user to select and present the data that is considered relevant for the policy area under review. Users have access to the same data from other countries, enabling comparisons and identification of performance gaps. The use of the PICS varies and includes:

- Use in ICA: Some use, but not systematic
- Use in projects: Some use, but not systematic
- Use in policy advice: Use for policy dialogue and assisting governments in setting or changing priorities

PICS is not considered comprehensive and sufficient to provide the basis for PSD policy and performance monitoring. World Bank notes that one survey cannot meet all requirements for policy makers, strategists, and project designers. To present a comprehensive picture, their ICAs also draw upon other surveys, such as the World Bank Doing Business and WEF’s Global Competitiveness Survey, as well as statistics from the country and special studies such as those of the informal sector. An example is shown in Box 10.

PICS generally focuses on formal enterprises, most of which are large. Samples are taken from company or business registration lists, a process that often excludes small enterprises. While the methodology and analysis of PICS are sound, it does not capture the dynamics of rural economies and micro-enterprises. Thus, the Rural Investment Climate Survey (RICS) was developed to be conducted after,
or simultaneously with, a PICS. Using household surveys based on random sampling in local areas (to avoid the trap of only surveying formal firms on a registration list), a RICS aims to provide information on the main obstacles in enterprise development and transaction costs in rural economies.

**Doing Business (World Bank)**

**Purpose and Coverage**

World Bank expects that Doing Business will provide a regular snapshot of key facets of the business climate and related indicators. As such, it is expected to facilitate dialogue with policy makers, stimulate change through comparison, and inform project designers. The second edition of Doing Business was released in September 2004. The survey covers more than 145 countries, including 28 of ADB’s DMCs.8

**Frequency** Annual to biannual.

**Content**

The Doing Business survey and resultant indicators are focused on factors that provide insights into the regulatory and business environment of a country. After covering five factors in 2004, it was expanded in 2005 to seven: (i) starting a business, (ii) hiring and firing workers, (iii) registering property, (iv) getting credit, (v) protecting investors, (vi) enforcing contracts, and (vii) closing a business. For each factor, a number of indicators are selected. For example, for starting a business, indicators measure the number of procedures required to start a business, the time to process business registration, cost and cost as a percent of income to start a business, and the minimum amount of starting capital. The methodology relies heavily on a small sample of expert legal and accounting opinions drawn from the country’s principal city, using a hypothetical case that can be “measured” in all countries covered. With its more limited content and use of legal and accounting experts, Doing Business offers the advantage of greater speed and lower cost compared to other surveys.

Doing Business also relies on other surveys/sources for key information: the World Development Indicators (World Bank), Informal Economy Study (2002), Regulation of Entry Study (2002), Regulation of Labor (2004), and other sources.

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An extract of a *Doing Business* report for Sri Lanka is shown in Box 11.

The periodic updates of the *Doing Business* indicators will provide a measure of the changes in the analyzed conditions over time. The specificity of the indicators aligns well with the nature of World Bank-supported PSD interventions, and makes them useful instruments for assessing their results. World Bank and other agencies, including ADB in the Fiji Islands PSA, have used the *Doing Business* indicators in country programs and projects.

**Box 11: Doing Business Survey, Sri Lanka—World Bank**


Business Environment and Enterprise Productivity Survey (European Bank for Reconstruction and Development)

**Purpose and Coverage**

The European Bank for Reconstruction and Development (EBRD) worked with World Bank to develop this survey to assess how effectively banks and state institutions encourage business growth. It is being used as an additional input into policy dialogue with client country officials, but is not being used in country programs or projects. The Business Environment and Enterprise Productivity Survey (BEEPS) was initiated in 1999, covering 25 countries and 4,104 firms (excluding farms) in central and eastern Europe and the Commonwealth of Independent States. In 2002, BEEPS coverage was extended to include 6,153 firms in 26 countries of the region.9

**Frequency**

The frequency is not stated, though it has been conducted at 2–3-year intervals. The last BEEPS was in 2002, and another one was started with World Bank

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9 Includes the following ADB DMCs: Azerbaijan, Kazakhstan, Kyrgyz Republic, and Uzbekistan.
in 2005. In addition, a global roll out of BEEPS as a new joint multilateral development bank (MDB) initiative is planned, with surveying in Asia expected to start in 2006.

Content

BEEPS samples private enterprises from a range of industry and service sectors in an effort to be as representative as possible of the population of firms, subject to minimum quotas for the sample in each country. The minimum quotas of the samples for each country are:

(i) At least 10% of the businesses in the sample should be small (2–49 employees), 10% medium-sized (50–249 employees), and 10% large (250–9,999 employees). Firms with only one employee or with 10,000 or more employees were excluded from the sample.

(ii) At least 10% of the firms should have foreign control and 10% should have state control, where control is defined as an ownership share of more than 50%.

(iii) At least 10% of the firms should be exporters, meaning that at least 20% of their sales are from exports.

(iv) At least 10% of the firms should be located in a small city (population under 50,000) or the countryside.

The survey data is available to the public at this website – http://info.worldbank.org/governance/beeps/questions.asp.

International Country Risk Guide (PRS Group)

Purpose and Coverage

The PRS Group has been producing the International Country Risk Guide (ICRG) since 1980. It seeks to evaluate political, economic, and financial risk within 140 countries, and alert users to major changes.

Frequency

Updated monthly and completely revised quarterly.

Content

Each issue of the International Country Risk Guide includes:

(i) regional sections with analyses of events in each country, and the likely impact on business and investments;

(ii) additional risk statistics that detail where the opportunities—and the pitfalls—occur; and

(iii) an explanation of the ICRG’s risk rating system.

10 Includes the following ADB DMCs: Azerbaijan, Bangladesh, India, Indonesia, Kazakhstan, Mongolia, Pakistan, Papua New Guinea, Philippines, PRC, Sri Lanka, and Viet Nam.
The risk assessment comprises three broad risk factors: political, economic, and financial. In turn, these are broken down into risk components, which comprise a number of subcomponents. Each of these components is scored between zero and a maximum score set by the survey compilers, based upon their assessment of the relative significance of the component within the overall factor. The assessment of the component score depends on how the scorer assesses the subcomponents. For example, political risk includes a component called government stability, which has three subcomponents that can be rated from 0 to 4. Thus, if all three subcomponents received the maximum rating, the aggregate score would be 12. This is the maximum that can be scored for the component, though other components within this risk factor have lower maximum scores.

Box 12 shows a summary of the components for each of the three broad risk factors with their maximum score and relative significance.

In the ICRG system, the higher the score, the lower the risk. The results of the scoring of all factors are converted into a ratio using 100 as the maximum. To interpret the final scores, the following are suggested:

- Very high risk 00.0 to 49.5
- High risk 50.0 to 59.5
- Moderate risk 60.0 to 69.5
- Low risk 70.0 to 79.5
- Very low risk 80.0 to 100

### Box 12: International Country Risk Guide Components—The PRS Group

<table>
<thead>
<tr>
<th>Political risk Components</th>
<th>MS</th>
<th>Economic risk Components</th>
<th>MS</th>
<th>Financial risk Components</th>
<th>MS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government stability</td>
<td>12</td>
<td>GDP per head</td>
<td>5</td>
<td>Foreign debt as % of GDP</td>
<td>10</td>
</tr>
<tr>
<td>Socioeconomic conditions</td>
<td>12</td>
<td>Real GDP growth</td>
<td>10</td>
<td>Foreign debt service as a % of exports (goods and services)</td>
<td>10</td>
</tr>
<tr>
<td>Investment profile</td>
<td>12</td>
<td>Annual inflation rate</td>
<td>10</td>
<td>Current account as a % of exports (goods and services)</td>
<td>15</td>
</tr>
<tr>
<td>Internal conflict</td>
<td>12</td>
<td>Budget balance as % GDP</td>
<td>10</td>
<td>Net international liquidity as months of imports</td>
<td>5</td>
</tr>
<tr>
<td>External conflict</td>
<td>12</td>
<td>Current account as a % of GDP</td>
<td>15</td>
<td>Exchange rate stability</td>
<td>10</td>
</tr>
<tr>
<td>Corruption</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Military in politics</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Religion in politics</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Law and order</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethnic tensions</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democratic accountability</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bureaucratic quality</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td><strong>50</strong></td>
<td></td>
<td><strong>50</strong></td>
<td></td>
</tr>
</tbody>
</table>

MS = maximum score

This method allows for change to be tracked over time and comparisons made between countries. As an example, the individual ratings within a major risk factor—political risk—are shown for Malaysia in Box 13.

In the extract shown, Malaysia is reported to have a political risk rating of 71.5, which would be interpreted as low risk.

In addition to these ICRG indicators, the PRS Group provides country assessments that take into account 12 factors that the PRS Group considers key in impacting business conditions (Box 14).

**Box 13: International Country Risk Guide for Malaysia—The PRS Group**

<table>
<thead>
<tr>
<th>Country</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
<th>K</th>
<th>L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>10.0</td>
<td>8.0</td>
<td>8.5</td>
<td>10.5</td>
<td>11.0</td>
<td>2.5</td>
<td>5.0</td>
<td>4.0</td>
<td>3.0</td>
<td>2.0</td>
<td>3.0</td>
<td>71.5</td>
</tr>
<tr>
<td>Mali</td>
<td>8.5</td>
<td>4.5</td>
<td>7.5</td>
<td>10.5</td>
<td>10.0</td>
<td>3.5</td>
<td>3.5</td>
<td>4.0</td>
<td>3.0</td>
<td>2.0</td>
<td>3.0</td>
<td>61.5</td>
</tr>
<tr>
<td>Malta</td>
<td>10.5</td>
<td>8.5</td>
<td>11.5</td>
<td>11.0</td>
<td>12.0</td>
<td>3.0</td>
<td>6.0</td>
<td>4.0</td>
<td>5.0</td>
<td>6.0</td>
<td>6.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>6.5</td>
<td>8.0</td>
<td>11.5</td>
<td>8.5</td>
<td>11.0</td>
<td>2.0</td>
<td>3.0</td>
<td>5.0</td>
<td>2.0</td>
<td>2.5</td>
<td>6.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Moldova</td>
<td>11.0</td>
<td>4.0</td>
<td>6.5</td>
<td>9.0</td>
<td>10.5</td>
<td>1.5</td>
<td>4.0</td>
<td>6.0</td>
<td>5.0</td>
<td>4.0</td>
<td>5.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Mongolia</td>
<td>11.0</td>
<td>2.5</td>
<td>8.0</td>
<td>11.0</td>
<td>11.5</td>
<td>2.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>4.0</td>
<td>2.0</td>
<td>71.5</td>
</tr>
<tr>
<td>Morocco</td>
<td>10.5</td>
<td>4.5</td>
<td>9.0</td>
<td>9.5</td>
<td>11.0</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>9.5</td>
<td>3.0</td>
<td>8.5</td>
<td>9.5</td>
<td>12.0</td>
<td>1.5</td>
<td>2.0</td>
<td>6.0</td>
<td>3.0</td>
<td>4.0</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Myanmar</td>
<td>9.0</td>
<td>4.0</td>
<td>3.5</td>
<td>8.0</td>
<td>8.5</td>
<td>1.0</td>
<td>0.0</td>
<td>6.0</td>
<td>3.0</td>
<td>3.0</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Namibia</td>
<td>10.0</td>
<td>6.0</td>
<td>10.0</td>
<td>9.5</td>
<td>10.5</td>
<td>1.5</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
<td>4.5</td>
<td>4.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.5</td>
<td>10.5</td>
<td>12.0</td>
<td>11.0</td>
<td>12.0</td>
<td>5.0</td>
<td>6.0</td>
<td>5.0</td>
<td>6.0</td>
<td>4.5</td>
<td>6.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>


Countries are then graded as A, B, C, or D based on comparisons of their conditions to a qualitative set of descriptions. For example, seven of these factors are considered relevant for judging “direct investment risks”, which refers to risks facing foreign investment in the country. Letter grades then are used to flag the status of the country using a qualitative description of likely circumstances. An edited extract demonstrates the approach (Box 15).

This is similar to EBRD’s use of scenarios to assess transition impact.

**Global Entrepreneurship Monitor (Kauffman Foundation)**

**Purpose and Coverage**

Babson College, in partnership with the London Business School, conducts the Global Entrepreneurship Monitor (GEM). The Ewing Marion Kauffman Foundation sponsors the survey. The GEM surveys the extent of, and conditions for,

**Box 14: Key Factors Affecting Business Conditions—The PRS Group**

<table>
<thead>
<tr>
<th>Political turmoil</th>
<th>Exchange controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repatriation restrictions</td>
<td>Taxation discrimination</td>
</tr>
<tr>
<td>Equity restrictions</td>
<td>Operating restrictions</td>
</tr>
<tr>
<td>Tariff barriers</td>
<td>Other import barriers</td>
</tr>
<tr>
<td>Payment delays</td>
<td>Fiscal and monetary expansion</td>
</tr>
<tr>
<td>Labor policies</td>
<td>Foreign debt</td>
</tr>
</tbody>
</table>

Source: ADB consultant.
entrepreneurship within a country, because it is considered a major driver for private sector growth. Its findings are meant to inform and stimulate policy development. Started in 1999, the GEM now covers 34 countries, including two of ADB’s DMCs—India and PRC.

**Frequency** Annual.

**Content**

The GEM assessment involves four major types of data collection: (i) surveys of the community in each country to identify the incidence of persons who are starting a new firm or are pursuing an entrepreneurial strategy as owners of an existing firm; (ii) firm surveys; (iii) interviews, including the completion of a 10-page questionnaire, with national experts drawn from business faculties of universities; and (iv) data on national features assembled by a variety of international research organizations (e.g., World Bank, International Monetary Fund, United Nations, and International Labour Organization).

Primary data collection is undertaken through the entrepreneur surveys. In 2003, the GEM covered 101,738 respondents. Typical country surveys ranged between 1,000 and 27,000 persons in each of the 34 countries.

The principal focus of the GEM is on understanding the impact of entrepreneurship, broadly defined, using the type of model in Figure 3. It postulates that two sets of conditions exist—those that support established firms and their growth, and those particularly related to entrepreneurs.

### Box 15: Country Grades in International Country Risk Guide—The PRS Group

<table>
<thead>
<tr>
<th>Country Status</th>
<th>Qualitative Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>“A” Countries</td>
<td>Few restrictions on equity ownership in most industries; few controls on local operations, repatriation of funds, or foreign exchange; taxation policy that does not discriminate between foreign and domestic business.</td>
</tr>
<tr>
<td>“B” Countries</td>
<td>Some threat on equity ownership, frequently by requiring that nationals have partial ownership; restrictions on local operations, particularly regarding local procurement; few restrictions on repatriation, but some exchange controls possible.</td>
</tr>
<tr>
<td>“C” Countries</td>
<td>Considerable restriction on equity ownership, including a requirement that nationals hold a majority; considerable restriction on local operations, repatriation, and foreign exchange; some taxation discrimination possible; and a serious threat of political turmoil.</td>
</tr>
<tr>
<td>“D” Countries</td>
<td>Considerable restriction on equity ownership, including a prohibition against equity ownership by foreigners; substantial regulation of local operations, repatriation, and foreign exchange; taxation discrimination; political turmoil that could present a serious threat.</td>
</tr>
</tbody>
</table>

Necessary entrepreneur conditions would include, for example, government policies that help entrepreneurs start.

Established firms, as they seek to grow and adapt to global conditions, create a demand for services from the medium to smaller businesses. The enabling conditions for entrepreneurs, plus their perceptions of opportunities stemming from the growth and demands of the established businesses, gives rise to new firms, provided entrepreneurial capacity exists. The new entrepreneurial firms, through their activities, then add to economic growth.

The GEM assessment seeks to establish if those enabling conditions are in place. The results are shown on a country and comparative basis. An example drawn from the Australian report is shown in Table 2.

Figure 3: GEM Conceptual Model

Table 2: Entrepreneurial Activity Scorecard for Australia—GEM

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Australia This year</th>
<th>All GEM countries</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Activity Indicators (Source: Adult pop’n survey; Scales Percent of pop’n participating)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-ups overall</td>
<td>18 3.8%</td>
<td>4 9.0%</td>
<td></td>
</tr>
<tr>
<td>New businesses (&lt; 42 months old)</td>
<td>10 5.2%</td>
<td>1 7.2%</td>
<td></td>
</tr>
<tr>
<td>Total Entrepreneurial Activity</td>
<td>15 8.7%</td>
<td>2 16.2%</td>
<td></td>
</tr>
<tr>
<td>TEA – Opportunity</td>
<td>13 6.7%</td>
<td>2 12.5%</td>
<td></td>
</tr>
<tr>
<td>TEA – Necessity</td>
<td>12 1.5%</td>
<td>8 3.2%</td>
<td></td>
</tr>
<tr>
<td>TEA – Percent Opportunity</td>
<td>18 77.1%</td>
<td>10 77.0%</td>
<td></td>
</tr>
<tr>
<td>TEA – Percent Necessity</td>
<td>20 17.6%</td>
<td>15 20.0%</td>
<td></td>
</tr>
</tbody>
</table>

Entrepreneurial Activity and Gender

<table>
<thead>
<tr>
<th>Item</th>
<th>Male participation rate in start-ups</th>
<th>Female participation rate in start-ups</th>
<th>Male participation rate in new firms</th>
<th>Female participation rate in new firms</th>
<th>TEA – Male</th>
<th>TEA – Female</th>
<th>Start-ups Female/Male ratio</th>
<th>New businesses Female/Male ratio</th>
<th>TEA Female/Male ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19 5.1%</td>
<td>20 2.4%</td>
<td>9 6.3%</td>
<td>9 3.6%</td>
<td>14 11.7%</td>
<td>14 5.6%</td>
<td>17 48%</td>
<td>17 53%</td>
<td>24 48%</td>
</tr>
</tbody>
</table>

Risk Capital Investment Indicators

<table>
<thead>
<tr>
<th>Item</th>
<th>Median Pct of pop’n business angels last 3 years</th>
<th>Median Classic Venture Capital (pct of GDP)</th>
<th>Median Number of Classic VC investee firms</th>
<th>Median Classic VC per investee firm (US$m)</th>
<th>Median Informal Venture Capital (pct of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27 1.8%</td>
<td>16 of 30 0.0999%</td>
<td>19 of 29 0.0124%</td>
<td>9 of 30 0.294%</td>
<td>14 of 24 0.072%</td>
</tr>
</tbody>
</table>

What Governments Do

While Governments might not refer explicitly to a PSD framework, their plans and budgets often canvas their PSD priorities. If Governments apply a results-based management approach, their plans and budgets also should quote specific PSD performance indicators, as well as benchmarks and target.

These indicators can be used subsequently when reporting performance to the parliament and to the public. This chapter reviews examples of what governments do to measure PSD results in their countries.

Government of Singapore

The Government of Singapore is quite specific about the desired PSD outcomes in the country. An extract from the 2004 budget (Box 16) highlights the importance of the private sector, and illustrates the types of outcomes expected from Singapore’s PSD efforts. The details note the specific actions needed to move the PSD agenda along, such as making it easier for foreign investors and tourists to enter the country. However, while the Government identifies detailed PSD actions, PSD targets tend to be set at the macro level, such as growth and productivity.

Singapore has a variety of institutions charged with making their PSD aspirations a reality. They are backed up with a strong statistics capability to ensure that indicators are available to track performance. One of these institutions is the Economic Development Board. Originally conceived to spearhead industrialization, the board now promotes an export-oriented, labor-intensive industrialization program. The Economic Development Board
evolved industrial strategies in response to changes in the international and domestic business environments, as well as negotiated the public-private consensus necessary to implement them. It is seen as a consensus-maker among agencies and corporations.

The information coverage available from SingStats, the government agency responsible for collating data and producing indicators, supports the business orientation of the Economic Development Board.

SingStats maintains a Commercial Establishment Information System, which is updated through a variety of sources, including quarterly surveys. It tracks signals about the enabling business environment, such as startups and cessations of businesses and their survival rate. It also refers to international surveys where they provide a performance indicator of Singapore’s global competitiveness—a national goal brought about through its PSD outcome. Singapore issued a press release on placing 6th in the Global Competitive Index and 8th in the Business Competitive Index for 2003–2004.

SingStats provides a dedicated portal for business, highlighting the importance they place on it. However, quantitative targets for PSD appear to not exist or not be in the public domain. Arguably, the general target is an improving trend in the enabling conditions for business, which is backed up by comprehensive tracking of results.

**Government of Australia**

The Government of Australia has adopted a results-based management approach, and requires departments to identify their outputs and outcomes. While an explicit PSD strategy does not exist, the outcomes in aggregate reflect a de facto one.

A number of ministries are concerned with PSD programs—sector-specific agencies, such as the Departments of Transport and Regional Services, and Agriculture, Fisheries and Forestry; as well as broader-based ministries, such as the Department of Industry, Tourism and Resources (DITR). DITR, for example, had only two listed PSD outcomes in its Agency Budget Statements for 2004–2005:

(i) A stronger, sustainable and internationally competitive Australian industry, comprising the manufacturing, resources, and services sector; and

(ii) Enhanced economic and social benefits through a strengthened national system of innovation.

Against each outcome, DITR has identified PSD performance indicators it will use to report its 2004–2005 progress to Parliament. For example, the relevant extract on performance indicators for outcome 1 is shown in Box 17.
These performance indicators are more a description of what is intended to be measured than a specific definition of the PSD performance indicators. Specific target values also are not quoted. Nevertheless, the Government clearly is committed to setting and monitoring outcomes.

Underpinning these outcomes are various departmental outputs. For each output, the ministry states its committed resources comprising the departmental expense appropriation and administered funds.

The Government of Australia has well-established means of collecting, analyzing, and presenting PSD raw data and performance indicators through a number of agencies that address specific aspects of the effectiveness of PSD:

• Australian Bureau of Agricultural and Resource Economics,
• Australian Bureau of Statistics (ABS),
• Australian Competition and Consumer Commission,
• Bureau of Transport and Regional Economics,
• National Competition Council,
• Treasury including the Taxation Office, and
• Australian Productivity Commission.

In a well-developed economy, such as Australia, PSD is taken for granted. The focus of attention tends to be on specific themes (e.g., trade agreements or tariffs), or on specific sector issues such as transport or natural resources. ABS, for example, does not produce one set of statistics that comprehensively covers PSD. However, an example of the information available that provides an overview of the private sector is shown in Table 3. The information for ABS is drawn from regular surveys, access to information collection points (such as airport customs data), and the taxation system.

Other agencies, such as the Productivity Commission, collect separate data in conducting their work, including information on regulation and the costs of selected government services.

In addition to government information sources, many private sector surveys are available. For example, the Australian Business Council, banks, economic research firms, specific industry groups, and the Australian Chamber of Commerce and Industry (ACCI) obtain and publish information.

The type of surveys available monthly from ACCI is illustrated in Box 18.

The Government also uses global surveys if it suits the purpose, particularly the rankings from the Global Competitiveness Report and Doing Business indicators.
The Australian International Development Agency (AusAID) is also committed to PSD. Its strategy has three components:

(i) Improve governance in partner countries, as this will enhance the operating environment for all private sector participants;

(ii) Support the provision of education and health services and basic physical infrastructure, because these are essential elements of the enabling environment for PSD; and

(iii) Help overcome practical constraints to enterprise development, particularly for micro-enterprises and SMEs.

AusAID does not elaborate on how this strategy will be realized and what results indicators could be expected to be used in programs and projects designed to implement the strategy.


<table>
<thead>
<tr>
<th></th>
<th>Service</th>
<th>Manufacturing</th>
<th>Mining</th>
<th>Agriculture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contribution to GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level ($b)</td>
<td>470.2</td>
<td>78.7</td>
<td>34.0</td>
<td>20.2</td>
<td>603.1</td>
</tr>
<tr>
<td>Industry Share (%)</td>
<td>78.0</td>
<td>13.0</td>
<td>5.6</td>
<td>3.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Annual Growth (%)</td>
<td>4.2</td>
<td>2.6</td>
<td>0.5</td>
<td>-27.0</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level ($b)</td>
<td>64.4</td>
<td>18.6</td>
<td>19.4</td>
<td>7.3</td>
<td>109.7</td>
</tr>
<tr>
<td>Industry Share (%)</td>
<td>58.7</td>
<td>16.9</td>
<td>17.7</td>
<td>6.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Annual Growth (%)</td>
<td>12.0</td>
<td>27.9</td>
<td>32.1</td>
<td>-12.8</td>
<td>15.4</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level ($b)</td>
<td>31.3</td>
<td>65.8</td>
<td>31.2</td>
<td>10.8</td>
<td>139.2</td>
</tr>
<tr>
<td>Industry Share (%)</td>
<td>22.5</td>
<td>47.3</td>
<td>22.4</td>
<td>7.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Annual Growth (%)</td>
<td>0.5</td>
<td>-4.8</td>
<td>-3.9</td>
<td>-19.3</td>
<td>-4.8</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average (000)</td>
<td>7849.0</td>
<td>1131.3</td>
<td>88.4</td>
<td>372.4</td>
<td>9441.1</td>
</tr>
<tr>
<td>Industry Share (%)</td>
<td>83.1</td>
<td>12.0</td>
<td>0.9</td>
<td>3.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Annual Growth (%)</td>
<td>3.4</td>
<td>3.0</td>
<td>9.2</td>
<td>-15.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>


Box 18: ACCI Surveys

The surveys of the business community conducted by ACCI provide an independent and detailed source of information on business conditions, attitudes and concerns based on the data gathering of employers. There is thus a framework in place that can be used to highlight the major matters of concern to the business community on a range of economic issues.

It is essential that government policy is made with a full understanding of the problems facing business. ACCI provides an effective link between business and government and the survey work undertaken by ACCI has become one of the major mechanisms through which the views of the business community are brought to the attention of decision makers.


The Australian International Development Agency (AusAID) is also committed to PSD. Its strategy has three components:

(i) Improve governance in partner countries, as this will enhance the operating environment for all private sector participants;

(ii) Support the provision of education and health services and basic physical infrastructure, because these are essential elements of the enabling environment for PSD; and

(iii) Help overcome practical constraints to enterprise development, particularly for micro-enterprises and SMEs.

AusAID does not elaborate on how this strategy will be realized and what results indicators could be expected to be used in programs and projects designed to implement the strategy.


Selected DMCs

Viet Nam and Sri Lanka are two DMCs that are pursuing actively PSD policies and strategies. They rely upon their respective bureau of statistics, plus special studies, to provide them with the information needed to formulate policies and track performance.

Viet Nam

The Government of Viet Nam has a national target to achieve 500,000 SMEs by 2010, about five times the level in 2004. To reach this target, it has varied laws and other enabling environment factors. Yet in the Government’s review of the implementation of the first three years of their five-year plan 2001-2005, undertaken in December 2003, 770 projects are listed, though none refer explicitly to PSD or SME (Three-Year Implementation of the Five-Year Socio-Economic Development Tasks, 2001–2005). Many of the projects will indirectly remove bottlenecks to private sector growth, such as infrastructure.

Viet Nam collects information from enterprises through surveys, under the mandate of the Statistical Law. The General Statistics Office (GSO) uses the surveys to provide insights into the operating costs and financial position of enterprises, and to portray in aggregate private sector performance. This information is released on CD in several languages. However, some factors that are important to improving the enabling environment, such as government service efficiency, are not surveyed. However, GSO has been cooperating and coordinating with multilateral agencies, such as the World Bank in conducting its Doing Business survey for Viet Nam. In a May 2005 press release, published on its English language website, the GSO director-general used such information to point out the difficulties that enterprises face.

Multilateral agencies, such as the World Bank, conduct other special studies on aspects of PSD, such as Firm Dynamism: Beyond Registration and Private Sector and Land that can be used as policy information sources, though not for tracking PSD performance.

Sri Lanka

The Government of Sri Lanka is strongly committed to PSD and fostering SMEs, as shown in its most recent budget. While the budget is not specific on desired PSD outcomes, the impact is flagged in the economic growth targets.

Sri Lanka has a well-established Department of Census and Statistics, which acts as a key agency for advice and collection of data on behalf of all other government agencies. It provides a considerable number of analyses of the economy, including information on establishments of businesses and aggregate private sector information. This is available in hard copy and in
CD format. In addition, it conducts special studies commissioned by other ministries, such as Employment and Unemployment in Sri Lanka—Trends, Issues and Options. Further, it carries out analyses that can feed into policy decisions and are reflected in the budget strategy. However, a specific analysis of PSD has not been conducted. The Department of Census and Statistics cooperates with agencies such as ADB and World Bank in seeking to compile such information.

Viet Nam and Sri Lanka have aggregate information on the private sector and individual firms, which allows them to monitor the overall performance of the private sector. However, based on the information available, they do not appear to have indicators to measure the enabling business environment, though they are keenly aware of the importance of such indicators.
Virtually all aid agencies assist client countries in developing the business environment, so that the private sector can grow and prosper. Such assistance can be in the form of grants for policy development, and improvement of government systems and services; or loans to boost the banking sector and provide for essential transport and energy infrastructure.

These agencies seek to measure the forecast and actual results of their strategies, programs, and projects directed at improving the business environment. Specific interventions usually are described in terms of a results chain—from activities to project outputs that lead to beneficial outcomes and eventually a development impact.

However, agency projects are only one of the PSD actions occurring within a country. As such, these agencies have difficulty in attributing results to their specific interventions, especially at the outcome and impact level. The long periods between action and impacts add to the complexity.

In principle, aid agencies will rely on a country’s available private sector and PSD performance indicators. Nevertheless, the PSD practices of some aid agencies, including their approaches to measuring PSD results, are described below.


World Bank

World Bank refers to PSD as improving the investment climate and deals through the measurement of outputs, outcomes, and impacts of the investment climate in a number of its key documents, including
(i) PSD strategy,
(ii) country assistance strategy (CAS),
(iii) ICA, and
(iv) projects and programs.

World Bank evaluations demonstrate that current practices on including indicators for PSD strategies, CASs, ICAs, and projects and programs lack quality, reliability, consistency, and comparability.11 Other evaluations conclude that changing the investment climate achieves the best PSD outcomes. However, such changes need to be based upon quality, reliable, consistent, and comparable information to identify priority policy changes and revise projects. The World Bank PSD strategy endorses the intention to acquire and use such information, and commits the funds to make it happen.

Useful information for assessing the investment climate was considered best obtained through micro-level surveys of individual firms. Consequently, World Bank developed the firm-level survey instrument PICS, as well as other survey instruments such as Doing Business and RICS. World Bank expects these surveys to develop over time to improve scope and reliability. It chose to develop and apply the survey instruments because:

(i) World Bank previously had multiple surveys and methodologies, which they wanted to replace with a systematic and regular approach;
(ii) World Bank wanted comparability between countries, which is regarded as highly desirable, because such benchmark comparisons add impact when giving policy advice;
(iii) Adequate and comparable information was unavailable from client countries;
(iv) Surveys by private sector firms were regarded as incomplete and judgmental;
(v) With their survey experiences, professionals engaged in PSD at World Bank and IFC considered themselves technically well placed to carry out such surveys;
(vi) World Bank was in the best financial position to conduct the planned 20 surveys per year—to cover more than 100 DMCs over 5 years—at an estimated average cost of US$250,000 each.

World Bank delegates its operations through its country office network. Country offices are provided with policies and guidelines, and accept accountability for their documentation and processes. In practice, this means that the country offices make decisions about coverage and content in documentation, including the choice of indicators. As better information and indicators become available from the survey instruments (PICS, Doing Business, RICS), it is beginning to be used in country assistance plans and PSD projects, though not in a systematic manner. However, the information can provide baseline and benchmark data for setting targets.

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World Bank feedback suggests that PICS information is used to identify problems. With few exceptions, however, it generally is not used for setting targets. This is a reflection of cautiousness, or genuine concern that the intervention is not sufficient to warrant being held accountable for a targeted change in the indicator value. An example for target setting is the Mozambique CAS (October 2003), which makes reference to judging several outcomes, such as lowering the cost of registering a business (by 40% from 108% of gross national income per capita) and cutting the time to register a business (by 40% from 174 days). This illustrates greater specificity in setting targets using PSD information available from surveys.

World Bank selected a number of countries to introduce a results-based CAS, including Brazil, Cameroon, Sri Lanka, Ukraine, and Zambia. A review of the Brazil CAS (November 2003) shows that targets tend to be descriptive rather than quantitative, although one target relied on the use of internationally available and comparable indicators, World Competitiveness Survey ranking.

International Finance Corporation

IFC provides loans and technical assistance to the private sector in DMCs, including a financing commitment of US$4.75 billion in FY2004. In its charter, IFC expressly states its mission is to promote sustainable private sector investment in developing countries. While IFC seeks a commercial return on its activities, it also expects to address improving the investment climate, adding to the financial resources available in DMCs, and stimulating innovative practices. IFC collaborates with World Bank through its Private Sector Board, chaired by a jointly appointed vice president, and through the joint Private Sector Development Unit. This unit sponsors the Investment Climate Surveys and the Doing Business survey, which both organizations use to inform their advice and project designs.

IFC also participates in the World Bank CAS, and reports its views about the investment climate. In the recent Zambia CAS, for example, IFC indicated it “is very much aligned with the Bank’s policy agenda in Zambia.” However, IFC added that Zambia is “assessed as a relatively poor investment climate with limited prospects for stimulating new private investment, and limited progress on reforms to improve the investment climate.” Nevertheless, IFC is exploring with the World Bank how to support the World Bank Group’s activities on improving the investment climate in Zambia.

In approving a project, IFC considers its PSD contribution and assesses whether the project makes a positive contribution to key factors such as (i) new technology, (ii) management skills, (iii) degree of local entrepreneurship and competition, (iv) demonstration effects, (v) enhanced private ownership,

(vi) capital markets development, (vii) business practices, and (viii) regulatory change.

**Box 19: IFC’s Assessment of PSD Investment Climate**

<table>
<thead>
<tr>
<th>INVESTMENT CLIMATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the climate for private sector investment and business development is a priority for IFC’s work in developing countries. Many of the Corporation’s technical assistance programs address investment climate issues, and our loans, equity investments and innovative financial products are an effective catalyst for private sector funding from other sources. Reflecting the collaborative nature of this work, a joint vice presidency for Private Sector Development coordinates investment climate efforts for both IFC and the World Bank.</td>
</tr>
<tr>
<td>The publication of the first Doing Business report, with comparative data on countries’ business regulations, was the key development of fiscal 2004 (see box). Doing Business complements the Bank Group’s Investment Climate Surveys, which have been launched with private firms in 52 countries as of FY04, and related Investment Climate Assessments that use survey data to identify policy, regulatory, and institutional constraints to private investment and firms’ performance. The Bank Group also works with governments to increase foreign direct investment, assists with privatization of state-owned enterprises, and supports improvements in corporate governance.</td>
</tr>
<tr>
<td>Findings from Investment Climate Assessments and Doing Business are informing Bank Group approaches and the countries’ own poverty reduction strategies. IDA has adopted policy reform targets based on Doing Business indicators in its lending process, and many national and international agencies are using the indicators to help determine how to allocate aid or monitor progress in specific countries.</td>
</tr>
</tbody>
</table>


However, while IFC can indicate that projects generally contribute to PSD, it does appear to attach specific indicators with quantified targets to them. IFC mentions the use of the World Bank’s Investment Climate Assessments and Doing Business indicators, though not specifically in IFC projects.

IFC’s investment departments evaluate themselves using an expanded project supervision report, considering the PSD factors of producing a demonstrable effect (technology, governance, changes in legal and regulatory frameworks, etc.) on the business environment. The rating feeds into a departmental scorecard to create the incentive for having successful PSD components in the project design. The World Bank evaluation group uses a two-category assessment of project results. They are rated satisfactory or better, or less than satisfactory.

**European Bank for Reconstruction and Development**

EBRD has a mandate to foster the transition to an open, market-oriented economy, and to promote private and entrepreneurial initiative, in the formerly centrally planned economies of Central and Eastern Europe and the former Soviet Union.13 It lends to the public sector and predominantly the private

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sector in 27 countries, though only for projects with defined transition impacts. EBRD assesses transition impact based on seven transition criteria in three categories:

(i) Contributions to the structure and extent of markets:
   a. Greater competitive pressures
   b. Market expansion through suppliers and customers

(ii) Contribution to market organizations, institutions, and policies supporting markets:
   a. Increased private sector participation
   b. Institutions, laws, regulations, and policies promoting market function and efficiency

(iii) Project contributions to business behavior and practices:
   a. Transfer and dispersion of skills
   b. Demonstration effects from innovation
   c. Higher standards of corporate governance and business conduct

EBRD issues sector-specific guidelines that identify possible transition objectives to assist its staff in categorizing projects and addressing possible impacts. An extract from the guidelines for the energy sector is in Box 20.

Until 1999, transition effects were described but not given any ratings in projects. From 1999, ex ante ratings were assigned to projects using a 6-point scale: negative, unsatisfactory, marginal, satisfactory, good, and excellent. Projects have to score a rating of satisfactory or better before being submitted to the EBRD board for approval. The ex ante transition rating assumes no problems will arise during project implementation. At the same time, the project also is assessed for risk with ratings of low, medium, and high.

The Office of the Chief Economist (OCE) is responsible for the ex ante assessment of transition impact. OCE is separated from the banking units and the project leaders to avoid rating bias. A small team carries out the assessment, relying on information from the project, as well as team members’ accumulated experiences with past projects and knowledge of the country. This is not to say that differences of opinion between the project team leaders and OCE do not occur. Project departments have qualitative targets (x% of projects rated as good or better, for example) that might determine performance bonuses. However, the assessment practice has been operating for a number of years and has acceptance. The current practice is being used because it:

(i) is not time consuming and allows for a rapid turnaround of project submissions, which are fairly voluminous;

(ii) deals with effects that would present considerable difficulties to

Box 20: EBRD Transition Objectives for the Energy Sector

Transition challenge:
• Energy industry operates as part of a government department
Bank response
• Finance the corporatization process
Transition challenge
• Management approach geared toward engineering
Bank response
• Introduction of management information system, international accounting standards, procurement practices, and business planning
Transition challenge
• Absence of a well-functioning regulatory regime
Bank response
• Support regulatory development and finance support of companies operating within a newly developed regulatory framework.

measure in quantitative terms;

(iii) recognizes in its two dimensions (transition impact and project risk) the interplay between the two;

(iv) capitalizes on the experience and judgment of its professional staff;

(v) has a rating system that is sufficiently sensitive for assisting in making decisions to proceed;

(vi) can be used for department-wide target setting (for example, that 70% of all projects will get an ex ante rating of good or better); and

(vii) does not believe that suitable survey data is available yet.

Due to its qualitative nature, the ex ante and ex post transition impact assessment relies mainly on project documentation, country background documents, client organization performance statistics, and other relevant information, such as BEEPS. An initiative to introduce explicitly broad survey indicators into project documents and country plans has not emerged, presumably because the current transition impact assessment approach is meeting needs. However, the application of the transition impact is refined continually, and benchmarks that can be used to test progress have been introduced. For example, benchmark milestones—such as “client has governance practices in place and being applied”, “reduced time to respond to public complaints”, and “tariffs have been revised by at least x%”—signal that progress is being made on the transition impact.

The Evaluation Department applies the same qualitative transition and risk assessment when assessing outcomes after project completion. Beyond the project level, EBRD judges its longer-term transition impact on a sector and a country according to progress along an event line—stylized sequences of changes that could be expected as sectors move from a centrally planned to a market-based model. At the country level, the transition efforts of EBRD should be reflected in greater private investment flows. Consequently, EBRD uses foreign direct investment (FDI) as one indicator of its longer-term transition impact\(^{14}\) for less-advanced countries that have not developed sufficient domestic financing capabilities.

The transition impact approach does not require substantial data collection to underpin the assessment, is fast to apply, and capitalizes on the nuanced knowledge of its skilled staff. It is acceptable to staff because its 5-rating scale provides room to accommodate different opinions. At the same time, the ratings can be aggregated and tied into staff performance agreements. The major disadvantage of this approach is that it is qualitative. As such, the results can vary based on changes in the assessment personnel, or when different groups (for example, OCE and the Evaluation Department) are involved. In addition, as people’s experience changes over time, their interpretations of the classifications (marginal, good, excellent, etc.) also will change.

Another disadvantage is that the EBRD transition impact assessment is not portable. It might not be easily replicated in another organization, because individual staff have the implicit standards and tacit knowledge. Furthermore, when transaction volumes are low, individuals who perform the ratings might have insufficient opportunities to build up and share common views on rating interpretation. EBRD indicates it processes sufficient volume per year to avoid this difficulty.

**Department for International Development (UK)**

DFID directly supports the private sector where that will advance PSD, as indicated in the extract from its office instructions (Box 21). DFID recognizes that it can widen its reach by channeling funds through International Financial Institutions (IFIs) and other donor agencies. In such instances, DFID could rely on the performance management practices of that agency.

About 44% of DFID’s aid flows through the World Bank, European Community, and United Nations.

In Malawi, for example, DFID supported PSD by recruiting and seconding a person to work with World Bank and underpinning the World Bank PSD program. Since the PSD assistance was indirect, it had no referred indicators in the DFID Malawi country assistance plan.

DFID also conducts its own activities in support of private enterprises through country assistance plans conceived and managed by its country offices. These plans apply logical frameworks and seek to include quantified measurements at the output, outcome, and impact levels within that framework.

Although DFID uses the logical framework and aims to apply quantifiable indicators to its programs and projects, it does not yet have a systematic corporate approach to these indicators. The Audit Office reports that country assistance programs seldom contain quantifiable indicators. If they do, the indicators might be based on statistics available within the country; surveys by the country or DFID-commissioned consultants; and, increasingly, international surveys, such as the World Bank’s Doing Business, which might be used to influence policy and project design without becoming embedded as a project indicator. The rationale for using the current mix of country statistics and survey information is based on three main issues:

**Box 21: DFID’s Aid to Private Sector Development**

*Office Instruction Volume II: B1 Annex 2*

**II: B1 Annex 2 - TYPES OF AID: AID TO PRIVATE SECTOR ORGANISATIONS**

Providing Aid to Private Sector Organisations

- DFID bilateral programmes directly finance private, non-governmental, organisations in developing countries in a variety of ways. These include, for example:
  - grants to Southern NGOs that provide social, technical or financial services;
  - financial grants or TC to business, professional or producers’ organisations;
  - financial grants or TC to profit making financial institutions which service the private sector, or even grants or TC to individual private businesses.

**Box 22: DFID’s Support for PSD in Malawi**

Private Sector Development: Crucial for Malawi to attain PRSP growth ambitions through improved policy, strengthened government, donor and private sector partnerships. DFID will (i) recruit and second a PSD expert to the World Bank for three years, (ii) underpin that organization’s own PSD programmes, (iii) consider similar collaboration with USAID. DFID will maintain financial support for the National Action Group and through World Bank or USAID consider assistance to the Privatization Commission on development of an appropriate privatisation strategy.


Source: DFID.
(i) DFID’s philosophy is that performance monitoring should be built upon national systems, and should not create parallel processes.

(ii) One source is not adequate for project monitoring. Thus, a mix of sources is required to apply indicators and targets at the program and project level.

(iii) DFID is continuing past practices and making refinements, such as capitalizing on emerging material like Doing Business, as opportunities occur.

The advantages of the current practice are that staff are reasonably familiar with it, and it leaves room for country program and project officers to make choices. However, DFID is trying to learn from recent consulting work that addressed the enabling environment\(^\text{15}\) and its measurement, and from work of the World Bank Operations Evaluation Department. Skills development in measuring PSD results in DFID programs and projects is a work in progress.

The main disadvantage of the current practice is the lack of consistency between country offices in using performance indicators. Consequently, the aggregation of country performance results within a theme or sector (other than indicating if a project was successful, partly successful, or unsuccessful) is not possible. Furthermore, the comparative indicators that agencies and countries increasingly use in their policy discussions may not be influenced by DFID’s interventions. This is because project designs are finalized without considering changing those indicator values as an outcome.

DFID supports the private sector through its trade orientation strategy, and helps countries develop their trading capabilities and activities. This would lend itself to identifying performance indicators beforehand and setting targets for evaluation afterward. However, the preparedness to do so depends on the materiality of DFID’s actions relative to the significance of the sector.

DFID is collaborating with World Bank in developing and applying PICS within countries.

### Inter-American Development Bank

The IDB Group operates like the World Bank and ADB in servicing its Latin American country clients. It has a PSD strategy that aims to assist its client countries by (i) developing an enabling environment for business, (ii) providing direct financial support to private sector enterprises, (iii) addressing

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underserved markets, and (iv) working with the private sector in what it calls “dialogue and action.”

It has two entities: the public sector lending and technical support arm (IADB); and the Multilateral Investment Fund (MIF), which is focused on working through the private sector to achieve PSD results. The two entities overlap in some areas, though efforts are being made to get them to work better together.

IADB has encountered the same problems in measuring performance and setting targets for its PSD strategies and projects as other multilaterals. It prefers to rely on special studies and surveys, such as those conducted by the World Bank, for assessing outcomes and impacts. For PSD projects, IADB prefers to focus on performance indicators for outputs.

IADB is aware of the availability of international indicators related to various PSD factors. However, while IADB views these as helpful in detecting trends, it does not consider them appropriate for use in their projects. Reinforcing the point about difficulties in finding appropriate performance indicators, IADB stated that weaknesses in measurement were constraining its ability to learn from its experiences. A review of IADB’s full observations is worthwhile.

One of IADB’s criteria in the ex post evaluation of PSD programs and projects is their “evaluability” — referring to the inclusion of indicators that allow for adequate assessment of outputs, outcomes, and impacts. An extract from an evaluation study (Box 24) of MIF projects states that only a third of the projects met this criterion.

Box 24: Evaluability of PSD Programs

7. Monitoring and Evaluation
Only one third of the projects met adequate standards of evaluability. The evaluability of projects was higher in some groups such as Human resources and Labor Market. Monitoring improved with the introduction of Project Performance Monitoring Report (PPMR) system four years ago, and with the most recent integration and adjustment of its tools into the Bank’s system.

However, ratings granted in the PPMR systems tended to be higher than those assigned in this evaluation in approximately 50% of the projects.

Limited access and effectiveness of evaluations financed through projects and no mechanisms to share in a systematic way lessons learnt during project design and execution.

Almost complete absence of evaluations at the final client level.


Box 25: IADB’s PSD Strategy

Perhaps the most difficult strategic directions to assess will be “the enabling environment” and “engaging the private sector in dialogue and action.” For these areas, regular surveys and qualitative assessments should be carried out. The Bank should select indicators based on their relationship to the specific strategic direction identified in this strategy. These measures can include data from surveys of stakeholders and beneficiaries in IDB Group-led activities, as well as more general information from various surveys on business climate. The most well-known of these surveys are the World Economic Forum indices of growth and competitiveness, although many other surveys also exist that examine: (i) costs of specific business transactions, (ii) quality, coverage and cost of infrastructure services, (iii) effectiveness of public sector institutions, and (iv) access to and use of technology, among a host of other issues.

While the advantages of these systems are their broad coverage, which allows comparisons with countries from outside the region (providing a basis for international benchmarking), they are aggregate measures. As such, it is not realistic to attribute changes in the indicators directly to the private sector activities of the IDB Group. Yet these measures can still provide an indication of the trends and levels in the critical variables.


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Asian Development Bank

ADB supports PSD within the context of its Private Sector Development Strategy, and combines public and private sector operations under the same roof. The PSD Strategy provides the rationale for its programs and projects, whether assistance is provided through its public or private sector lending window. ADB focuses on (i) improving the enabling environment for business, which can address a wide range of issues; (ii) providing business opportunities; and (iii) catalyzing private sector investment.

To assist its country strategy programming, ADB carries out PSAs that establish the status of a country’s enabling environment for business, and identify the key areas where ADB can help most. As part of the PSA, ADB has developed a reporting template for quantitative performance indicators relevant to PSD and the private sector. An example is provided in Box 26.

The PSA quantitative indicators draw upon the work of international agencies and private collators of performance data, such as Standard & Poor’s, Euromoney, Freedom House, and Heritage Foundation. However, the categorization of these indicators aligns only partially with possible areas of intervention, and does not cover areas such as competitiveness or regulation.

Given the more recent availability of other useful indicators, such as those contained in World Bank’s Doing Business, Investment Climate Assessment, and World Competitiveness Index, the current format and content justify being reviewed. Furthermore, since the intent of ADB assistance is to achieve change, PSD indicators should be presented in a format that allows them to show change or trends.

ADB has done preliminary work on creating frameworks to classify and score projects according to the aspects of PSD they address, allowing an individual and aggregate assessment to be made of the project impacts. A short study made preliminary proposals for a scorecard that used a framework of key result areas. However, while this advanced ideas on scoring projects based on its targeted PSD results areas, it did not provide guidance on related performance indicators.

In 2004, ADB made greater efforts to address performance measurement issues through its Managing for Development Results initiatives, and by stepping up its Project Performance Monitoring System. The Evaluation Group of the MDBs has developed good practice standards for evaluation of private sector investment operations. As a result, ADB is developing indicators for measuring the development effectiveness of private sector operations. While they seek to measure qualitative and quantitative performance, the indicators are descriptive. They do not present targets or quantify expected change over

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18 EME. October 2003—Final report on developing an organization-wide scorecard to monitor the implementation of the private sector development strategy.
### Box 26: ADB’s Quantitative Performance Indicators for PSD in Vietnam

#### Table 1: Country Rankings

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s foreign currency, long-term rating</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>52.45</td>
<td>52.41</td>
</tr>
<tr>
<td>Eurocurrency country rating</td>
<td>35.67</td>
<td>38.40</td>
<td>36.03</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Heritage Business rating (free, mostly free, mostly unfree, not free)</td>
<td>4.45</td>
<td>4.45</td>
<td>4.30</td>
<td>4.30</td>
<td>4.32</td>
</tr>
</tbody>
</table>

#### Table 2: Key Macroeconomic Indicators

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ billions)</td>
<td>23.4</td>
<td>27.9</td>
<td>27.2</td>
<td>28.7</td>
<td>31.3</td>
</tr>
<tr>
<td>GDP growth rate (annual %)</td>
<td>9.0</td>
<td>8.1</td>
<td>5.8</td>
<td>4.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Inflation (consumer prices, annual %)</td>
<td>4.7</td>
<td>3.2</td>
<td>3.2</td>
<td>4.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>Market size (GDP per person)</td>
<td>11,033</td>
<td>11,483</td>
<td>13,268</td>
<td>15,043</td>
<td>14,168</td>
</tr>
<tr>
<td>Official exchange rate (Dong/US average)</td>
<td>11,033</td>
<td>11,483</td>
<td>13,268</td>
<td>15,043</td>
<td>14,168</td>
</tr>
<tr>
<td>Population (millions)</td>
<td>64</td>
<td>78</td>
<td>74</td>
<td>78</td>
<td>74</td>
</tr>
<tr>
<td>GDP per capita (current US$)</td>
<td>315</td>
<td>355</td>
<td>390</td>
<td>370</td>
<td>350</td>
</tr>
<tr>
<td>GNI per capita (current US$)</td>
<td>290</td>
<td>340</td>
<td>390</td>
<td>370</td>
<td>360</td>
</tr>
<tr>
<td>GDP per labor capita (current US$)</td>
<td>619</td>
<td>719</td>
<td>594</td>
<td>721</td>
<td>713</td>
</tr>
<tr>
<td>All per capita (current US$)</td>
<td>126</td>
<td>132</td>
<td>154</td>
<td>184</td>
<td>216</td>
</tr>
</tbody>
</table>

#### Table 3: Private Sector Market and Capacity Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor force (in millions)</td>
<td>38</td>
<td>36</td>
<td>39</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Unemployment (% of labor force)</td>
<td>5.0</td>
<td>6.5</td>
<td>6.8</td>
<td>7.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Share of labor force to population (%)</td>
<td>50.9</td>
<td>51.1</td>
<td>51.2</td>
<td>51.3</td>
<td>51.5</td>
</tr>
<tr>
<td>Telecommunications (telephone mainlines per 1,000 people)</td>
<td>17.4</td>
<td>22.4</td>
<td>26.7</td>
<td>31.8</td>
<td>-</td>
</tr>
<tr>
<td>Computerization (PCs per 1,000 People)</td>
<td>3.3</td>
<td>4.6</td>
<td>6.4</td>
<td>7.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Internet users</td>
<td>190,000</td>
<td>10,000</td>
<td>100,000</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td>Mobile phones per 1,000 people</td>
<td>0.9</td>
<td>2.1</td>
<td>2.9</td>
<td>4.2</td>
<td>9.0</td>
</tr>
<tr>
<td>Adult literacy rate (% of ages 15 and above)</td>
<td>92.3</td>
<td>92.6</td>
<td>92.9</td>
<td>93.1</td>
<td>93.4</td>
</tr>
<tr>
<td>Access to improved sanitation facilities (% of population)</td>
<td>73.9</td>
<td>73.9</td>
<td>73.9</td>
<td>73.9</td>
<td>73.9</td>
</tr>
<tr>
<td>Access to improved water sources (% of population)</td>
<td>49.9</td>
<td>49.9</td>
<td>49.9</td>
<td>49.9</td>
<td>49.9</td>
</tr>
<tr>
<td>Entry regulation (cost to register a business, % of GNP per capita)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35.26</td>
</tr>
</tbody>
</table>

a certain baseline. However, a comparison of expected change with actual change ultimately determines a project's success.

Like other MDBs, ADB should have a consistent and comprehensive set of PSD performance indicators to guide staff in designing and monitoring their programs and projects. The agreement of the heads of MDBs to carry out joint global firm surveys along the lines of EBRD’s BEEPS or the World Bank’s Investment Climate Surveys might be a step in the right direction.
The ability to accurately measure and report PSD results is critical to enhancing the success of any country’s PSD strategy. However, as this booklet has pointed out, there are many perspectives on PSD from various parties, including governments, development agencies, and research organizations. No one performance measurement framework can fit all these viewpoints.

Governments should develop their own PSD performance measurement frameworks tailored to the country’s specific circumstances and PSD strategy. A good place for governments to start this process is by gaining a firm knowledge of measurement frameworks and performance indicators available from other parties, such as development agencies and research organizations. These organizations select focal areas for PSD and develop measurement frameworks with a number of indicators that reflect their PSD priorities.

Governments could benefit from greater awareness of these measurement frameworks and indicators, which can guide them in creating their own measurement frameworks, selecting performance indicators, and setting targets. A measurement framework aligned with the PSD priorities of the government or organization developing it helps to identify what factors require performance indicators, what is available, and any gaps that need to be addressed.

To demonstrate how international indicators might be used within an illustrative PSD strategy and aligned measurement framework, Table 4 shows the areas of focus in the first column and internationally available indicator sources in the second column.

Expanding the private sector requires a targeted PSD strategy, and an aligned measurement framework with appropriate performance indicators. Knowing what others have is an important first step.
<table>
<thead>
<tr>
<th>Framework - Area of PSD Focus</th>
<th>Indicators that address:</th>
</tr>
</thead>
</table>
| Markets—scope, openness, behavior | Product markets—competition, innovation, technology, legal, regulatory (World Bank Bank ICA)  
Growth competitiveness index (WEF)  
Technology index (innovation, ICT, technology transfer subindexes) (WEF)  
Competition policy (CBC)  
Size of government (Fraser)  
Freedom to trade internationally (Fraser)  
Regulation of credit, labor and business (Fraser)  
Trade policy (Heritage)  
Government intervention in the economy (Heritage)  
Wages and prices (Heritage)  
Regulation (Heritage)  
Informal market activity (Heritage) |
| Property rights | Enforcing a contract (Doing Business)  
Contracts and Law index (WEF)  
Reliable justice (CBC)  
Environmental protection (CBC)  
Legal structure and property rights (Fraser)  
Property rights (Heritage) |
| Resources—finance, labor, land | Employment rigidity—hiring, firing, labor laws, employment conditions (DB)  
Getting credit (Doing Business)  
Land, labor, capital factor markets (WB ICA)  
Industrial Relations (CBC)  
Human resources (CBC)  
Financial framework (CBC)  
Access to sound money (Fraser)  
Capital inflows and foreign investment (Heritage)  
Banking and finance (Heritage) |
| Infrastructure | Power, transport, telecommunications (World Bank ICA)  
Infrastructure (CBC)  
Infrastructure—basic, technological, scientific, health, environment, education (IMD) |
| Government effectiveness, efficiency, and ethics | Starting a business (Doing Business)  
Closing a business (Doing Business)  
Macroeconomic index—stability, government waste, country credit rating (WEF)  
Corruption index (WEF)  
Corruption perceptions (Transparency International)  
Global corruption barometer (Transparency International)  
Government business relations (CBC)  
Efficient administration (CBC)  
Effective government (CBC)  
Corruption reduction (CBC)  
Tax policy (CBC)  
Fiscal burden of government (Heritage)  
Monetary policy (Heritage)  
Economic performance (IMD)  
Government efficiency—various sub indexes (IMD) |
| Business capacity | Firm performance (World Bank ICA)  
Corporate governance (CBC)  
Business efficiency—productivity, management practices, attitudes, and values (IMD) |

Source: ADB consultant.
Summary of Performance Indicator Sources

Table A.1 provides a useful summary of agencies and assessment methods that result in performance indicators for private sector development.

<table>
<thead>
<tr>
<th>Donor Agency</th>
<th>Assessment Tool</th>
<th>Brief Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Bank for Reconstruction and Development</td>
<td>Business Environment and Enterprise Performance Survey (BEEPS)</td>
<td>BEEPS is a large data set providing indicators about the business environment and the performance of enterprises. The business environment is multidimensional and includes key aspects of governance provided by the state, such as business regulation, taxation, law and order, the judiciary, infrastructure, and financial services.</td>
</tr>
<tr>
<td></td>
<td>Legal Indicator Survey</td>
<td>A perceptions-based tool used to measure and analyze countries’ legal systems. It takes a snapshot of legal reform as perceived by local lawyers. It assesses the extent to which key commercial and financial laws reach international standards, are implemented, and are enforced.</td>
</tr>
<tr>
<td>Ewing Marion Kauffman Foundation</td>
<td>Global Entrepreneurship Monitor</td>
<td>The monitor aims to understand the impact of entrepreneurship on national economic growth. The notion of an entrepreneurial society is used to reflect many of the elements of an enabling business environment.</td>
</tr>
<tr>
<td>Gesellschaft für Technische Zusammenarbeit</td>
<td>Assessment of Investment Climate</td>
<td>This tool is in development and has not been applied.</td>
</tr>
<tr>
<td>Inter-American Development Bank</td>
<td>Small Business Policy Assessment Guide</td>
<td>A tool to help consultants review and assess policies affecting small businesses.</td>
</tr>
<tr>
<td>Donor Agency</td>
<td>Assessment Tool</td>
<td>Brief Description</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>International Labour Organization (ILO)</td>
<td>Guide for assessing the influence of the business environment on small enterprise development</td>
<td>Prepared for national consultants and ILO constituents to assess the influence of policies, laws, and regulations on small enterprise employment.</td>
</tr>
<tr>
<td></td>
<td>Survey kit: micro and small enterprises</td>
<td>A generic questionnaire and guide for national consultants and ILO constituents to assess the influence of policies, laws, and regulations on the employment decisions of small enterprise owner-managers.</td>
</tr>
<tr>
<td></td>
<td>Business Climate Assessments</td>
<td>Based on a survey instrument developed by the Swedish Employers Organization, this tool has been tested by the ILO in two provinces of Viet Nam.</td>
</tr>
<tr>
<td>Netherlands Ministry of Foreign Affairs</td>
<td>Annual Business Climate Scan</td>
<td>The ministry has prepared the Annual Business Climate Scan for use by its embassies.</td>
</tr>
<tr>
<td>World Bank</td>
<td>Investment Climate Studies (ICS)</td>
<td>Conducted by the Investment Climate Department of the Private Sector Development Vice-Presidency Unit, an ICS is a survey of formal firms (mainly companies).</td>
</tr>
<tr>
<td></td>
<td>Investment Climate Assessment (ICA)</td>
<td>ICAs build on the findings of an ICS; they are also run by the Investment Climate Department of the Private Sector Development Vice-Presidency Unit in response to requests from the field structures. An ICA will draw on a wider body of information than the ICS.</td>
</tr>
<tr>
<td></td>
<td>Foreign investment diagnostic instruments</td>
<td>Conducted by the Foreign Investment Advisory Service of the Private Sector Development Vice-Presidency Unit, these instruments are used for a deeper (narrative) assessment of investment constraints.</td>
</tr>
<tr>
<td></td>
<td>Doing Business Surveys</td>
<td>Part of the Private Sector Development Vice-Presidency Unit, these are expert surveys used to collect data for country comparisons and to alert governments of regulatory concerns.</td>
</tr>
<tr>
<td></td>
<td>Small and Medium Enterprise (SME) Country Mapping</td>
<td>Conducted by the SME Department in the Private Sector Development Vice-Presidency Unit, SME mapping has been undertaken.</td>
</tr>
<tr>
<td></td>
<td>Rural Investment Climate Survey (RICS)</td>
<td>Conducted by the Agriculture and Rural Development Department of the World Bank, the RICS has been developed in collaboration with the Investment Climate Department. It focuses on the investment climate for rural, nonagricultural micro-enterprises. Thus, between an ICS and an RICS urban and rural business environments are assessed.</td>
</tr>
<tr>
<td>United Nations Conference on Trade and Development</td>
<td>Investment Policy Reviews</td>
<td>Investment Policy Reviews help countries to improve policies and institutions that deal with foreign direct investment (FDI), and increase their capacity to attract and benefit from it.</td>
</tr>
<tr>
<td></td>
<td>Investment Compass</td>
<td>This is a new Web-based benchmarking tool, which reveals the competitiveness of each country’s tax system for FDI.</td>
</tr>
<tr>
<td>United States Agency for International Development</td>
<td>Investor Roadmap</td>
<td>The Investor Roadmap assessment emphasizes FDI. Little attention is paid to small, domestic enterprises. However, the issues faced by foreign investors are used to reflect the domestic business environment.</td>
</tr>
</tbody>
</table>

Given that performance indicators are intended to flag problems, stimulate action, and confirm success or failure, they need to meet generally accepted criteria. DFID uses criteria for selecting performance indicators issued by the UK HM Treasury and endorsed by the UK Cabinet Office, National Audit Office, Audit Commission, and Office of National Statistics for use in their own and ministry operations.

According to these criteria, performance indicators need to be:

(i) relevant;
(ii) able to avoid perverse incentives (given that indicators drive behavior);
(iii) attributable—capable of being influenced by the agency using the indicator;
(iv) well defined—data collection will be consistent, and measures easy to understand and use;
(v) timely—for tracking and taking action;
(vi) reliable—accurate enough for intended use;
(vii) comparable—across periods; and
(viii) verifiable—so that processes that produce the indicators can be validated.
The World Bank advocates three general principles to guide the selection of performance indicators\(^\text{19}\): (i) indicators must be meaningful and relevant; (ii) a reliable system for collecting the requisite data must be developed in a timely fashion; and (iii) the borrower’s institutional capacity for using a monitoring and evaluation system, and its willingness to do so, must be taken into account. While these are broader criteria, they capture the same essential factors as those of DFID.

Both sets of criteria typically are summed up by two acronyms—SMART and CREAM. They refer to similar attributes as advocated by DFID and the WB, with the exception that DFID makes a special mention of “avoidance of perverse behavior” and “comparability.”

Avoidance of perverse behavior refers to the indicator stimulating unintended and undesirable behavior. However, a perverse indicator really means that the indicator was not relevant for the purpose intended and the behavior sought. Relevance is a separate criterion. The fact that DFID is specific about avoidance of perverse behavior means that DFID is merely increasing the emphasis on this risk.

International development agencies generally seek comparability between countries, so they can identify good practices and stimulate countries to improve relative to others. Within a country, the key is comparability over time and between regions.

Given the need for comparability across countries, some research and development agencies have initiated their own surveys, because they do not consider this achievable from the country’s own information systems.

Such indicators offer benefits to their sponsors,\(^\text{20}\) such as:

(i) Lower risk of subjectivity, because they rely on a uniform indicator and methodology for their computation.

(ii) Comparative data, providing a powerful motivator for reform (e.g., country B decides it must initiate reforms to score better than country A next time). This is possible because of indicators being prepared on the same basis.

(iii) Reliability and consistency in measuring the impact of reform processes over time.


(iv) Reliable methodology and indicators to monitor and assess the business environment, helping national stakeholders (e.g., enterprise associations and governments) do their jobs better.

(v) Sharper focus on specific aspects of the business environment, rather than being distracted by broader or more general concerns.

(vi) Cost efficiency, because consultants and other assessors of the business environment can follow the proven assessment and indicator methodology, rather than create new ones every time an assessment is needed.