CREATING LAKHS AND LAKHS OF PRIVATE SECTOR JOBS
THROUGH ANALYSIS, SOLUTIONS, AND COLLABORATION

South Asia Private Sector Development Strategy for Fiscal 2010 to 2012
CREATING LAKHS AND LAKHS OF PRIVATE SECTOR JOBS

THROUGH ANALYSIS, SOLUTIONS, AND COLLABORATION
SOUTH ASIA PRIVATE SECTOR DEVELOPMENT STRATEGY FOR FISCAL 2010 TO 2012

THE WORLD BANK
FINANCE AND PRIVATE SECTOR DEVELOPMENT
SOUTH ASIA REGION
ACKNOWLEDGEMENTS

The development of this strategy has been a team effort. Ernesto May, sector director, and Simon Bell, sector manager South Asia PREM Finance and PSD provided overall guidance. The strategy development was facilitated by John Speakman and involved the whole South Asia Finance and Private Sector team. The work began in March 2008 when the team agreed on the core themes of the strategy. Since then, numerous discussions, meetings, and analyses have contributed to strategy development.


We received valuable comments from Dan Biller, Matreyi Das, Ejaz Ghani, Alvaro Gonzalez, Neil Gregory, Barbara Kafka, Sunita Kikeri, Frank Sader, and Bob Saum.

Syed Hye and Aza Rashid managed the editorial process.

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EXECUTIVE SUMMARY

The goal of the strategy discussed here is the creation of a competitive private sector in South Asia. This is in keeping with the mission of the South Asia Private Sector Development Unit which is to help South Asia achieve high, sustainable, and inclusive economic growth to reduce poverty. A key outcome of inclusive growth will be “lakhs and lakhs of private sector jobs,” a key concern of policymakers.

While the South Asia private sector operates in markets that are highly varied, there is a great deal of homogeneity in the constraints facing the sector. In South Asia’s more populated areas, one finds some of the world’s leading multinational corporations, which provide highly sophisticated products and services in the international marketplace. At the same time, in landlocked mountain valleys and on remote tropical islands, small informal businesses operate barely above subsistence levels. Despite such differences, private sector businesses throughout South Asia face many of the same constraints: inadequate infrastructure, cumbersome and opaque regulatory systems, poor governance, and weaknesses in the key factor markets all challenge growth of the sector. In addition, the private sector currently faces a financial crisis of dramatic proportions.

Our interventions to help achieve a competitive private sector rest on four pillars:

- Getting the basics of the investment climate right;
- Making product and factor markets work better;
- Supporting innovative interventions that can have a catalytic impact on growth; and
- Weathering the present financial crisis.

This approach is based on some of the latest thinking on industrial policy. Work that in large part has been led by the Commission on Growth and Development identifies that growth of the private sector depends not only on getting the basics of the investment climate right but on having well-designed and -managed mechanisms to monitor and resolve failures in product and factor markets.
The strategy builds from what we have learned. The project has a solid base of analytic work, technical assistance, knowledge transfer, and projects. Our flagship Investment Climate Assessments (ICAs) have been completed in all South Asian countries, and in a number of countries, repeated assessments have enabled us to track changes in the investment climate over time. This is supplemented by a variety of other analyses in areas such as innovation, microenterprises, and regulatory reform. Technical assistance in improving competitiveness, encouraging formalization, and developing better governance has helped implement analytic recommendations. Projects that encourage sectors—tourism in Sri Lanka, industrial estates in Afghanistan and Bangladesh, and public private partnerships (PPPs) in India—have helped governments support the private sector by addressing basic market failures and inadequate market failures.

Getting the investment climate right is a prerequisite for developing a competitive private sector. This work is the core of our effort. It involves developing an analytic base using diagnostics (Enterprise Surveys and Doing Business indicators as well as an array of issue-specific (for example, Insolvency Report on the Observance of Standards and Codes, or ROSC) and sector-specific analyses (construction sector value chains). We then look at key reforms that encourage competitive markets—the development of competition policies. We also support important transformations particularly the move from public ownership and service provision to PPPs and the privatization of state-owned enterprises.

However, in many cases, this will not be sufficient. Sometimes policies and institutions are not enough to develop a competitive private sector. There are failures in the market, such as the lack of long-term financing for PPP service delivery or the availability of serviced industrial land. In these cases, we help our clients find sustainable solutions that do not distort the market which we may also finance. In this work, we place a special emphasis on resolving market failures for the poor.

We also encourage innovation. For South Asia, innovation is a means to achieving the paradigm shifts in productivity required to achieve competitiveness. This means work at the firm level by identifying key productivity-enhancing behaviors (usually based on innovation) and helping clients find ways of supporting these behaviors. In addition, we
work with government to develop innovation policies. Encouraging development of dynamic new sectors is also an important part of this agenda.

**Achieving our goal requires us also to weather the current crisis.** First and foremost, we must continue to address and advocate long-term investment climate reform that addresses growth and poverty. In particular, we will defend appropriately regulated private sector markets. The financial crisis has placed pressure on PPPs and corporations, particularly those engaged in the export of goods and services. Therefore, we will help design and implement measures that will help support firms in this time of need.

**The institutional aspects of reform—the reform process—needs to be emphasized.** Our analytic work continues to highlight a fairly consistent set of constraints that impact firm-level productivity. However, there are very uneven approaches to reform. What is it that the successful reformers are doing? This strategy encourages these successful approaches, which include public-private dialogue, the development of strong private sector support organizations, and the articulation of stakeholder-driven visions that transcend politics. In this area, knowledge transfer is particular important, with South-South exchanges being a particularly effective way to achieve this. Monitoring and evaluation also helps to measure and identify which reforms and approaches have the greatest impact.

**The process we engage in involves agenda setting, facilitating coordination, and implementation where we have added value.** This unit cannot by itself help our clients. Fortunately, we have many willing partners and collaborators in the wider World Bank Group, the donor community, and private sector business organizations. Our added value comes from the analytic work we do (ICAs and so forth); our position, which links the private sector actors of the Bank; the economic policy, governance, infrastructure, and financial sector; and our ability to finance governmental interventions.

**Implementing this strategy requires us to take some critical actions.** We need to work in a more integrated manner within our department. We need to do a better job of exploiting synergies that exist in our
common effort to encourage growth with our financial sector, governance, and economic policy colleagues. The development of programmatic approaches that integrate analysis and solutions is important. Further decentralization, more collaboration, more outcome-directed monitoring and evaluation, the leveraging of more external resources, and better selectivity also are required.

In parallel, the strategy supports the key crosscutting themes of the Bank Group. Helping develop private sector-based solutions to climate change, encouraging private sector actors to support governance, and developing women's entrepreneurship are all areas to which we can contribute. Based on corporate guidance, our challenge is to develop systematic approaches that are sustainable for each theme.

We are confident that this strategy and the follow-up actions will lead to better-functioning markets and jobs. The strategy is based on what works. Those countries that over 10 years achieved 10 percent-plus growth implemented policies that have many elements of what is proposed. Along with getting the basics of the investment climate right, they have in a very disciplined way adopted measures that make markets work better, built on their comparative advantages, and encouraged innovations that improve firm-level productivity.
CREATING LAKHS\textsuperscript{1} AND LAKHS OF PRIVATE SECTOR JOBS THROUGH ANALYSIS, SOLUTIONS, AND COLLABORATION

SOUTH ASIA PRIVATE SECTOR DEVELOPMENT STRATEGY FOR FISCAL 2010 TO 2012

INTRODUCTION

Objective of strategy

The objective of this strategy is the creation of a competitive private sector in South Asia, a key result area of our PREM, Financial and PSD departmental strategy (Box 1). This will be achieved by helping our clients focus on:

- Getting the basics of the investment climate right;
- Making product and factor markets work better;
- Encouraging innovation; and
- Weathering the financial crisis.

Purpose of strategy

This document presents the South Asia Private Sector Development (PSD) Strategy for fiscal 2010–12. Its purpose is to:

- Provide guidance to management and staff on the core strategic directions of the South Asia PSD Unit;
- Identify a means for monitoring and evaluating unit-level performance; and
- Explain what we do and how we work, to further collaboration with others in the World Bank Group, in particular the International Finance Corporation (IFC), and with our clients and development partners.

\textsuperscript{1} Lakh is a term that means 100,000. It is used or understood throughout South Asia. The term crore, which means 10 million, is used in a number of South Asian countries, but it is not universal.
BOX 1
South Asia Poverty Reduction and Economic Management (PREM) Network and Finance and Private Sector Development (FPD) Departmental Strategy: Strategic Objectives and Key Results Areas

Contributing to our clients' progress in:

GROWTH: Achieving Accelerated and Sustainable Growth
- Macroeconomic stability
- Sustainable investment
- Competitive private sector

INCLUSIVENESS: Making Development Inclusive
- Improved access to gainful employment
- Effective protection against risks

GOVERNANCE: Improving Governance
- Inclusive access to quality and cost-effective services
- Enhanced accountability of public-private interactions

The strategy is a living document and will be updated to deal with changing internal and external client demands. It is expected to inform:

- Country-level strategies that are developed in close coordination with the IFC. In some cases, joint strategies may be prepared.
- Regional-level thematic strategies for cross-over topics that involve the IFC as well as the Sustainable Development and Human Development Sector Departments in the South Asia Vice Presidency. The topics identified are:
  - Markets for the Poor
  - Public-Private Partnerships (PPPs)
  - Regional Integration
  - Governance

Building on the 2002 Bank Group and South Asia PSD strategy
This strategy represents a major evolution from our last strategy. In 2002, following the lead of the Bank Group's overall PSD strategy, our strategy emphasized: (i) investment climate reforms, particularly for
small and medium enterprises (SMEs), and (ii) private provision of infrastructure and social services. For a number of reasons, including lack of demand, competing demand, and ineffective coordination with others engaged on the topic, limited progress was made on some aspects of the strategy, while new areas emerged as priorities. We achieved a lot less on PPPs and SME support than planned and a lot more on analytic products like Doing Business and Enterprise Surveys. The recent update of the Bank Group's PSD strategy notes that this was a general trend seen across the Bank Group.

The current strategy continues the emphasis on the investment climate but also brings in "new industrial policy" approaches that emphasize key lessons of success from countries that have achieved strong economic growth over a sustained period. In addition, there is a strong emphasis on the institutional aspects of reform, because, while the issues are often well understood, the means to implement reforms are less well understood. There is a stronger emphasis on Markets for the Poor. While PPPs remains important, this strategy emphasizes a more collaborative approach with other parts of the Bank Group on this topic. The final major change is that the FPD Department, previously a stand-alone department, is now merged with PREM (economic policy and governance); this means that this strategy emphasizes approaches that link the macroeconomic dialogue with our microeconomic work.

**Strategic guidance**

The South Asia PSD strategy is guided by strategies at the departmental, vice presidential, and Bank Group levels. These strategies recognize the centrality of private sector growth to the development agenda. The Bank Group strategy is straightforward: we will "foster a sound investment climate." The South Asia unit contributes to the FPD departmental strategy, summarized above in Box 1; our strategy links closely with the parallel financial sector, microfinance, corporate governance, information and communication technology (ICT), and tourism sector strategies.

**Core concept and objective**

The core concept is that our efforts will strengthen states' ability to make markets work better. This means getting the basics of markets right, resolving crosscutting and sectoral market failures, encouraging productivity-enhancing behaviors, and achieving key transformations.
This strategy outlines analytic approach of the PSD Unit, the implementation tools we have available to support our clients, and how we partner with others to achieve the job-generation objective. This theme and idea is consistent with our department's Mission, Vision, and Values (Box 2).

The core objective of this strategy is the development of a competitive private sector. In this way, jobs will be created—a theme that resonates with policymakers in all the countries of South Asia. We do this through (i) analysis that helps our clients make better policies, (ii) development of solutions, which range from knowledge transfer to financial support, and, throughout, (iii) close collaboration with clients, others members of the Bank Group, and donors.

CLIENTS AND CHALLENGES

Our clients
The South Asia Region consists of eight countries, many of which are complex and have varied developmental needs. Geographic variation is
remarkable; the countries' geographic features range from small island atolls and remote mountain valleys to large cities that are among the world's leading investment destinations. The South Asia Vice Presidential strategy has identified three basic categorizations: countries and or subregions that exhibit low-income country (LIC) characteristics; middle-income country (MIC) characteristics, and fragile and conflict-affected country (SIC) characteristics. India has states that exhibit characteristics of all three categories. Pakistan and Sri Lanka have regions with characteristics of MICs and regions with characteristics of SICs. This strategy uses this same categorization and differentiates its services to reflect the differing needs. In addition, there are groups that need special attention; this includes the poor—the bottom of the pyramid—and gender. Our work in fiscal 2003 to 2009 is reviewed in the Appendix.

Our clients' main challenges
As this strategy is being developed, South Asia faces some critical challenges:

- Managing a sustained series of shocks from commodity prices to the global financial crisis. In addition, a number of countries suffer from macroeconomic instability.
- Maintaining strong growth in the Big Three (Bangladesh, India, and Pakistan), which has been driven by very high levels of private investment.
- South Asia is one of the least-integrated regions in the world. In particular, small states continue to feel highly vulnerable to globalization pressures that are exacerbated by poor regional integration.
- Dealing with the challenge of inclusion—generating jobs for very large numbers of poor people, who are often located in lagging regions that are often highly rural (Bihar, Baluchistan, northeastern Sri Lanka, western Nepal).
- Coping with the conflict or fragility that affects most countries in the region (but particularly Afghanistan and Sri Lanka).
- The impact of climate change, which could be cataclysmic for some parts of the region.

Building a strong private sector that can adapt and adjust to these challenges remains a critical need for our clients.
Key issues for the private sector in South Asia

The following issues tend to be found throughout the South Asia private sector:

- There is substantial potential to strengthen the investment climate, which will lead to improved productivity and competitiveness, which in turn will drive further investment.
- Infrastructure tends to be a dominating constraint and PPPs are generally seen as the key means of resolving this need.
- There are relatively high degrees of informality and, as a result, few mid-size firms—the “missing middle.”
- The services sector is an important and very positive part of the South Asian growth story.
- Crime, general law and order, and governance are either deteriorating or showing no signs of improvement.
- The institutional side of reform processes is important, and this generally is an area that needs more attention paid to it.
- Subnational and regional catalysts of reform such as strong city-led economic development programs and outward-looking trade regimes are not very evident in South Asia.
- South Asia suffers from one of the lowest female participation rates in the world.

There is lots of scope to improve the investment climate. Poor infrastructure (particularly power), “inspectorate rajs,” labor, land, financial market rigidities, and poor productivity tend to be common problems across the region as a review of South Asian Investment Climate Assessments (ICAs) shows (Table 1). Unfortunately, until recently, there have been few serious efforts to engage in regulatory reform. In 2009 Doing Business rankings, South Asian countries continued their general decline in the overall rankings (Table 2). The same survey shows South Asia’s reform efforts lag behind those of other regions. Despite these problems, because of large market size and dynamics, some countries are perceived as very attractive investment destinations. An A.T. Kearney study ranked India as the second most attractive foreign direct investment destination in the world.²

TABLE 1
ICA Findings Rankings of Main Obstacles to Investment Climate (Manufacturing Sector)

<table>
<thead>
<tr>
<th>Country</th>
<th>Power</th>
<th>Labor</th>
<th>Crime/Law and Order</th>
<th>Regulation/Corruption</th>
<th>Policy Stability</th>
<th>Tax</th>
<th>Finance</th>
<th>Land</th>
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<tr>
<td>Afghanistan</td>
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<td>1</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Bangladesh</td>
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<td>2</td>
<td>6</td>
<td>4</td>
<td>3</td>
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<tr>
<td>Bhutan</td>
<td>4</td>
<td>1</td>
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<tr>
<td>India</td>
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<td>3</td>
<td>6</td>
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<tr>
<td>Maldives</td>
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<td>4</td>
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<tr>
<td>Nepal</td>
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TABLE 2
South Asia Doing Business Rankings

<table>
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<th>Country</th>
<th>2007 Rank</th>
<th>2008 Rank</th>
<th>2009 Rank</th>
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<td>Maldives</td>
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<td>Pakistan</td>
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<td>Sri Lanka</td>
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<tr>
<td>Bangladesh</td>
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<tr>
<td>Nepal</td>
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<tr>
<td>India</td>
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<tr>
<td>Bhutan</td>
<td>136</td>
<td>122</td>
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</tr>
<tr>
<td>Afghanistan</td>
<td>162</td>
<td>161</td>
<td>162</td>
</tr>
</tbody>
</table>

*Infrastructure is a particular concern in South Asia.* In virtually every country, infrastructure emerges as a binding constraint. PPPs are the policy instrument of choice to deal with this constraint. Unfortunately, this has not worked as well as hoped for a variety of
reasons including organizational weaknesses, the inability of the financial sector to provide long-term financing, the existence of subsidies and supply-side weaknesses in terms of firms' availability to participate in partnerships, and the government's lack of capability to prepare projects.

**Informality is common.** This has a strongly negative impact on productivity—medium and larger firms tend to be dramatically more productive. In South Asia, there is a paucity of medium-size enterprises when compared with international norms. In India, 95 percent of employment is in the informal sector. However, it is important to strike the appropriate balance. As many small informal firms gain no productivity benefits from formalizing, formalization efforts for such firms could be counterproductive.

**The services sector is a critical part of the growth story.** Ranging from the low-tech supply of domestic labor to foreign markets to high-powered software developers, services are very important in South Asia. It is a powerful source of jobs. The information technology enabled services (ITES) sector has estimated that the direct and indirect job multiplier for each ITES job is 8! Moreover, the potential for the sector's continued contribution remains high.

**Crime, law and order, and governance impede investment.** Most countries in the region suffer in whole or in part from these problems; in some cases, this manifests itself in conflict and tension. This is an area that requires much more attention from policymakers, as our ICAs show it as a critical success factor for investors. These problems link in part to weaknesses in the judicial system, which mean extra-judicial measures are often employed to resolve contractual disputes.

**The institutional side of reform needs more attention.** Past governmental efforts to support PSD have tended to follow old-style industrial policy approaches, have not been particularly effective, and have tended to reward rent-seeking behaviors. The process tools of shared visions, monitoring and evaluation, public-private dialogue, regulatory impact assessments, organizations that focus
on facilitation, and promotion are either just emerging or have not yet developed fully.

**Subnational and regional reform catalysts can be developed.** Municipalities do not play the role they do outside the region in encouraging growth at the local level. From a regional perspective, there is remarkably little cross-border trade and investment. South Asia is one of the least globalized regions in the world. The recent emergence of regional trade agreements (South Asian Free Trade Agreement, or SAFTA, and Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation, or BIMSTEC) is a positive but still nascent development.

**Gender needs attention and can be a win-win policy.** Incomes of households whose women members have jobs are significantly higher than incomes of households whose women do not work. Higher household incomes and enhanced economic status of women in turn reduce the number of children per household, drive higher levels of education and health care for these children, and increase household savings and the ability to accumulate assets that generate additional income.

**Analysis and Solutions**
The South Asia PSD Unit delivers financial resources, technical assistance, policy analysis, and knowledge that foster a sound investment climate and lead to growth.

Our approach is based on the following four pillars:

- **Getting the basics of the investment climate right**: a blend of core analytics (Enterprise Surveys, Doing Business analysis, value chains) and technical assistance support to measures that modernize the regulatory environment, better define the role of the state and the private sector, strengthen competitiveness, improve productivity, and develop better governance. This includes the “how to” of reform.

- **Making product and factor markets work well**: this includes reforms that encourage PPPs to provide infrastructure services, land market reforms, development of special economic zones, trade and logistic reforms, and support for the access to a finance agenda. Part of this work supports markets to reach the poor.

- **Encouraging innovation**: developing a mix of policies and measures that encourage firms to innovate and improve productivity by developing quality standards, export markets, better trained staff, technology, and new product lines.

- **Weathering the crisis**: this work needs to addresses four key trends: (i) a flight to quality, which means lagging regions suffer even more, (ii) a drying up of key investment and trade channels, (iii) corporate distress, and (iv) fiscal stress.

In these four areas we work sectorally and spatially to identify, analyze and resolve issues. Key sectors are tourism, ICT, agro-industry, and others. We use the same approach in work on the subnational and city levels.

These areas are based on current client demand (our current portfolio); the forward-looking guidance in Country Assistance Strategies, which emphasize the importance of the private sector; our departmental, vice presidential, and Bank Group strategies; and the latest academic thinking on the microeconomic aspects of growth. This results in a broad range of possible interventions, and thus the core challenge is to employ selectivity.

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Getting the basics of the investment climate right

Regulatory, governance, and institutional measures—representing the basic rules of the game—and mechanisms to enforce the measures are essential for a sound investment climate. Our work consists of: analysis to lead the global competitiveness dialogue, policy and institutional support and knowledge transfer. In a number of cases this work supports multi-sectoral or sectoral Development Policy Operations, through the Bank.

Main analytic tools and approaches:

- ICAs, which include data collection through Enterprise Surveys as well as other original analytic work on topics as diverse as the unorganized sector, periurban development, rural development, and the ICT sector. Box 3 describes the Nepal ICA.

BOX 3

Nepal ICA

Context:
This is a critical time for Nepal's economy; there is an opportunity to translate the gains from the peace process into benefits for the economy and the people of Nepal. To accelerate growth and create more employment, Nepal requires substantial increases in investment and productivity levels, which in turn calls for improvements in the investment climate and enabling environment for private sector development.

The Nepal ICA, along with a study on remittances and migration, are initial steps in engaging with the government to advance the growth agenda for job creation and macroeconomic stability in the country. These two efforts will be followed up with policy dialogue and other relevant operations.

Background:
Nepal is a post-conflict country with immense development challenges that can only be addressed by a robust private sector. The ICA will evaluate the quality of the investment climate under which enterprises operate, identifying areas where constraints could be removed, and market-support institutions could be enhanced. The ICA will contribute to a better understanding of the constraints to expanding employment and improving productivity for a number of industries/sectors, in Kathmandu and outside of it.

(continued)
Objectives: The objectives of the Nepal ICA are to:

- Identify key constraints that affect the investment climate in Nepal;
- Measure impact of investment climate on productivity, employment generation, and ability to attract FDI; and
- Provide policy recommendations that will address major impediments to the investment climate and help with the prioritization of actions.

Activities: The main activities undertaken under the ICA include:

- Five background studies on the tourism sector, the informal sector, the agro-industry, labor issues, and strategic partnerships and links with neighboring countries;
- Enterprise Survey of manufacturing, retail, and services sectors;
- Workers’ survey; and
- Informal survey.

Progress to date:

- Five background studies have been commissioned and received.
- Because the list of existing firms lists (sample frames) are overlapping and not comprehensive, block enumeration of enterprises in the main towns where economic activity takes place was undertaken.
- A Nepali survey firm was contracted, training of enumerators was conducted, and survey launched.

Next steps: Data cleaning, report writing, and consultation/ dissemination

The ICA is a joint effort of SASFP, SASEP, FPDEA, IFC/SEDEF, and the Nepali Ministries of Finance and of Industry, Commerce and Supplies.
Doing Business indicators at the national and, in the cases of India and Pakistan, sub national level;

Factor market analysis: land, labor, and capital, with an emphasis on access;

Product market analysis in conjunction with PREM and Transport colleagues, trade policy and facilitation analysis, and competitiveness assessments;

Innovation and technology analysis;

Sectoral and spatial analysis beyond Enterprise Surveys and Doing Business studies to look at the specific issues that face sectors and sub national and urban areas;

Diagnostic work that examines the specific needs of disadvantaged groups: the poor and gender;

Reports on the Observance of Standards and Codes (ROSCs) in insolvency, corporate governance.

Policy support:

Entry, operation, and exit rules (regulatory simplification/strengthening: registration, dealing with licenses, employing workers, paying taxes, and closing a business);

Competition, competition policy, and trade policy;

Corporate governance and investor protection;

Property rights and contract enforcement institutions (including commercial dispute settlement and Alternate Dispute Resolution mechanisms);

Identifying ways in which formality can be encouraged.

Institutional support:

Strengthening public sector institutions that support the private sector at the national state and municipal levels (investment promotion agencies, competition agencies, local economic development departments);

Developing an institutional architecture that ensures government delivers private sector regulatory, policy, and support services in an optimal way, and avoids overlapping roles and responsibilities;

Advice on the how to of reform: public-private dialogue (Box 4), monitoring and evaluation, vision, and policy development;

Improved private sector governance through mechanisms such as integrity pacts and codes of conduct; 4

State-owned enterprise (SOE) reform.

Knowledge development through the proactive sharing of international development lessons.

4 www.fightingcorruption.org
Effective public-private dialogue is a critical component of successful private sector development strategies. South Asia as a region has lagged in the development of this type of dialogue. Recently, however, it has emerged as a key mechanism for organizing and monitoring investment climate reforms. The World Bank Group plays an important role in encouraging this type of dialogue and sharing international lessons of experience.

Bangladesh is the country that has advanced most in this dialogue, and has established the Bangladesh Better Business Forum. The forum reform scorecard is set out below:

<table>
<thead>
<tr>
<th>Implemented</th>
<th>Not approved</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>52</td>
<td>8</td>
<td>249</td>
</tr>
</tbody>
</table>

**Getting product and factor markets to work better**

There is some consensus that markets often do not provide research or knowledge spillovers, learning curves and network externalities, infrastructure, and so forth as public goods, because of coordination failures and information externalities. Market failures that typically occur in the private sector include the following:

- Lack of basic value chain infrastructure such as ports, airports, and cold chains;
- Limited availability of serviced, well-located industrial land through industrial parks, zones, and land banks;
- Poor access to finance for micro, small, and medium enterprises (MSMEs); and
- Low skills.

The South Asia PSD Unit can play a role in designing interventions that get these factor and product markets to function better. In infrastructure
provision, active labor market policies and access to financial and other departments of the Bank will often take the lead. One important area that the unit leads is the provision of well-connected, serviced industrial land, which can be in the form of industrial estates, ICT parks, special economic zones. Closely linked to sector focus in this context is the emerging area of growth poles.

**Markets for the poor**

It is recognized that informal household-based microenterprises and small firms account for the vast majority of income and job generation, especially in South Asia's poor countries. Where unemployment rates in the formal sector are high, informal sector microenterprises are a residual employer with a crucially important role to play in improving welfare, creating income-producing opportunities, and alleviating poverty. Because of their informality, these microenterprises do not have access to traditional forms of bank-based finance nor do they have access to traditional business and technical skills development programs. SASFP to date has had limited engagements to support the informal sectors in countries in which we work with innovative products, despite the importance of the sector to our poverty alleviation objectives.

The rural sector is of particular interest given its dominant position in South Asia. It is an area on which we collaborate closely with our rural colleagues. We engage when aggregation takes place in terms of delivering financial services, procurement of farming inputs, and product markets.

**PPPs**

PPPs are a key means to help get key factor markets working—in particular, the availability of serviced well-connected industrial land. Moreover, service delivery of infrastructure and social services remains a critical challenge in South Asia. Every country needs more infrastructure and social services but lacks the financial resources to provide them. For example, in India, in infrastructure alone, this gap is estimated at 2.5 percent of gross domestic product. There is an expectation that PPPs can resolve such funding gaps.
The FPD has three key roles to play in supporting PPPs in South Asia:

- Helping integrate PPPs into the government’s central economic planning and budgeting processes, with clear guidelines and standards;
- Mainstreaming PPP in our economic dialogue with countries, in two parts: (i) helping resolve the political economy issues around subsidy reform, which is essential for successful PPPs, and (ii) making the linkage between infrastructure and growth; and
- Supporting the development of capital markets to ensure availability of local long-term financing for well-structured PPPs.

In doing this work, we clearly need to coordinate closely with other parts of the South Asia Department and the Bank Group. Our sector colleagues in Sustainable Development (SD) and Human Development have a fundamental role in ensuring their sectors are properly organized for PPP by helping sectors structure appropriately (separation of delivery, financing, policy, and regulatory responsibilities) and develop regulatory and transaction implementation capability. Box 5 describes how the South Asia PSD Unit works in Bangladesh.

**BOX 5**

Bangladesh Investment Promotion and Financing Facility

*Background:* Infrastructure investment is at the base of national growth, and yet finding long-term financing for large investment projects has been a continuous challenge for fast-growing developing countries. In Bangladesh, electricity is particularly crucial, and it has been estimated that power shortages rob the country of as much as 2 percentage points of its income growth.

*Intervention:* The Investment Promotion and Financing Facility leverages private sector funds for capital projects, especially infrastructure, while stimulating an enabling regulatory environment and promoting the role of private sector entrepreneurs in project development. This work supports the PPP legal and promotion framework in the country, as well as builds capacity on managing, negotiating, structuring, and (continued)
carrying out long-term infrastructure financing projects, in a partnership between government and the private sector. The initiative addresses several inherent problems in a developing country such as Bangladesh, including the underdeveloped financial system, the issue of limited foreign exchange reserves, and the lack of long-term finance. The financing mechanism is an IDA credit disbursed via eligible participating financial institutions to qualifying infrastructure projects carried out by the private sector.

Commentary: After an initial gestation period of building awareness and capacity, four power plants have been completed, of which two have already started operation, and there are another four in preparation. The IDA team collaborated closely with the Bangladesh Board of Investment, focusing capacity-building efforts on the Private Infrastructure Committee (PICOM), the Board of Investment secretariat dedicated to infrastructure project financing. The Bangladesh Private Sector Infrastructure Guidelines were adopted in October 2004. Private sector participation in infrastructure projects increased from 3 to 20 projects in the past three years. Financial institutions, entrepreneurs, and government officials have been trained in project management and finance. At about half-life, the initiative is becoming popular enough as to require funding replenishment.
Encouraging innovation

In the area of innovation, we work on three somewhat interlinked concepts:

- Encouraging firm-level innovation that enables firms to move to best practice;
- Encouraging policies that improve best practice (for example, research and development [R&D]). We would like to see each South Asia country develop its own innovation policy;
- Encouraging new "untried" sectors (for example, ICT or biotechnology).

As explained in the Unleashing Innovation Report (Box 6), there are a number of pro-productivity activities that private sector firms, and especially SMEs, often eschew because of perceived risk. The empirical evidence shows in an unambiguous way that firms that engage in these behaviors are more productive than firms that don’t. These kinds of activities include:

- Vocational training, especially on-the-job training and certification;
- R&D (new product development, technology acquisition, and so forth);
- Capital investments, not only in production but also in areas such as energy saving and environmental mitigation;
- Export market development;
- Quality Development Systems (International Organization for Standardization [ISO] accreditation and so forth); and
- Business incubation.

Initially this work is promoted through grant programs that encourage firms to adopt these types of behaviors. Venture capital and angel financing are typical follow-on steps.

Designing interventions that achieve these incomes is not easy. There are risks of moral hazard, substitution of activities that would have taken place in any event, and other challenges. The South Asia PSD Unit can support the implementation of policies and interventions that encourage these behaviors in the right way, in the form of financial support and technical assistance.
Unleashing India's Innovation

This report, which reviewed the India 2006 Enterprise Survey, found:

- Innovation outputs are strongly associated with enterprise productivity.
- Absorbing existing technology has a stronger more significant association both with productivity than does spending on R&D.
- Enterprises that develop new product lines and acquire new technology are likely to be larger, export oriented, and ISO certified.
- The most important channel for absorbing existing knowledge is the use of new machinery and equipment, followed by hiring of personnel.

### Increased productivity and welfare through broadly based innovation

- Improving the investment climate, especially sharpening competition

### Knowledge creation and commercialization

- Increasing private R&D efforts
- Improving the allocation and efficiency of public R&D
- Strengthening commercialization of knowledge

### Knowledge diffusion and absorption

- Hampering formal creation activities for the poor
- Promoting and diffusing indigenous grassroots innovations
- Helping informal sector better absorb existing knowledge

### Inclusive innovation

- Spurring enhanced global knowledge flows
- Improving the quality, diffusion, and absorption of metrology, standards, testing, and quality services
- Strengthening absorptive capacity of micro, small, and medium enterprises (MSMEs)

### Support mechanisms

- Skills and education
  - Addressing basic skills (improving primary and secondary education, and informal sector skills)
  - Building worker and manager skills
  - Increasing number of highly skilled engineers and researchers (improving India’s university systems)

- Information infrastructure
  - Expanding ICT infrastructure in urban and rural areas
  - Developing ICT infrastructure for high-end research institutions and other applications

- Innovation finance
  - Providing financial support for early-stage technology development
  - Deepening early-stage venture capital
  - Promoting pro-poor finance
  - Strengthening finance for technology absorption by MSMEs

WEATHERING THE FINANCIAL CRISIS

The impact of the present financial crisis is likely to affect South Asia private sector firms throughout this strategic cycle. While this does not affect our strategic approach, there will likely be an impact on demand for our services. The first signs have appeared, with impacts on financial markets, which have seen a reduction in the flow of investment funds (debt and equity) and remittances. Trade has also been affected, with reduced demand for exports of manufactured goods and services. Weakening exchange rates have changed the terms of trade. Lagging regions are being affected in particular. This in turn has led to corporate and fiscal stress.

For some, these circumstances will be interpreted as a justification to increase the role of the state. This is dangerous as the state does not manage risks well, nor is it as efficient as the private sector. The challenge as always is to get the balance right—to get the private sector to do the things it does best and vice versa. The state cannot solve it all! Moreover, the state, which is often fiscally stretched itself, does not have the resources to solve all these problems. PPPs and other fiscal space mechanisms become even more important in these times.

The present crisis provides policymakers not only challenges but also significant opportunities for reforms. These challenges include resisting the temptation to bail out or protect poorly performing firms. The opportunities come through making markets work better by using the window of reform opportunity that has arisen through the crisis and addressing fundamental but politically difficult reforms: (i) labor and land market reforms that unleash the private sector, (ii) addressing weaknesses of governance particularly in the business environment, (iii) and encouraging moves that will improve productivity.

In terms of responses, the following priorities can be identified:

- The development of financial instruments to deal with market failures in PPPs, trade, and investment;
Regulatory reforms that unblock investments, for example, business licensing, property registration, and construction permits;

The need to find ways to deal with corporate distress through efficient firm exit, provision of working capital, PPPs, and labor market reform, and

Maintaining a focus on improved productivity.

Sectoral and spatial support

When a sectoral, a cluster of firms, or a location-specific lens is applied to private sector activities, a set of priority issues often emerges, which allows public policy to better harness existing market opportunities. Growth tends to happen in clusters (ecosystems in the ICT sector), that is, specific sectors in specific places. This analytical approach allows policymakers to identify static and dynamic market failures that inhibit structural transformation. These issues may result in quite a different set of priorities from that of the overall business climate approach.

The South Asia PSD Unit has identified the following sectors that warrant specific attention and analysis:

- Agro-industry: With 75 percent of the region's population living in rural areas, this sector warrants special attention.
- Manufacturing: Building a competitive manufacturing sector is key to absorbing the transition of people from the rural to urban sectors.
- Construction: This is a sector that employs large numbers of relatively unskilled workers.
- ICT: Not only is this a regional success story in terms of sector development, but is also important to service delivery in geographically challenged areas (Box 7).
- Tourism: For several smaller countries tourism is a major sector. In all countries, it is an important development opportunity.

At the country level, the specific sectors that may be addressed will vary and depend on what is important there. This may include the
BOX 7
Bhutan Private Sector Development Project

The Bhutan PSD project focuses on generating gainful employment through the use of information technology and the development of the ITES industry. Key features of the project include:

1. Pioneering a public investment to leverage private investment into an ICT Park financed under a PPP—a model considered as a pilot for attracting FDI and domestic investments into new Special Economic Zones in Bhutan. Government involvement in the Park is aimed at ensuring basic infrastructure delivery, and relieving existing market failures that include land ownership constraints to FDI. Public investments will also support public goods in the Park, including training and incubation infrastructure, as well as quality certification.

2. Focusing on skills development through world-class industry certification of graduates and trainers, regional industry-sponsored training linkages, and entrepreneurship development to support the expected uptake of the ICT industry.

3. Automating the banking sector and introducing payment system financial infrastructure to increase the efficiency of the financial sector and generate new financial products that will unleash private sector development.

sectors mentioned above but may also include other sectors. At the city or regional level, there is scope for analysis to identify issues inhibiting the development of cross-sectoral clusters and empower local economic development.

In both situations, the South Asia PSD Unit can provide the analytic support and technical assistance to build capacity, resolve regulatory failures, develop strategies, and provide know-how. This analysis includes value chain and sector productivity analysis, cluster analysis, and sector competitiveness assessments.

Activities that support crosscutting themes of the bank

A number of the South Asia PSD Unit's activities support the crosscutting Bank themes. While not private sector activities per se, the
activities benefit from private sector approaches. Moreover, they contribute in turn to the effectiveness of private sector firms. For example, failure to address environmental issues can have long-term calamitous impacts for firms—value can be destroyed, which impedes the firms’ ability to raise capital. HIV and AIDS can severely deplete a firms’ workforce. Ignoring the gender dimension impacts the availability of skills and entrepreneurs. In countries of the Organisation for Economic Co-operation and Development (OECD), the majority of entrepreneurs are women. Our approach to the critical issue of governance is outlined in Box 8.

BOX 8

Private Sector Dimensions of Governance

In the 12 years since former World Bank President Wolfensohn declared war on “the cancer of corruption,” much has been accomplished by the Bank and its borrowers to define and implement Governance and Anti-corruption (GAC) strategies. Until recently, the primary focus of attention was on country-level governance and fiduciary issues. More recently, attention has shifted to governance and corruption issues at the sector and project level.

Complex regulations and red-tape and poor corporate governance foster corruption, undermine investor confidence, and impede reaching the objective of ensuring an efficient allocation of resources through private investment decisions.

- Corruption adds up to 10 percent to the total cost of doing business globally, and up to 25 percent to the cost of procurement contracts in developing countries.

- Moving business from a country with a low level of corruption to a country with medium or high level of corruption is found to be equivalent to a 20 percent tax on foreign business.

- Almost 45 percent of respondents have not entered a specific market or pursued a particular opportunity because of corruption risks.

Corruption is a particularly high constraint to doing business in South Asia, as identified in the chart.

(continued)
The private sector dimensions of the governance agenda at the sectoral policy and project level are reinforced by several aspects of SASFP's core analytical work program, including our:

- Investment Climate Assessments;
- Corporate Governance Reviews;
- Competition Law and Policy; and
- E-Development Strategies and Implementation.

South Asia PSD Unit's Partnering Role

PSD is a theme, as opposed to a sector per se, and as a result, there are many players, both within the World Bank Group and outside.

World Bank Group

South Asia PSD is part of the South Asia FPD Unit. The unit, based in Washington, DC, is highly decentralized with approximately 50 percent of its 40 staff located in country offices in Kabul, Afghanistan; Dhaka, Bangladesh; Delhi, India; Kathmandu, Nepal; Islamabad, Pakistan; and Colombo, Sri Lanka. Its overall role within the World Bank Group is illustrated in Figure 1:
At the unit level, there is a close linkage with the financial sector, with many joint or interrelated activities and many staff engaged in both the private and financial sector work programs. The private sector team has an important role to play in developing the quality of demand for financial services. This can be done by encouraging corporate governance, by ensuring PPPs are designed properly, or by private sector growth itself. For example:

- Access to finance work uses analytic work developed by Enterprise Surveys.
- Financing interventions that support private sector infrastructure financing uses diagnostic work and technical assistance learning from supporting PPPs.
- SME financing often has substantial technical assistance associated with it to deal with other critical parts of the SME agenda—knowledge failures (markets, know-how, and so forth) and capability failures (management, technology, and so forth).
- Microfinance, which is working to build a private sector for the bottom of the pyramid and to create markets for the poor.

The Financial Sector Unit has a parallel strategy, the key elements of which are listed in Box 9.

The South Asia PSD Unit collaborates closely with other parts of the World Bank Group engaged in supporting the private sector.
BOX 9
South Asia Financial Sector Development Strategy

The strategy emphasizes the following key pillars:

- Increasing the availability of long-term local currency financing to support higher sustained growth;
- Expanding access to financial services to cover those who are currently underserved or excluded from the formal financial system and to support more inclusive growth; and
- Strengthening the institutional infrastructure underpinning the efficiency, soundness, and stability of the financial sector.

This includes the IFC, Foreign Investment Advisory Service (FIAS), and Multilateral Investment Guarantee Agency (MIGA), and, in South Asia, three large multidonor facilities: the Bangladesh Investment Climate Fund (BICF), Private Enterprise Partnership Middle East and North Africa (PEPMNA), and SEDF. At present, the South Asia unit has 11 joint activities, representing approximately 65 percent of the PSD Unit's total activities. The collaboration which is demonstrated in Table 3 covers analytic work, technical assistance,
and financing operations. The range of collaborative activities is illustrated below:

- With FIAS, we are jointly undertaking subnational Doing Business analyses in India and Pakistan.
- With the IFC and BICF, we have jointly mobilized resources (in the form of grants and credits) to support industrial zones in Bangladesh.
- With SEDF, we are doing joint ICAs in Nepal and Bhutan.
- With the World Bank Institute (WBI), we are working closely to deliver best practice knowledge improvements on the business regulatory environment in lagging states in India. We are also working with the WBI program on “Business-Led Actions to Fight Corruption Program”.
- With PREM, we are working to develop an integrated approach to growth in Afghanistan.
- With the Sustainable Development Department, we are supporting implementation of a comprehensive PPP program in India.
- With the Finance Economics and Urban Department, we work on Local Economic Development in Afghanistan and PPPs in Sri Lanka.
- We work with WBI’s FPD Unit, on many topics including regulatory reform, innovation and private sector collective action to fight corruption.
**Wider development community**

In addition to mobilizing resources from multidonor trust funds, the South Asia PSD Unit works directly with donors, either on an individual project basis or a collective programmatic basis.

The PSD Unit works with private sector business membership organizations (BMOs), independent think tanks, universities, specialized government private sector agencies, and regional bodies such as the South Asia Association for Regional Cooperation (SAARC). There is modest interaction with private foundations such as the Aga Khan Foundation, and this is an area that may develop in the future.

**KEY ACTIONS**

Delivering these services to our clients in close collaboration with others will require changes to the way we do business. In some cases, the change will be modest and reflect continued implementation of existing strategies. In other cases, the change will be fundamental. The following actions address the following dimensions:

- The external dimension: What do we need to do to respond better to our clients, in terms of more relevant and better quality services?
- The internal dimension: How do we organize ourselves better to respond to clients?

**External dimension**

The key external element dimensions are:

- Move our support for clients in the low-income and fragile categories to a **solutions emphasis** with a special focus on inclusive job creation.
- In MICs maintaining a strong Bank-financed diagnostic capability, move to more **client- and donor financed** advisory work.
- Develop **programmatic approaches** that blend analysis and implementation.
- Exploit fully the **synergies** that exist between our financial sector and private sector work programs.
Encourage linkages between our macroeconomic and microeconomic work, including governance.

Catalyze regional and interregional cooperation.

**LICs and SICs.** At present, the unit’s focus can be strengthened to address the needs of LICs and SICs, as well as poor urban and rural communities and gender. In the planning period, we will try and increase our emphasis on identifying solutions and assisting our clients to implement them. The approach in Afghanistan, described in Box 11, blends our analytic work with specific project-based solutions that strengthen markets.

**MIC support.** As more and more of South Asia moves to middle-income status, we need to develop a specific approach for this group. We will continue to support the analytic needs of our MIC clients. Together, we will attempt to develop solutions to the needs identified by our work. To deliver this support, we will work with donors and clients to resolve financing issues.

**Move to programmatic approaches.** Closely linked to the three previous strategies is the need to develop work on a programmatic basis. This means ensuring our analytic work is integrated with efforts to identify solutions. About half the countries in South Asia have programmatic approaches. At the end of the planning program, we would like all countries to be working on a programmatic basis.

**Financial sector synergies.** We do not fully exploit the synergies available from working certain aspects of the private sector and financial sector agendas together. In the plan, we will attempt to develop more joint projects. These are likely to be in the areas of access to finance, microenterprises, SME support, and PPPs.

**Macroeconomic linkages.** This is the first plan period in which we will be fully integrated departmentally with the PREM unit. Our department has already identified the opportunity to develop stronger linkages between the macroeconomic work of our PREM colleagues and our microeconomic work as an important agenda as we move forward. In particular, the Doing Business and ICA data can be used more intensively in examining the microfoundations of growth. In practice, this will be reflected in more joint analytic work.
Regional and interregional collaboration. This is an area of weakness and at the same time an area of opportunity. Some estimates suggest more integration would lead to substantial growth. At the moment, we do very little in this area, and we need to be more actively engaged.

Internal dimension

The key internal dimension elements are:

- Improve the selectivity of activities through alignment with the creating job strategy, and avoid where possible ad hoc work.
- Continue to maintain a highly decentralized delivery capability.
- Strengthen collaborative approaches within the World Bank Group and with our other development partners.
- Continue to leverage delivery capability through specialized consultants and Bank Group cross-support to maintain deployment flexibility.
- Build a monitoring and evaluation capability that focuses on development outcomes.

Selectivity. Past approaches have tended to be ad hoc, and we have engaged in activities that fall outside the strategy described here. We have responded well to specific client demands that have not necessarily been driven by the dialogue and analysis. As we move forward, we will attempt to improve selectivity.

Decentralization. The unit is already highly decentralized. In the forward planning period, it is assumed decentralization will continue, to the point where the day-to-day leadership of most programs takes place in the country offices.

Collaboration. As illustrated later in this strategy, substantial collaboration already occurs. However, this trend should continue and increase over the next planning period. In particular, we need to address the issue of silos within the Bank and reach out in a complementary way with other components of the World Bank Group.

Monitoring and evaluation. Our present monitoring and evaluation approach focuses on traditional Bank measurements of project quality at the project level. This is then aggregated to measure unit-level performance. At present, there is no approach to looking at aggregate
outcomes. In this planning period, we will attempt to develop a number of intermediate outcomes that link to our objective of developing private sector jobs.

**Service delivery.** As a unit, we are already highly leveraged. We make extensive use of consultants and cross-support from other Bank units. This approach will continue in the forthcoming planning period.

These strategies are illustrated in Figure 2. The diagram depicts our assessment of where we are now and where we would like to be at the end of the planning period.
Afghanistan PSD Programmatic Work

Background: Growth through the private sector remains one of the most formidable development challenges in Afghanistan. How do you build a thriving private sector that generates large numbers of jobs in an environment that suffers from many weaknesses? A comprehensive treatment of the question is required that enables a sustained dialogue over a number of years.

Intervention: This programmatic work that carries forward each year is undertaken in partnership with PREM and looks at the broad growth agenda. This work attempts to develop a series of policies and practical interventions that moves Afghanistan forward. The work includes an Enterprise Survey, sector-level analyses in construction and agribusiness, a review of the financial sector, trade policy work, and macroeconomic analysis. This work generates results-oriented reform and initiative recommendations.

Commentary: The programmatic approach that is highly flexible:
• is well received by the client who has limited capacity to work with a series of ad hoc interventions;
• has facilitated the development of a common approach by donors; and
• has enabled quick response to needs as they arise.

Delivery Models
Our services are delivered as part of the country program, which is agreed on an annual basis with the Bank management. In turn, for each country, a multi-year program that drives the key themes emerging from our analytic work is developed. Box 10 illustrates this approach in Afghanistan. While there is always the need to respond to immediate client needs, we will minimize this type of support.

While the majority of activities will be funded through country bank budgets and IDA and IBRD resources, centrally funded programs, trust funds, bilateral donor support, and fee-based services will make an important contribution to implementation of the strategy.
At the country level, we will prepare individual country strategies. These strategies will be based on the South Asia PSD Unit strategy and tailored to the on-the-ground situation in each country. These strategies will reflect the specific country issues, the status of the dialogue, the resource envelope we have to work with, and management guidance.

Delivering this broad program of support requires a staff with a mix of integrative and specialized skills. We cannot maintain such a staff but instead will draw upon support from other parts of the Bank as well as from a panel of experienced consultants. We also need to keep staff updated on the latest developments in developmental thinking on the topic and will ensure we have understanding the range of products available for deployment from within the World Bank Group.

**Monitoring and Evaluation**

Measuring the impact of this work can be looked at in the aggregate and at the project level. In terms of overall impact, the strategy will contribute to increased levels of private sector growth. While this is difficult to attribute to any one PSD Unit intervention, there are a number of important intermediate outputs we can monitor. We will work with the PSD center as they develop a standard set of PSD indicators.

These include:

- Increased number of formally registered firms;
- Improvements in the business regulatory climate;
- Development of monitoring and evaluation systems for private sector development;
- Improved corporate governance as measured by increased willingness to lend;
- Growth of term finance to SMEs; and
- Number of jobs transferred from public to private sector.

We intend to monitor these outcomes on a regular basis.
<table>
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<tr>
<th>Development Objective</th>
<th>Approach</th>
<th>Analysis and Solutions</th>
<th>Collaboration</th>
<th>Outcome</th>
<th>Intermediate Outcomes</th>
<th>Monitoring and Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Private Sector</td>
<td>Improve the functioning of markets by working on:</td>
<td>Blend of analyses, technical assistance, knowledge transfer, advocacy, and financial support</td>
<td>Widespread collaboration within the World Bank Group, and with donors and civil society</td>
<td>Inclusive growth that will lead to an increase in quality jobs</td>
<td>Increases in formally registered firms</td>
<td>Through Enterprise Surveys, Doing Business, and other existing statistical measures</td>
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<td>• Getting the basics right</td>
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<td>• Making markets work better</td>
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<td>• Encouraging innovation</td>
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<td></td>
<td>• Addressing sectoral and spatial needs</td>
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**TABLE 4**

Logical Framework for South Asia PSD Unit Strategy
CONCLUSIONS

The South Asia PSD Strategy highlights the critical role the South Asia PSD Unit needs to play to ensure our clients benefit fully from what the World Bank Group has to offer. **It is our group that defines the private sector development agenda** within the World Bank Group. This in turn highlights the unit’s value added and focus:

- Developing and delivering integrated private sector development policy advice and implementation support;
- Emphasizing collaboration within the World Bank Group and our external partners; and
- Establishing critical macro/micro linkages and real sector/financial sector linkages with our PREM and financial sector colleagues.

Through this focus, we will achieve our objective of creating private sector jobs as a result of better-functioning markets.

The logical framework on page 34 (Table 4) summarizes the strategy.
## Appendix: South Asia Private Sector Development Work Program
### FY03 to FY09

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Country</th>
<th>Project</th>
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*(continued)*

36
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