FIAS:
The investment climate advisory service

FY2006
ANNUAL REPORT
FIAS advises governments of developing and transition countries on how to improve their investment climate for domestic and foreign investors. FIAS, a multi-donor service of the International Finance Corporation (IFC) and the World Bank, focuses on four main areas: investment climate diagnostics, investment laws and promotion, administrative barriers solutions, and industry competitiveness. Since its establishment in 1985, it has assisted over 130 countries in increasing the level and impact of private investments through more than 680 projects.

A distinguishing trait of FIAS’ modus operandi is the ability to respond quickly to the requests of our clients—an impossibility without the prompt mobilization of co-financing by our donors. Current core donors to FIAS include Canada, Ireland, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom, while regional funding is provided by Australia, Canada, New Zealand, Ireland, Switzerland, and Sweden. Finally, Australia, Canada, Denmark, the Netherlands, Sweden, the United Kingdom, and the United States of America also provided direct financial assistance to our clients on selected projects.

For more information on current and past FIAS projects, our areas of expertise, our client and donor base, and a downloadable version of this annual report, please visit our website at www.fias.net.
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FY06 Operational Results

Project performance

In FY06, FIAS completed an all-time high of 84 projects, surpassing last year’s 74 projects and 60 projects in FY04. More than half of these projects were in frontier markets. Equally important, our project base remains strong with 140 assignments under development, illustrating the continuing increase in demand for FIAS services.

CLIENT SATISFACTION
Overall, 89 percent of FIAS’ clients (all of whom are governments) rated FIAS’ performance either “satisfactory/very satisfactory” or “extremely satisfactory” in a recent IFC Client Survey.

COLLABORATION
Collaboration with the World Bank Group (WBG) increased significantly in FY06 to a total of 53 joint projects with the World Bank, 30 joint projects with IFC’s Facilities, and 6 joint projects with the World Bank’s Multilateral Investment Guarantee Agency (MIGA).

PROGRAMMATIC APPROACH
FIAS continued to implement the programmatic approach that began in FY05 with multi-year projects in Bangladesh, Sierra Leone, and Fiji.

POST-DIAGNOSTICS
74 percent of FIAS advisory projects in FY06 focus on design and implementation of reform processes.

Funding & expenditures

Total expenditures amounted to $13.7 million in FY06, representing an increase of 8 percent over the previous year, while at the same time the total number of projects increased by 14 percent over the same period. All amounts shown below are in thousands of US dollars.

1 The FIAS fiscal year is July 1 through June 30.
2 Rate of implementation of FIAS recommendations one year after project completion. Dates represent when project was completed.
Regional distribution

For FY06, frontier countries continued to comprise the majority of FIAS advisory projects (52 percent). Of particular note in the past year was our growth in Sub-Saharan Africa, where we achieved a record 27 projects, an increase of 80 percent over FY05.

Product range

Over the last four years, the mix of FIAS products as defined by the four broad categories has been more or less stable. What has changed significantly has been the shift from pure diagnostics work to a much stronger focus on solution design and implementation.

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1 Frontier countries are those countries considered by the World Bank Group to be high risk and/or low-income countries with an Institutional Investor Country Credit Rating of 30 or less, and a gross national income per capita of $765 or less.
Transition & progress

Halfway through the implementation of FIAS’ three-year strategy, FIAS tops last year’s performance

FY06 HIGHLIGHTS

• The implementation rate by clients of FIAS recommendations increased to 68 percent (from 47 percent in FY02), as measured a year after project completion.

• FIAS completed 84 advisory and analytical projects, or four more than planned, and developed a strong demand-driven pipeline of projects for FY07 and beyond.

• 52 percent of FIAS projects are in frontier countries and an additional 17 percent in frontier regions.

• FIAS contributed to 41 of the investment climate reforms reported in the Doing Business 2007 report, including 58 percent of reforms of business licensing, 35 percent of business entry, 31 percent of tax administration, and 24 percent of property registration in developing and transition countries.

• Sub-Saharan Africa saw the strongest growth in demand and support provided to the region.

• Integration with World Bank Group partners was at its highest, with virtually every project done in connection with an IFC Facility, the World Bank and/or MIGA.


• Implementation of new Technical Assistance Advisory Service (TAAS) guidelines and processes increased transaction costs but contributed to a stronger focus on Monitoring & Evaluation.

• Client satisfaction was 89 percent (vs. 86 percent average for IFC TAAS) according to a recent IFC Client Survey, and donor satisfaction was 90 percent.

• FIAS spent $13.7 million, or $1 million more than in FY05, as a result of increased demand and donor/client funding secured.

• Average project size remained small, less than a third of the average size of IFC BEE projects, but is growing slowly.

• A new general manager joined FIAS in January 2006, six months after the previous GM’s departure.

Fiscal year 2006 (FY06) marked the second year of implementation of FIAS’ three-year strategy, which places greater emphasis on solution design and the implementation of private sector reform programs. This strategy has received strong support from clients and donors. During FY06, FIAS pursued a multi-year and multi-product programmatic approach in working with committed client countries. Initial diagnostic studies were followed by solution design and the implementation of priority recommendations. This new approach has reshaped FIAS’ project portfolio and supported the completion of 84 projects in FY06, up from 75 in FY05.

FIAS is developing new approaches. For example, in Bangladesh it is creating with the South Asia Enterprise Development Facility (SEDF), the UK’s Department for International Development (DFID), the EC and other donors, the Bangladesh Investment Climate Fund (BICF), a comprehensive long-term program that will support the government of Bangladesh and the private sector in the implementation of major investment climate reforms.

The focus on the implementation of investment climate reforms has enabled FIAS to pay special attention to broader stakeholder involvement, sequencing of specific recommendations for implementation, the choice of institutions, and the skills and incentives that determine the behavior of authorities involved. This focus has been successfully adopted in countries such as Bangladesh, Kenya, Sierra Leone, Turkey, and Fiji. According to a recent IFC Client Survey, a full 89 percent of clients were “satisfied/very satisfied/extremely satisfied” with FIAS’ advisory services.

Moving forward, the successful implementation of FIAS’ strategy rests on the following three pillars:

Strengthening Partnerships for Better Outcomes: Fostering partnerships with other parts of the World Bank Group, as well as with bilateral and multilateral donors, continues to be FIAS’ primary way of leveraging its specialized expertise and delivering tailored and integrated investment climate solutions to client countries. In FY06, FIAS implemented around 30 joint projects with IFC’s regional facilities, 6 with the World Bank’s Multilateral Investment Guarantee Agency (MIGA), and at least one integrated project with a
A message from Pierre

“These are indeed exciting times for all of us who work on improving the investment climate in developing countries. Never before have the opportunities to benefit from a better business environment been so great for our client countries. The hard-won successes of the last two decades (low inflation, more democracy and political stability, less state control of the economy, more open trade), together with sustained technological progress, have opened the way to countless opportunities for productive and profitable private investments within and across borders. Indeed, gross domestic product (GDP) per capita growth rates, trade and FDI flows have all reached record levels in developing countries.

And yet, this is no time for complacency. Growth rates in GDP per capita remain grossly inadequate in many of the poorest countries to make a significant dent in poverty. Many microeconomic barriers are left, dampening the investment climate. The Doing Business indicators have barely started to improve in the countries that need it the most. Improving the investment climate at the microeconomic level is one of the last big hurdles standing in the way of eliminating poverty – and may also be one of the most challenging. This challenge requires governments to develop new organizational and technical skills. The list of potential reforms is long and they are not all equal in terms of pay-offs and costs — governments need to be strategic as to where they should expand their limited financial, political, and human capital.

FIAS, together with its many clients and partners from within and outside the World Bank Group, is working hard to develop new tools and new approaches to help identify and surmount the most important microeconomic barriers. For example, we are developing more precise diagnostic tools (e.g., Industry Value Chain Analysis and new Doing Business indicators); we are helping governments design comprehensive private sector development strategies; and we are adapting the “guillotine” approach to review, eliminate and simplify the 1,347 business license regulations on the books in Kenya. Our goal is to help mobilize national and regional coalitions for change and support our clients in their efforts to win this crucial and never-ending battle, and thus become more competitive in a fast-changing and increasingly integrated global marketplace and better able to give their people hope and opportunity.”

Pierre Guislain
General Manager, FIAS

ABOUT PIERRE GUISLAIN

Pierre Guislain, a Belgian national, became the General Manager of FIAS in January 2006. In his capacity of Investment Climate Director, Pierre is also overseeing IFC’s overall Business Enabling Environment technical assistance business line, as well as the World Bank’s work on competition policy.

Pierre joined the World Bank in 1983 and worked successively in the West Africa Projects Department, the Legal Department, the Asia Technical Department, and the Private Sector Advisory Services Department, before moving to Brussels in 1997 to manage a joint program between the World Bank and the European Commission on Private Sector Participation in Infrastructure in the Southern Mediterranean region. Pierre returned to Washington in 2001 to lead the Bank’s Information and Communication Technologies division.

Pierre is the author or editor of several publications on information and communication technology (ICT), foreign direct investment (FDI), infrastructure sector reform and privatization.

Pierre holds an MPA in Economics and Public Policy from Princeton University and a graduate law degree from the University of Louvain.
World Bank loan operation. Virtually all FIAS projects are aligned with country-specific programs of the World Bank.

**Driving for Impact:** FIAS’ overall strategy relies on the systematic measurement of the performance of projects to assess their effectiveness in improving the investment climate of client countries. In FY06, FIAS launched two pilot benchmarking projects in Sierra Leone and Bangladesh to monitor the progress of private sector development reforms. Both pilots fostered the creation of public-private committees to build local capacity in monitoring and evaluation. During FY06, FIAS also implemented a number of monitoring and evaluation tools, including a Project Implementation Monitoring System (PIMS), new Doing Business indicators, the IFC client survey, end-of-project-cycle independent evaluation, selected impact assessments, and participation in IFC’s technical assistance and advisory services.

**Generating Leading-edge Practical Knowledge:** Understanding the political economy of investment climate reforms remained FIAS’ key priority in FY06. During the year, 10 knowledge management products were completed; and 30 good-practice case studies were developed. In addition, several new products and/or themes were piloted in such areas as South-South foreign direct investment, regulatory governance, tax administration, competition policy, secured lending, special economic zones, informality surveys, private sector development strategy and organization, stakeholder management in reform processes, and land markets.

**FIAS AND DOING BUSINESS REFORMS**

FIAS has contributed to 41 reforms of the business environment described in the Doing Business 2007 report. FIAS advisory work focuses mainly on four of the ten Doing Business indicators: starting a business, dealing with licenses, registering property, and paying taxes. In fact, FIAS has been involved in 58 percent of all business licensing-, 35 percent of all business entry-, 31 percent of all tax administration-, and 24 percent of all property registration reforms in developing and transition countries identified by the Doing Business 2007 report.

Kenya, Latvia, Romania, and Mali are some of the countries that FIAS has helped reform business licensing, as well as some of its most damaging regulations. For example, FIAS’ Administrative Barriers Diagnostics of 2000 in Romania helped generate momentum on business licensing reform and support the reform process ever since. The countries of Croatia, Egypt, Georgia, Macedonia, Peru, and Mexico have all improved their business entry regulations. Some have even achieved the Doing Business report’s top-ten reformers list. Croatia, for instance, now takes only 10 procedures and 45 days to register a business (down from 12 and 49 in 2005). All of these countries have been working with FIAS on multi-year reform efforts of business entry. For example, in Peru FIAS conducted an initial diagnostic in six districts of Lima in 2003, implemented a business entry simplification project jointly with the IFC Latin American and Caribbean (LAC) Facility in 2005, and scaled up the entry simplification work to five other Peruvian regions in 2006 in partnership with the IFC LAC Facility.

In many cases, FIAS’ advisory work and impact goes far beyond helping clients improve specific Doing Business indicators. For example, in Bosnia and Herzegovina, Croatia, Macedonia, Serbia, and Kenya FIAS is currently building the capacity of the government to establish a comprehensive system of regulatory governance to improve the quality of business regulations. In Kenya, FIAS initially helped review the 1,347 licenses by applying the “guillotine approach” as a way to engage the government in a broad regulatory reform program. This approach sets the new criteria and a deadline for screening all existing licenses with a view to eliminating those that do not pass muster. For example, in June 2006 the Kenyan government committed itself to eliminate 800 business licenses. In the last five years FIAS has also assisted Georgia in undertaking the overall regulatory reform agenda. This sustained engagement has helped the country to make substantial progress in business entry, dealing with licenses, customs administration, and contract enforcement, and in the end to reach the top of the list of reformers of the Doing Business 2007 report.

Finally, as part of the ongoing collaboration with the Doing Business team, FIAS conducted two major studies of the business environment at the sub-national level in Brazil and Mexico and developed the “trading across borders” indicator (comparing global trade logistics indicators for over 155 countries) of the Doing Business 2006 report.
FIAS KNOWLEDGE MANAGEMENT IN FY06

Consistent with our strategic shift towards advising on solution design and implementation, we continued to make good progress in documenting best practices in many of the areas we work in, with increased attention on political economy and reform process issues. In FY06, FIAS focused its Knowledge Management (KM) efforts on generating leading-edge practical knowledge on specific PSD issues, with the objective of bridging the gap between traditional academic research and operational insights from day-to-day interactions with reformers around the world. In this regard, the focus was on “frontier” issues not yet picked-up by academia, but of critical importance in advancing the investment climate and PSD agenda.

For example, along with the Small and Medium Enterprise (SME) Department, we completed comprehensive toolkits on diagnosing administrative barriers, reforming inspection regimes, reforming business registration, improving trade logistics, enabling secured lending and promoting public and private dialogue. Beyond these achievements, during the fiscal year FIAS was also able to develop a tool to quantify the costs and benefits of enhancing socially responsible business practices throughout the value chain, as well as to publish papers on land markets, informality and trade logistics. We are currently completing research papers and toolkits on value chain analysis, investment laws, competition policy and Special Economic Zones. Finally, FIAS also finalized a major research effort to better understand the underpinnings of successful investment climate reform processes, synthesizing the lessons from 25 investment climate reform case studies—all of which has just been published as a World Bank Group book: Reforming the Investment Climate: Lessons for Practitioners.

In FY06 FIAS also stepped up its outreach strategy, with significant contributions to major conferences and learning events. During the year, FIAS organized and led the Global Logistics and Trade Competitiveness Conference in Washington, DC (October 2005), actively contributed to the IFC Conference on South-South Direct Investment (FDI) in Mumbai [formerly Bombay] (November 2005), made major contributions to the Donor Committee Business Enabling Environment Conference in Cairo (November 2005), to the World Bank’s Investment Climate Conference in Indonesia (November 2005), the World Free Zones Conference in London (December 2005), and to a conference on CSR (Corporate Social Responsibility) in Washington, DC (January 2006). In addition, as part of FIAS project portfolio on regulatory governance and regulatory reform in Southeast Europe, FIAS delivered a capacity building program for civil servants on regulatory reform in collaboration with the OECD and the Southeast Europe Investment Compact (November 2005).

FIAS also participated in many other activities during fiscal 2006. It contributed to the International Workshop on Public Private Dialogue in Paris (February 2006), the IMF Conference on Africa in Tunis (March 2006), the World Bank workshop on competition policy in collaboration with DFID (March 2006), the municipal simplification conference organized by the IFC LAC Facility and the SME department in Lima (March 2006), the World Bank Private Sector Development Forum in Washington, DC (April 2006), and the session on “Latin America and the Competition from China”, the Donor Committee’s Working Group on Value Chains in Vienna (April 2006), and the World Bank Group workshop on “Reforming the Investment Climate” in Washington, DC (June 2006).

The new topics we are working on include industry competitiveness, SME Taxation, Regulatory Governance, Stakeholder Management, enterprise formalization, South-South FDI, and PSD in post-conflict countries.

We are also increasing our involvement in developing many of the statistics and Monitoring and Evaluation (M&E) tools required to stimulate and track progress on investment climate reforms—for example, we are working with the IMF, OECD and UNCTAD in developing better statistics on direct private investments and we are taking the lead in developing a new Doing Business indicator: “Investing across borders.”
ABOUT FIAS

History & achievements

For twenty years, FIAS investment climate advice has promoted economic and social development in emerging markets

Since its founding in 1987, FIAS has advised over 130 countries on more than 680 projects. In recent years, we have relabeled our products so as to better articulate our offerings and organize our approaches in line with our FY05-07 strategy. They include:

- Investment Climate Diagnostics
- Investment Laws and Promotion
  - Investment Laws & Policies
  - Investment Promotion
- Administrative Barriers Solutions
  - Business Registration
  - Business Licensing
  - Inspections
  - Customs
  - Taxes
  - Labor
- Industry Competitiveness
  - Value Chain Analysis
  - Corporate Social Responsibility
  - Competition Policy

FIAS develops long-term strategies that are customized to fit each client country’s needs and objectives. Specialists identify practices that impede productive investment, design financially and politically practical plans of action, support clients through the phase of solution design, and help ensure sufficient technical and financial resources are available for implementation.

FIAS collaborates with other international financial institutions and bilateral partners to ensure that clients are provided with appropriate support throughout the reform process. Progress is continually monitored and evaluated for effectiveness.

WHERE DOES FIAS OPERATE?

FIAS advises governments of developing and transition countries, with an increasing focus on “frontier countries.” It originally started working in East Asia in 1986, then Africa and Eastern Europe, where it was implementing advisory projects in Poland and Hungary even before the fall of the Berlin Wall. As the demand for FIAS’ advisory work on FDI continued to grow, FIAS took on an increasing number of assignments in the Middle East, Latin America, and South Asia, eventually reaching the current global scale of operation.

WHY AND HOW WAS FIAS CREATED?

In 1985, the State Planning Commission of China asked the International Finance Corporation to review the country’s foreign direct investment policies, an assignment that led to the establishment of FIAS. We have always had a relatively narrow mandate: to provide advice on host country policies that affect the flow of productive private investment. The creation of FIAS was a logical progression for IFC, the private-sector arm of the World Bank Group, owned by both developing and developed countries, with extensive experience as a debt and equity investor in emerging markets. At the same time, as FIAS’ primary clients are governments, it was important to have an institutional connection with the World Bank, since FIAS often advises those same governments.

In September 1987, FIAS was the first department of the World Bank Group to establish an “untied” Trust Fund, thus becoming the first WBG Donor Funded Operation (DFO) enabled to directly receive donor contributions. The first contribution to the trust fund was from Sweden, followed closely by the Netherlands and Finland, and many others who became members of FIAS Consultative Committee of Donors (see section below). In FY06, IFC contributed approximately 24 percent, the World Bank another 9 percent, and the remaining 67 percent of our funding came from donor and client government co-financing.

Since its creation, FIAS had always been working on investment promotion in close collaboration with the Multilateral Investment Guarantee Agency of the World Bank (MIGA). The partnership with MIGA was formalized in 1988, when FIAS became a joint venture of the IFC and MIGA. In 1992, the IBRD also joined FIAS’ Supervisory Committee, and confirmed FIAS’ position within the World Bank Group as the first joint service of the IFC and the World Bank. This change increased FIAS’ ability to respond quickly to client requests for assistance, and spearheaded the idea of joint Bank/IFC departments to better leverage the institutional strengths of the two organizations. MIGA eventually left FIAS’ Supervisory Committee in 1994, and has continued to hold regular joint management meetings and partner with FIAS on a project-basis ever since.
Central to our 20-year existence has been the principle that foreign direct investment (FDI) is an important form of private investment that enables countries to engage in a rapidly globalizing economy. FDI is no panacea for the problems of development, but if combined with a neutral trade regime, favoring neither export-oriented nor domestically focused industries, it can be an effective catalyst for economic growth. The benefits of FDI in terms of employment generation, wages, linkages with local firms, capital flows, technology and skill transfer, and exports are well established. In addition, a liberal regime of trade and investment that allows for competition from domestic and foreign sources promotes innovation and formulation of skills through experience.

Efforts aimed at improving the institutional and policy fundamentals that increase an economy’s attractiveness to foreign investors also increase the quality and quantity of domestic investment and the competitiveness of domestic firms. These efforts include everything from reducing excessive regulation and enforcing property rights to introducing appropriate competition policies and reducing corruption. In addition, environmental policies, labor laws, and health and safety standards that apply to all enterprises, and that are consistent with non-discrimination and national treatment principles, serve the interests of foreign and host country investors alike.

**OUR THREE-YEAR STRATEGY**

FIAS has just completed the second year of a three-year strategy for fiscal years 2005-2007. Central to the plan is to build on our success by improving the impact of our advisory work and expanding our services by 50 percent. Specifically, we are:

- Increasingly supporting governments in the solution design and implementation phases of the reform management, in addition to providing diagnostic analysis;

FIAS BUSINESS MODEL

All FIAS projects require a request for assistance from client governments along with a 50 percent contribution from clients and donors to cover project costs.

**Diagnostics**

FIAS identifies key constraints facing investors and areas that governments should improve in order to increase the country’s attractiveness for foreign and domestic investors.

**Solution Design**

FIAS design contributes to solutions addressing short and long-term investment climate issues, while engaging all stakeholders and empowering those in charge of reform implementation.

**Implementation**

FIAS assists clients by advising on capacity maximization, change management, and providing technical and financial resources needed for successful implementation.

**Monitoring & Evaluation**

FIAS monitors and evaluates projects’ implementation and performance against quantifiable indicators of output, outcome, and impact. FIAS’ M&E system covers both ongoing and completed projects for three years after completion.

**Programmatic approach**

FIAS is piloting a multi-year and multi-service programmatic approach with an interlinked series of advisory projects designed to achieve a broader set of program objectives.
FIAS leverages the skills of the World Bank Group

Close working relationships with the IFC and the World Bank and collaboration with MIGA enable FIAS to secure world-class assistance on public sector reform and encourage subsequent IFC investments when a policy blockage has been removed. No other institution can leverage this power.

FIAS specializes in advising governments

Our clients are invariably governments — and those that are committed to reforms. In doing so, FIAS makes sure that they receive the resources needed for successful implementation. In all cases, the client government is required to provide a share of the costs of the projects.

FIAS uses global best practices

We devote 10 percent of our resources to capturing and disseminating global best practices in our core products, thus complementing and leveraging on individual client projects.

• Adopting a multi-year programmatic approach in which diagnostic studies are followed by a program of interlinked implementation projects;
• Increasing upstream planning and downstream implementation through collaboration with the World Bank Group, FIAS donors, and other stakeholders;
• Differentiating between clients more clearly, in terms of their commitment and capacity, and applying different advisory approaches;
• Developing product lines in new critical areas;
• Improving the knowledge management system and its dissemination by taking stock of our past experiences and those of others, increasing our presence through the FIAS website (www.fias.net) as well as by holding seminars and workshops; and
• Increasing the time that we spend with our clients.

HOW DOES FIAS FIT INTO THE WORLD BANK GROUP?

Institutional Setting: FIAS operates largely as a specialist advisory group, grounded firmly in the IFC and World Bank investment climate reform programs. As the first joint IFC-World Bank department, FIAS has traditionally benefited from and continues to leverage IFC’s extensive developing-country investment experience. At the same time, it also acts as a link with ongoing or upcoming Bank programs to help ensure downstream implementation and support to various governments.

In 2000, FIAS was integrated into the joint IFC/World Bank Private Sector Development Vice Presidency, which subsequently became the Finance and Private Sector Development (FPD) Vice Presidency in July 2006. FPD includes the teams that produce the Doing Business report and the Investment Climate surveys, which provide excellent starting points for FIAS in developing its advisory assistance.

Another important institutional relationship for FIAS is with the Multilateral Investment Guarantee Agency (MIGA), which has an advisory group that provides tailored advice and capacity building assistance to developing country investment promotion agencies. FIAS works closely with the group to provide a comprehensive package of investment promotion assistance to governments and investment promotion agencies, including the ability to design strategic and institutional frameworks for investment promotion.

Collaboration with World Bank Group in FY06:
Integration with World Bank Group partners reached its highest point in FY06, with virtually every project...
(around 87 percent of advisory projects) completed in collaboration with the World Bank, an IFC Facility, and/or MIGA. This was in line with FIAS’ goal of strengthening partnerships within the WBG to achieve increased leverage, thereby improving its developmental outcomes. More specifically, FIAS worked together on 53 projects with the World Bank, 30 with IFC Facilities and 6 with MIGA. On 21 projects, FIAS collaborated with two or more of these units/departments.

Roughly 34 percent of FIAS collaboration with the World Bank was on Bank technical assistance (TA) programs. In the case of the IFC Facilities, 50 percent was on programmatic joint ventures. Finally, 67 percent of FIAS collaboration with MIGA was on complementary TA programs in support of Investment Promotion Agencies (IPAs). FIAS collaborated most often on solution design. Of a total of 64 projects, FIAS collaborated on 46 diagnostic studies (Diagnostics), 55 projects focusing on the design of reform processes (solution design), and 20 projects supporting reform implementation (implementation). In FY06, solution design represented a sizable component of FIAS’ collaboration with the World Bank (72 percent), the IFC Facilities (54 percent) and MIGA (80 percent).

FIAS is rapidly integrating into IFC’s new Business Enabling Environment (BEE) business line and has merged its TA programs with the BEE practice of the following IFC Facilities: China, South Asia, Africa and South-East Europe. Since January 2006, our Africa work program has been managed jointly with the Africa IFC Facility in Johannesburg. At the same time, FIAS’ country-focused policy work in FY06 has been consistently aligned with the overall country assistance strategy and broader policy advice of the World Bank regional and country teams on economic and social matters.

Most collaboration on Africa was with the World Bank. Of 23 collaborations with the WB on Africa, 19 (83 percent) were focused on diagnostic studies; another 20 (87 percent) were on solutions design; and 7 (30 percent) on implementation. In the case of East Asia, most of the partnerships occurred with the IFC Facilities (13 projects).

**Governance:** Overall operations of FIAS are governed by the Supervisory Committee that consists of the Executive Vice President of IFC, the Vice President Industries of IFC, and the Bank Vice President in charge of Private Sector Development. The FIAS General Manager and the Management Team are responsible for the overall delivery of the FIAS Program and report to the Supervisory Committee. Within FIAS, Regional Program Coordinators (RPCs) are primarily responsible for maintaining client relationships and liaising with World Bank Group regional and country-based colleagues. FIAS management meets annually with the Consultative Committee of Donors (CCD) to review the financial and operational results and to discuss future strategic orientations. The CCD comprises all active FIAS donors and presently includes representatives from the governments of Australia, Canada, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Sweden, Switzerland, and the United Kingdom.

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**CHRONOLOGY OF FIAS SCOPE**

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<tr>
<th>Year</th>
<th>Details</th>
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<tbody>
<tr>
<td>85</td>
<td>China’s request to IFC for assistance on FDI policies led to the creation of FIAS as a division of IFC’s Development Department.</td>
</tr>
</tbody>
</table>
| 86   | **Regions:** East Asia  
**Services:** FDI policies advisory services |
| 87   | FIAS Trust Fund established, making it the first WBG Donor Funded Operation (DFO)  
**Additional regions:** Sub-Saharan Africa  
**Additional services:** FDI Policies to Attract Investors, Investment Promotion (Institutions) |
| 88   | FIAS joint-venture with MIGA  
**Additional regions:** South Asia  
**Additional services:** Tax Incentives |
| 89   | **Additional regions:** Europe |
| 90   | **Additional services:** Backward Linkages, FDI Databases, Investment Promotion (Strategy) |
| 91   | **Additional regions:** Latin America, Middle East & North Africa |
| 92   | FIAS becomes the first joint World Bank Group Department (IBRD joins FIAS Supervisory Committee)  
**Additional regions:** The Pacific |
| 93   | **Additional regions:** Central Asia |
| 94   | MIGA leaves joint venture with FIAS, but close collaboration continues on a regular basis |
| 96   | **Additional services:** Admin Barriers  
**Year** |
| 00   | FIAS becomes part of the joint IFC/World Bank Private Sector Development Vice Presidency |
| 02   | **Additional services:** Competition Policy |
| 04   | **Additional regions:** Post-conflict African countries |  
**Additional services:** Industry Competitiveness, CSR, Secured Lending, and Access to Land |
| 05   | **Additional services:** Regulatory Governance, Sub-national Investment Climate Reforms |
| 06   | **Additional services:** Post-Conflict PSD, Tax, Special Economic Zones, and Informality |

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**FIAS COLLABORATIONS**

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<tr>
<th>Collaboration Partners</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>WBG ONLY</td>
<td>43%</td>
</tr>
<tr>
<td>IFC FACILITIES ONLY</td>
<td>24%</td>
</tr>
<tr>
<td>MIGA ONLY</td>
<td>29%</td>
</tr>
<tr>
<td>NONE</td>
<td>11%</td>
</tr>
<tr>
<td>MULTIPLE</td>
<td>3%</td>
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<table>
<thead>
<tr>
<th>Multiple Collaborations</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>WBG + IFC FACILITIES</td>
<td>4%</td>
</tr>
<tr>
<td>IFC FACILITIES + MIGA</td>
<td>1%</td>
</tr>
<tr>
<td>WBG + IFC FACILITIES + MIGA</td>
<td>1%</td>
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INTRODUCING ONE-STOP BUSINESS REGISTRATION IN MACEDONIA

FIAS served as a catalyst for business registration reform in Macedonia by conducting a technical review of the business registration process, recommending the establishment of a one-stop-shop, providing inputs for the implementing regulations, and facilitating the reform process by bringing together the main stakeholders. With strong support and funding from the Netherlands, FIAS initially conducted a workshop to discuss recommendations for streamlining the business registration process in 2004. This was a groundbreaking meeting of the major business registration stakeholders in Macedonia. The workshop provided a forum for discussing reforms, including removing business registration from the courts and introducing an electronic registration procedure to combine company, tax and social security registration.

Following the workshop, FIAS provided comments on the Company Law and inputs for the Business Registration Law, which was passed in February 2005 and implemented in January 2006. As a result, the number of procedures for business registration were significantly reduced, while the time for business registration was shortened from 48 to 18 days. During the first nine months of 2006, the number of business registrations processed were 33 percent higher than those processed during the previous 12 months.

FIAS subsequently designed a framework for systematically improving the quality of business-related regulations and improving the business environment. This framework outlines the institutions, processes, and capacity required to support implementation of a system for reviewing existing (stock) and new (flow) regulations at the center of government, using a range of tools including regulatory impact assessment (RIA). Framework implementation is being supported under the World Bank Business Environment Reform and Institutional Strengthening (BERIS) project.

MAKING "ROOM" FOR PRIVATE SECTOR INVESTMENT IN PANAMA

How does one turn an old air force base into a productive economic asset? That was the challenge facing the IFC when in late 1999 it was asked by the government of Panama to convert the 5,000-acre Howard US Air Force Base into a prime location for productive investment, new entrepreneurial activities, and ultimately the creation of new jobs. Policy and institutional questions arose regarding bringing economic zones and industrial estates in line with global best practices, WTO compliance, and socially responsible standards. Indeed, such infrastructure revitalization challenges have driven an increasing number of client countries to ask for FIAS assistance through our dedicated Economic Zones team and solutions in recent years.

In Panama, initial studies showed that developers and investors could only be attracted if regulatory changes were made, such as reforming inflexible labor laws. To support this vision, FIAS and the IFC’s Advisory Services directed consultants to develop a regulatory framework to differentiate the site, both from the Panamanian “domestic” economy and from other Panamanian Export Processing Zones (EPZs). The idea was to convert the base into a world-class location for business enterprises in Central America, as well as into a model for national investment climate reform. Laws were developed to make labor code provisions flexible enough to allow developers to hire part-time and contract labor, operate on a round-the-clock basis seven days a week, and offer modern productivity package options unavailable under the Panamanian Labor Code. All of this was planned while continuing to protect workers’ rights along the lines of international standards.

While the implementation phase has yet to be completed and a concession yet to be awarded, project impact is already ahead of expectations. Demand analysis had estimated that it would take 5 years for the SEZ would to generate the first 3,000 direct jobs, yet an early 1,000 job $5 million ICT investment by Dell has already materialized.

RAPID RESPONSE DIAGNOSIS HELPS ACEH RECOVERY EFFORTS

First partnering with Private Enterprise Partnership Aceh/Nias in September 2005, FIAS delivered a diagnosis of the investment outlook in this post-conflict, tsunami-devastated region of Indonesia. This diagnostic incorporated anticipated efforts by other donors and became the platform for key programmatic initiatives with the Aceh Reconstruction and Rehabilitation Agency (BRR). The investment policy and legal framework component is intended to help develop provincial-level investment policy and an outline investment law leveraging off the Aceh province’s special autonomy status. With the imminent passage of a new law providing for an independent investment policy, provincial leaders and the BRR alike gave high priority to improving legal frameworks for investment and strengthening investment promotion initiatives. These initiatives are intended to provide increased capacity and capability to attract, interact with, and retain investors as a means to economic recovery in the aftermath of the tsunami, while supporting regional economic growth and development over the longer term. This entire effort supports a key element of the government’s investment climate reform strategy — upgrading investment promotion capabilities in a decentralized economy context.

The strategic planning component consisted of leadership consultations with the BRR that focused on specifying and coordinating reform priorities as the region shifted from reconstruction to development. Consideration was given to Aceh’s imminent special autonomy, and Indonesia’s emphasis on growth, private sector development, and investment climate improvement.
EDUCATING ON GLOBAL LOGISTICS AND TRADE COMPETITIVENESS

Economic liberalization accompanied by rapid technological developments offer unprecedented opportunities to developing economies. They also pose challenges. Emerging economies must be productive and efficient in delivering just-in-time services to markets. Key logistic constraints include inefficient logistics, procedural red tape, poorly defined and enforced rules, and delays in customs, ports, and transportation. Easing these constraints can bring quick productivity and competitiveness gains to developing countries, and may be far less costly than infrastructure investments. These reforms could have a much greater impact than more politically sensitive problems like tariffs and quotas. The key challenge is jump-starting the reform process in low-income countries.

In collaboration with Stanford University, and funding from the government of Norway, FIAS organized a very successful conference, Global Logistics and Trade Competitiveness, in Washington DC on October 13, 2006. Research findings based on trade logistics indicators were presented by Uma Subramanian with Professors Hau Lee and Warren Hausman of Stanford University, highlighting important performance differences in logistics efficiency around the world and examining the impact on competitiveness in global markets. In addition, high profile experts from global private sector logistics and manufacturing firms (e.g., Panalpina, UPS, Hewlett-Packard, Limited, Li and Fung) spoke sharing their experiences in working with countries that have diverse and challenging logistics indicators.

NAVIGATING PSD REFORM LANDMINES IN SOUTHERN SUDAN

The Minister of Finance and the Minister of Commerce, Trade and Supply of Sudan recently requested that FIAS undertake investment climate diagnostic work as part of an ongoing preparation of proposals to the Multi-Donor Trust Fund on private sector development. FIAS’ new approach for first engagements, the mini-diagnostic, has been designed to reduce the time and the costs it takes to do a general overview analysis of barriers to investment and private sector development and assess how FIAS can best promote activities that lead to investment climate improvements. Using this approach, FIAS assessed the usual problems inhibiting private sector development and investment, such as the legal framework, start-up procedures, tax and customs regimes and land access issues. Recognizing the special circumstances of Southern Sudan, FIAS has adopted this approach to respond in a flexible manner to the government’s (GOSS) request. In April 2006, FIAS fielded a mission to study business registration, tax and customs, land, and public and private dialogue. In addition, the FIAS team conducted a review of the New Sudan 2004 Investment Code and made several strategic recommendations which have already provided evidence of traction for the project:

- The diagnostic itself has generated an open discussion about fundamental constraints in the investment climate, such as the government’s decision to freeze the company registration process since December 2005.
- The government has requested FIAS assistance in revising the Investment Code, the Companies Act and in strengthening the Companies Registry.
- Finally, the FIAS team has successfully engaged the private sector through workshops at the newly established Chamber of Commerce of Southern Sudan.

Even at this early stage, the potential for major gains is significant given that initial recommendations provide early building blocks to longer-term reform.

PROMOTING BUSINESS-ENABLING REFORMS IN BOSNIA & HERZEGOVINA

FIAS continues to play an active role in business environment reform in Bosnia and Herzegovina (BiH), which started in 1997 with FIAS’ assistance in drafting the Foreign Investment Law, which was promulgated in 1998. Since then, IFC has booked 26 investments in the country, with a total commitment of $159 million. These investments are primarily in the finance sector (15 projects); other sectors include food and beverages, industrial and consumer products, chemicals and wholesale/retail trade. IFC’s technical assistance facility PEP-SE launched a highly effective alternative dispute resolution (ADR) program. Since 2005, roughly 250 mediations have been successfully completed. Annual FDI inflows have increased from a negligible amount in 1997 to an estimated $500 million in 2005.

In 2000, FIAS completed a review of the administrative impediments to business, which led to the development of 12 reform implementation projects covering inspections, permits, customs, tax administration, bankruptcy and liquidation, and court administration. As a result, business registration is expected to require 5 days (down from 54 days) upon project completion in December 2006. A total of 413 bankruptcy procedures were processed in 2005, and the number of days required to enforce a contract was reduced by 40 percent.

In May 2006, the Republika Srpska established a Regulatory Reform Council under the chairmanship of the Prime Minister (and with representation from the public and private sectors) and launched a guillotine review of business licensing and inspection measures. The review was successfully completed in September 2006, effectively cutting the number of administrative requirements by 50 percent and establishing an electronic, internet-accessible registry of reviewed regulations. A preliminary estimate of the impact of these reforms in terms of savings to firms (management time and opportunity costs) is roughly KM 24 million (EUR 12 million) a year.
Creating More Opportunities for Growth: South-South FDI

South-South foreign direct investment (SS-FDI) now accounts for one third of all FDI going to developing countries. This is good news because SS-FDI also reaches very poor and remote developing countries.

In its 2004 Annual Report, FIAS noted the phenomenon of South-South FDI (SS-FDI) as a welcome diversification of FDI sources to developing countries. These flows have increased by 300 percent from $14 billion in 1995 to $47 billion in 2003, and are expected to continue to grow for the foreseeable future. In fact, the whole host of developing countries are likely to profit from increased SS-FDI flows since southern multinational corporations (MNCs) are often better equipped to deal with challenging investment climates and to deliver products tailored to low-income consumers. Outward FDI from developing countries is also expected to greatly benefit these countries because these FDI flows naturally subject their companies to the rigors of international competition.

South-South FDI flows are primarily regional, and have been concentrated in the infrastructure and extractive sectors, with an increasing sector diversification. Southern MNCs are naturally attracted to new profitable markets, resources, and strategic assets. The motivation is less about seeking low factor costs, which means that developing countries should be less worried about these FDI outflows as investment substitution. While governments in many developing countries are encouraging outward FDI, southern MNCs continue to face regulatory and operational challenges in their home economy. Many southern MNCs new on the international market are thus experiencing “growing pains”, similar to those experienced by northern MNCs a few decades ago, and are slowly moving up the ladder of corporate social responsibility. To benefit from SS-FDI flows, developing countries, whether at the origin or destination of FDI flows, need to pursue investment climate reforms.

WHAT IS THE IMPACT OF SOUTH-SOUTH FDI ON DEVELOPING COUNTRIES?

The emergence of the South as a substantial source of FDI for developing countries has important implications for their economic development. First, SS-FDI represents an opportunity for low-income countries. Apart from the extractive sector, northern MNCs are less likely to invest in small market economies, whereas southern MNCs tend to invest in other developing countries with a similar or lower level of development than their home country. SS-FDI flows, however small, may be significant to many poor countries. For example, Lesotho, Mongolia, and Nepal have attracted FDI from their neighbors. India (in hotels and manufacturing) and China (in manufacturing), account for more than half of the FDI coming to Nepal. Most FDI in Mongolia originates from China and Russia.

Second, southern MNCs tend to use resources, technologies, products, and services more suitable to the markets and the level of economic development of developing countries. For example, TCL produces $50 television sets in Vietnam and Maruti Suzuki produces a $2,000 car in India. Narrower technological gaps between southern MNCs and host economies, compared to their northern counterparts, may foster positive spillovers to developing countries.

Finally, in recent years, SS-FDI played an important role in sustaining FDI flows to developing countries in light of the significant decline in investments coming from the North. A confluence of factors – increasing wealth, loosening capital controls, trade liberalization, and regional integration – have led to many developing countries becoming significant sources of FDI, particularly to other developing countries. In fact, according to rough estimates, SS-FDI flows increased from $14 billion in 1995 to $47 billion in 2003, accounting for about 35 percent of total FDI flows in developing countries. At the same time, OECD member countries received $16 billion of FDI from developing countries (South-North FDI) in 2001, up from $1 billion in 1995. South-North FDI flows amounted to $7 billion in 2003. Although data is not available for 2004 and 2005, recently finalized and announced mergers and acquisitions (M&A) deals suggest that southern multinationals continue to expand globally (see Table 1, above).

**GROWING “SOUTH-SOUTH” FDI FLOWS**

Recent highly publicized acquisitions, such as Lenovo’s purchase of IBM’s PC business and Cemex’s acquisition of UK’s RMC highlighted the phenomenon of the emergence of southern multinationals, a trend that started over two decades ago.

A confluence of factors – increasing wealth, loosening capital controls, trade liberalization, and regional integration – have led to many developing countries becoming significant sources of FDI, particularly to other developing countries. In fact, according to rough estimates, SS-FDI flows increased from $14 billion in 1995 to $47 billion in 2003, accounting for about 35 percent of total FDI flows in developing countries. At the same time, OECD member countries received $16 billion of FDI from developing countries (South-North FDI) in 2001, up from $1 billion in 1995. South-North FDI flows amounted to $7 billion in 2003. Although data is not available for 2004 and 2005, recently finalized and announced mergers and acquisitions (M&A) deals suggest that southern multinationals continue to expand globally (see Table 1, above).

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**TABLE 1: SELECTED LARGE M&A DEALS BY SOUTHERN MULTINATIONALS, 2004-2006**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ACQUIRING COMPANY (COUNTRY)</th>
<th>ACQUIRED COMPANY (COUNTRY)</th>
<th>SECTOR OF THE ACQUIRED COMPANY</th>
<th>VALUE ($ BILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Weather Investments II Sarl (Egypt)</td>
<td>Wind Telecomunicazioni SpA (Italy)</td>
<td>Telecom</td>
<td>$12.8</td>
</tr>
<tr>
<td>2004</td>
<td>AmBev (Brazil)</td>
<td>John Labatt (Canada)</td>
<td>Malt Beverages</td>
<td>$7.8</td>
</tr>
<tr>
<td>2005</td>
<td>Cemex (Mexico)</td>
<td>RMC (UK)</td>
<td>Cement Industry</td>
<td>$4.1</td>
</tr>
<tr>
<td>2005</td>
<td>Bunge y Born (Argentina)</td>
<td>American Ref-fuel Holding (USA)</td>
<td>Electrical Services</td>
<td>$2.0</td>
</tr>
<tr>
<td>2005</td>
<td>Oger (Saudi Arabia/Lebanon/Italy)</td>
<td>Turk Telecom (Turkey)</td>
<td>Telecom</td>
<td>$6.5</td>
</tr>
<tr>
<td>2005</td>
<td>CNPC (China)</td>
<td>Petro Kazakh (Kazakhstan)</td>
<td>Petroleum</td>
<td>$4.18</td>
</tr>
<tr>
<td>2005</td>
<td>MTC (Kuwait)</td>
<td>Celtel (Sub-Saharan Africa)</td>
<td>Telecom</td>
<td>$3.34</td>
</tr>
<tr>
<td>2005</td>
<td>Orascom (Egypt)</td>
<td>Pakistan Telecommunications (Pakistan)</td>
<td>Telecom</td>
<td>$2.6</td>
</tr>
<tr>
<td>2005</td>
<td>Grupo Technic (Argentina)</td>
<td>Hylsamex SA de CV (Mexico)</td>
<td>Steel Foundries</td>
<td>$2.1</td>
</tr>
<tr>
<td>2005</td>
<td>Alfa Group (Russian Federation)</td>
<td>Turkcell Iletisim Hizmetleri (Turkey)</td>
<td>Telecom</td>
<td>$1.6</td>
</tr>
<tr>
<td>2004</td>
<td>Anglogold Ltd (South Africa)</td>
<td>Ashanti Goldfields (Ghana)</td>
<td>Gold Ores</td>
<td>$1.5</td>
</tr>
<tr>
<td>2005</td>
<td>Andes Petroleum (China)</td>
<td>EnCana (Ecuador)</td>
<td>Petroleum</td>
<td>$1.42</td>
</tr>
<tr>
<td>2004</td>
<td>Loma Negra CIA SA (Argentina)</td>
<td>Camargo Correa SA (Brazil)</td>
<td>Cement Industry</td>
<td>$1.0</td>
</tr>
</tbody>
</table>

Source: Goldstein (2006), Guislain and Qiang (2006), UNCTAD (2006), and World Bank staff
experience with the economic and political conditions of the host country than companies from developed countries, and thus tend to be more capable of better managing risk in post-conflict and other politically difficult situations.

Southern MNCs generally play a more critical role of bridging the companies in the North with developing countries. What is happening is that southern MNCs are smoothing the entry of their northern counterparts in developing countries. For example, northern investors partnering with Chilean companies to invest in Latin America often earned a higher rate of return on their investments. Furthermore, like Carrefour investing in Egypt from Dubai, northern MNCs often use their operations in the South as a base to expand their business in neighboring developing countries.

SS-FDI flows may not always be favorable for the host economy. Over the years, many northern MNCs have improved their transparency, environmental and labor standards while investing abroad. However, most southern companies tend to have lower environmental and labor standards, and have yet to adopt more advanced standards. Geographic and cultural proximity do not always guarantee better relationships. Of course, it remains the host country’s responsibility to improve its business environment and regulatory system in order to realize the development potential of FDI, while taking necessary precautions to minimize the negative impacts of FDI that are independent of the source country.

The impact of outward FDI on home developing countries has not yet been assessed. It will depend on a range of factors, including: the sectors and particular operations of MNCs, the absorptive capacity of home countries for new technologies and know-how acquired abroad, and whether outward FDI is complementary, with southern firms increasing their business by expanding and diversifying their markets, or substitute to domestic production. When outward FDI is complementary, the home economy gains from increased economic activities and employment related to FDI projects, as well as from tax revenues. If, in the future, outward FDI becomes a substitute for domestic investment, the impact would not be clear.

As southern MNCs continue to evolve and expand their global operation, particularly in secondary and tertiary sectors, and consequently adjust their domestic production, the impact on their domestic economy will be more strongly felt. In the future, they are certainly bound to introduce a higher level of management systems and know-how, and contribute to building further capacity of their home country, crucial elements in economic and social development.

GOING FORWARD

Ten years from now, how will southern MNCs have affected the global economy and the development of developing countries – their own and others? Will we see major differences in strategies and behavior among southern MNCs, and if so, will they be driven by nationality, sector, or other factors? This new and growing phenomenon is bound to affect the economic development of developing countries, origin and destination of FDI flows.

OPPORTUNITIES FOR FIAS

Over the past few years, FIAS has been active in promoting a better understanding of the implications of the South-South FDI phenomenon for our clients. Besides producing a position paper on the topic with the World Bank, FIAS also co-organized a number of panels on South-South FDI, as well as provided input into the IFC/Financial Times conference in Mumbai last year. In addition, FIAS conducted new analysis on what is behind South-South flows in China, including recommendations on how the government can make outflows easier. In the coming year, FIAS plans to build on this research and examine ways to increase the quantity and quality of South-South flows to Africa, and possibly explore outward investment from Turkey and the Middle East.

**REFERENCES**


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FIAS staff works closely with client governments, in consultation with the private sector, to identify the advisory support that would be most useful in improving the country’s investment climate and would be most likely to be successfully implemented. FIAS offers advice based on international best practices, adapted to the country’s circumstances. We continually strive to be the fastest and most responsive advisory service in the World Bank Group focused on investment climate reform. Moreover, we work proactively with all relevant units of the Bank Group, as well as donors and other partners, ensuring that the client government has access to the best mix of skills and resources.

Our approach is to engage clients at opportune times: often when a new government is ready to undertake private sector development reform agenda. FIAS also supports the IFc’s investment goals in frontier and middle income markets by particularly focusing on countries where the IFC finds it difficult to invest because of investment climate issues.

Together with our partners from within and outside the World Bank Group, in FY06, FIAS completed 34 Administrative Barriers projects, 19 Investment Law and Investment Promotion projects, 11 Value Chain Analysis projects, and 8 Investment Climate Diagnostics. In general, FIAS’ core services (Investment Climate Diagnostics, Investment Laws and Promotion, Administrative Barriers Solutions, and Industry Competitiveness) help client governments to:

Promote economy-wide regulatory reforms: FIAS has long experience in helping client governments reduce the morass of cross-cutting regulations that impede private sector-led growth. This covers business registration, licensing, inspections, construction permits, access to land, trade facilitation and taxes. This area comprises tax administration, incentives, duty suspension schemes, VAT refunds and SME taxation. We also advise on associated policies, such as investment laws and Special Economic Zones. During the past few years, we have contributed to 41 reforms of the business environment described in the Doing Business 2007 report.

Assess the competitiveness of promising industry sectors: An economy-wide analysis alone cannot identify the many industry specific constraints to productive investments. For this reason, client governments have increasingly approached FIAS for advisory support at the industry level. This normally begins with a Value Chain Analysis, sometimes accompanied by other targeted diagnostics – such as Corporate Social Responsibility (CSR) standards or competition policy, so as to understand key growth opportunities and constraints, and design targeted solutions.

Design institutions and reform processes to sustain implementation: FIAS used to undertake one-off requests for advisory support on a specific investment climate issue but, increasingly, we help governments orchestrate and institutionalize large and complicated reform agenda. This usually focuses on some combination of developing and updating the growth strategy, assessing reform alternatives, developing specific action plans, helping coordinate donor support, reviewing the stock and flow of policies and regulations (e.g., regulatory governance), managing stakeholders (e.g., through private/public dialogue), promoting investments and exports, and most significant — monitoring and evaluating progress and taking corrective actions.
Consistent with our continued strategic shift towards advising on solution design and implementation, FIAS’ emphasis on investment climate diagnostic tools declined somewhat in FY06 relative to previous years. At the same time, however, we made innovations in the way in which diagnostics are utilized — both in terms of targeting them to specific geographic areas within a country, and to increasingly specific issues, stakeholders and industry sectors, as well as in appropriately timing diagnostics to ensure they are most useful. In FY06 this approach enabled FIAS clients and staff to make even better use of information gathered by World Bank sources and other organizations than ever before.

For example, FIAS recently conducted a Sector Analysis of four industries in the West Bank and Gaza, in support of a World Bank Country Economic Memorandum. In the Latin America-Caribbean region, we performed two diagnostic studies in Jamaica this year — first a broad study of the investment climate leading to a more targeted tourism sector study. In Africa as elsewhere, diagnostics again provided FIAS clients with specialized data to respond to complex problems. A highly successful Gender and Growth Assessment was thus conducted in Kenya, an informality survey in Sierra Leone, a Marginal Effective Tax Rate Study in Madagascar, and a Land Access Study in Benin. These were all first-of-kind FIAS investment climate diagnostic customizations.

Diagnostic studies however also proved to be particularly useful as a tool for responding to rapidly enfolded events through the gathering of direction-setting information critical to longer-term strategies and action. A good example of this type of work can be found in Africa, where the IFC’s joint FIAS-PEP Africa rapid-reaction team conducted a Mini-Diagnostic of the Investment Climate in Liberia. In the MENA region, we conducted a diagnostic study of the FDI environment in the Syrian Arab Republic, where little investment climate work had been done before and this study constituted FIAS’ second-ever intervention in the country. In addition, in the Asia-Pacific region FIAS performed a mini-diagnostic of the investment climate in Aceh after the devastating tsunami in order to determine how to start working on business climate issues at the earliest possible time.

FIAS has made innovations in terms of targeting diagnostics towards specific issues, regions, or industries, as well as timing projects to maximize effectiveness.
CASE 1: LESSONS FROM SOUTHERN SUDAN

At the request of the Sudanese government, FIAS conducted a rapid but strategic assessment of the key constraints to investment in Southern Sudan in 2006 (see project description on page 13). The assessment proposed interventions which could jump-start the Southern Sudanese economy after 22 years of civil war. In view of high public expectations, FIAS’ team realized that it was imperative to address some rapid successes in order to demonstrate that the government was serious about providing its citizens reasonable livelihoods. This called for an innovative approach to private sector development in post-conflict areas, based on the following lessons learned by FIAS:

• **Improve the business environment early on.** The Southern Sudanese citizens simply want jobs and incomes as a peace dividend, and they want them as soon as possible. Undoubtedly, the new government sees private investment as a critical driver of growth and job creation, but it is less clear about how to attract former or new investors.

• **Influential constituencies of support should be built to sustain reforms.** The usual model identifies individuals or single agencies or stakeholders to advocate reforms. In the case of Southern Sudan, different layers of the nascent government and private sector were engaged to encourage ownership. Sole champions in a fragile environment are risky.

• **Public awareness of reforms should be developed to encourage political buy-in and public support.** Working with a wide range of constituencies, including foreign investors, foreign workers and the Southern Sudanese Diaspora has led to some public debate on just what reforms were needed.

• **Capacity building should be an integral part of the diagnostics.** A menu of best practice examples that can be tailored to the particular needs of a country is a critical tool. The diagnostic becomes a “training and capacity building” process.

• **Empathy, diplomacy and sensitivity are crucial in post-conflict environments.** Tensions still run high in Southern Sudan despite the so-called peace agreement signed in May of 2006 by most of the rebel groups. It is crucial in demonstrating respect for their struggle while committing to helping the government create their vision of a New Sudan.

CASE 2: LIBERIA

Since the end of the civil war in 2003 and successful free elections in 2005, Liberian authorities have sought to reform the policy framework that forms the basis for a market-driven economy to speed up post-conflict reconstruction. At the request of the Minister of Commerce, FIAS visited Monrovia in early 2006 and was the first World Bank Group mission following the establishment of the new government to perform a mini-diagnostic of the Liberian investment climate, incorporating the results into a joint-donor assistance program. Recognizing the previous work done by donors and others, FIAS focused on the legal framework, business startup procedures, operating procedures (tax and customs), sectoral analysis of agro-business, and policy advocacy and public-private dialogue process as an instrument of change. Following the project, FIAS provided recommendations for the government of Liberia for interventions in several key areas. As a result, the government has requested FIAS assistance to:

• Undertake a survey to determine the administrative/procedural sources of informality; concurrent recommendations to simplify business registration, licensing, tax administration, and inspection procedures; and practical support for implementation of these recommendations;

• Create a more dynamic investment promotion mechanism. This includes practical support to strengthen the institutional capacity for investment promotion; and technical input to help update the national investment code; and

• Develop a public-private forum, bringing together existing business associations and bringing greater efficiency to current dialogue mechanisms.
INVESTMENT LEGISLATION

Investment legislation is the reflection of a country’s investment policy and it is often the chief normative instrument to implement this policy. FIAS’ advice on investment legislation starts with a review of existing or draft legislation, in which we identify eventual flaws and inconsistencies and offer concrete recommendations based on “international best practices”. FIAS advice is based on our intimate knowledge of what a good investment climate/policy should be, of the type of incentives a country should have, and of how simple and transparent administrative processes should be. It is a unique process that enables us to deliver more useful advice to our clients.

In most cases, FIAS intervention consists in a rapid “desk review” of the investment legislation with no travel involved. In a matter of days, we provide the government with a set of detailed comments on how to improve the existing or draft law. In some cases, there is a need for a larger project involving travel to the country either before the review (to better assess the situation and overall legal framework, to interview stakeholders about their opinions regarding the law) or after the review (to present our findings and recommendations and build support for the changes we propose). In some countries with weaker institutional capacity, we provide hands-on technical assistance to government lawyers to help revise the codes or prepare implementing regulations and by-laws. In other instances, FIAS has had to design and deliver a comprehensive program of training for policy makers and lawyers in order to expand their understanding of investment law and related issues, present best practices, and discuss policy choices that the government has to make before the law can be changed. This approach is being piloted by the FIAS Asia-Pacific team in Indonesia’s Aceh province.

Through the FIAS law review we have been able to identify obvious flaws in the investment policy and investment regime, establish a client-advisor relationship and a climate of trust with the government client, test the government’s political will to reform the investment climate before investing larger resources and starting broader projects, and learn about the country’s investment environment.

INVESTMENT PROMOTION

With the rapid globalization of investment opportunities and the significant increase in global foreign direct investment (FDI) flows, competition for FDI particularly among developing countries is rapidly expanding. Most countries, developed and developing, have designed strategies to market themselves as attractive destinations for investment and have established investment promotion agencies (IPAs) to help implement these strategies. As a follow on to providing policy advice to countries seeking to attract FDI, FIAS draws on the international experience to assist its clients in designing and implementing effective investment promotion solutions.

Investment promotion activities are analogous to the marketing function in a private firm. These include building a favorable image in the minds of potential investors, “selling” the country as a location for investment and convincing companies to invest; providing services to investors — giving them information, guiding them through the investment process, and helping them avoid problems when they are in operation; and monitoring investors experiences and using feedback from contact with investors to advocate changes that would improve the country’s investment climate. Typically, FIAS investment promotion solutions include surveys of existing and potential investor perceptions of a country’s FDI environment and comparative advantages, development of comprehensive investment promotion strategies building on sound policy frameworks, recommendations for identifying key economic sectors for targeting investment promotion activities, and developing sustainable institutional frameworks to support investment promotion activities.

FIAS research has shown that less than 10 percent of a typical IPA’s budget is dedicated to policy advocacy, yet the experience of the high-growth economies clearly demonstrates that the policy advocacy activities of IPAs influence FDI inflows most strongly. Therefore, FIAS investment promotion projects have focused on strengthening the policy advocacy roles of national IPAs and addressing investment promotion on a sub-national level to improve the delivery of investor services. FIAS often collaborates with MIGA to facilitate effective implementation of investment promotion strategies.
Collaboration Increases Impact

FIAS collaborates with MIGA to help countries develop and implement strategies to compete for international investment

Investment promotion is fundamentally about marketing a country as a location for investment. FIAS provides assistance in improving the product offered by countries by providing business enabling environment and investment policy advice and assistance in designing institutional frameworks for investment promotion. The technical assistance arm of the Multilateral Investment Guarantee Agency (MIGA) assists investment promotion agencies in developing and implementing investment promotion strategies.

FIAS and MIGA often collaborate to provide a seamless package of investment promotion policy advice and investment promotion strategy design and implementation assistance. Beginning in 1994, there have been regular meetings between FIAS and MIGA management and staff, leading to cooperation on a project by project basis. In 2005, a Memorandum of Understanding was developed to formalize the mode of collaboration between FIAS and MIGA. The following examples show how FIAS and MIGA collaborated in FY06:

- **Cambodia:** In anticipation of the enactment of the Law on Investment and the associated implementing sub-decrees, FIAS collaborated with MIGA in assisting the Cambodian Investment Board (CIB) to prepare a strategic investment promotion plan. We facilitated a strategic planning workshop to assist CIB staff in the development of options for engaging in investment promotion and a framework for decision making. FIAS will assist the CIB to implement its strategic plan of investor servicing in FY07.

- **China:** FIAS and MIGA have been collaborating to assist the Ministry of Commerce in developing a national investment promotion strategy. In FY05, they co-organized several regional workshops to discuss sub-national investment promotion and to strengthen investment climate in China’s economically disadvantaged western and central provinces. A planned Memorandum of Understanding between the Government of China, FIAS, and MIGA will confirm a multi-year collaboration to strengthen the operation of provincial IPAs. In this next phase of partnership, the project will capitalize on MIGA’s experience in building the organizational capacity of local IPAs to implement strategies for attracting foreign and domestic investment.

- **Philippines:** FIAS assisted the Philippines Board of Investment (BOI) in developing a retention, expansion and diversification (RED) program. The program focused on the ‘aftercare’ of foreign investors to maintain the satisfaction of current investors and where possible to persuade investors to strengthen and expand their activity. In addition, FIAS identified the need for an enhanced advocacy role for the BOI and more effective coordination between government agencies responsible for servicing investors. MIGA is assisting the BOI in implementing the RED program and FIAS recommendations.

- **Africa:** In Africa FIAS and MIGA have developed a joint strategy and review their work programs on a weekly basis, together with that of PEP-Africa, to ensure that they capture maximum opportunities for synergy. Numerous joint programs are or have been in implementation in Ethiopia, South Africa, Namibia, Sierra Leone, Liberia and Madagascar, among others, and similar integrated programs are being developed in another six countries at present. As new requests are received, both agencies discuss them to prepare a response offering the most appropriate package from both agencies to meet the client’s needs.
Administrative Barriers Solutions

FIAS helps governments to remove administrative barriers to private sector development

FIAS has been at the forefront of the effort to remove administrative barriers to investment for over 10 years. While the World Bank’s Doing Business report documents basic statistics about a range of key obstacles across all the countries in the world, FIAS works directly with governments to improve their business-enabling environment, reduce the delays and costs of administrative procedures, thereby attracting more investment. This work is important to the goal of poverty alleviation, as the smallest businesses within poorer countries – the ones needed to generate the greatest number of jobs — bear a disproportionately larger share of the regulatory burden, lacking either the money to satisfy rent-seekers or the political power to get past powerful bureaucrats.

FIAS helps developing country governments improve their country’s business-enabling environment through several factors — by removing administrative barriers to investment, by conducting diagnostic studies, designing solutions, and assisting with monitoring and evaluation to ensure reforms are effective and remain on track. FIAS works closely with other relevant units in the World Bank Group, including the IFC’s Private Enterprise Partnerships (PEPs) and Facilities (e.g. PEP-Africa and PEP-SE), which can provide vital day-to-day assistance to client governments in project implementation. In addition, FIAS works with the World Bank SME department on compiling manuals and toolkits in the area of administrative barriers, including business registration, business licensing, government inspections, and related topics.

At the higher levels of policy reform, FIAS cooperates with the Bank’s private sector development departments on the investment climate assessments (which usually include components focusing on administrative barriers). Thus FIAS provides a critical bridge between policy reforms led by the World Bank – by providing concrete details of the content of such reforms, based on international best practices – and implementation assistance providing by the relevant IFC units on the ground.

After reforms are implemented, FIAS helps with monitoring and evaluation, picking up where the Doing Business indicators leave off, and providing richer detail and greater country-specific relevance, while also helping to ensure that a specific country’s reform program is on track and delivering what is intended. For example, in Russia, FIAS designed a business survey that provides information not only about how Russia compares with other countries in the transfer of title to property, but also how long it takes to obtain a new title registration (which is much more common in Russia than a transfer of title), how different regions within Russia compare, and the full range of actual experiences (including the additional costs of bribes and extra delays caused by bureaucratic harassment). Similarly, FIAS has helped extend the Doing Business indicators at the regional level within Mexico and Brazil, and to small countries such as those in the Eastern Caribbean.

Over the coming year, FIAS will be working with many countries to build institutional capacity for the reform of business regulations, as well as domestic capacity for monitoring and evaluation of reforms.
Licensing Reform in Kenya

FIAS helped speed Kenya’s reform of business licenses and fees by using an innovative “regulatory guillotine” strategy

Many developing countries struggle with layers of inefficient, outdated and inaccessible regulation. Excessive business licenses impose unnecessary barriers on businesses, and constrain them from growing, investing and joining the formal economy. Most governments are acutely aware of these problems. However, they often operate in a context of limited capacities and volatile political environments. This makes it difficult to strike the right balance between measures that can provide important political quick-wins in the short run and long-term measures that can ensure that results are sustained.

Kenya is now witnessing a success story unfold, which seems to prove that radical and sustainable reform can take place, even in a very impoverished country with a delicate political climate. This of course can be achieved, only as long as you have strong political commitment in key areas, a good plan, and the right people within the government and the private sector.

In February 2005 Kenya launched a broad reform of business licenses and fees based on the “regulatory guillotine strategy”. When the reform was launched, there was no overview of the number of business licenses in Kenya. Initial estimates said around 600. A review supported by the World Bank Group identified more than 1300 licenses.

Spearheaded by a cross-ministerial Working Committee on Regulatory Reform for Business Activities in Kenya, the reform applied a simple fast-track review process to find out what licenses could be eliminated, simplified or maintained. Unless regulators could actually justify that licenses were valid and required, the licenses were eliminated by default. This “guillotine approach” reversed the idea that the reformers were the ones who had to prove the need to reform. Instead the reform process pointed out that it was the beholders of the status quo who should prove that change was not needed. The review process integrated extensive consultations with regulators and the private sector.

In June 2006, through the Finance Minister’s budget speech, the Kenyan government committed itself to eliminate and simplify about 800 business licenses. Many more are likely to follow as the review process continues throughout 2006, particularly the review of licenses issued by local governments.

More important, reform does not stop with the review and elimination of existing licenses. In Kenya in particular, reform meant building institutional capacities. Concerning license review, the government of Kenya is establishing two simple institutions that will ensure that the results of the license review are not eroded by a wave of new licenses and burdensome business regulation. First, an Electronic Regulatory Registry will be set up to host all valid business licenses. If a license is not in the registry, it is not valid. The registry will work as an information center for businesses and the general public. Second, a Regulatory Quality Review Unit will be set up to “guard the gates” to the Registry. The Unit will be charged with vetting all new licenses prior to becoming legal and accepted into the regulatory registry. The Unit, which will be located within the Ministry of Finance, will ensure that all future laws and regulations related to the business and investment environment meet a simple “quality test” before enactment. This Unit will also develop and implement a medium-term regulatory reform strategy, including monitoring the quality of new licenses.

In June 2006, the Kenyan government committed itself to eliminate and simplify 800 business licenses.
**Industry Competitiveness**

FIAS works with client countries to push the frontier on competitiveness

It is becoming increasingly clear that horizontal economy-wide investment climate factors alone cannot explain growth and competitiveness in emerging economies. Client countries are placing increasingly greater weight on gaining a better understanding of factors promoting growth and in this context, industry or sector-specific factors emerge prominently. FIAS proactively works with client countries, regional counterparts of the IFC, World Bank, IFC facilities, and other International Finance Institutions (IFIs) in the area of industry competitiveness, organized along three product lines: Industry Value Chains, Competition Policy, and Corporate Social Responsibility.

**Industry Value Chains:** The Industry Value Chain approach offers an effective way of identifying and targeting product and factor markets constraints. It provides effective analytical tools for identifying the most important policy-induced factors that affect competitiveness along the value chain of a tradable product or service. The findings of value chain analysis determine the following by identifying micro-level information on policy, as well as institutional and infrastructure impediments to competitiveness and growth:

- Generate momentum for policy and institutional reform.
- Provide an effective platform for public-private “data-based” dialogue and partnership.
- Offer quantitative metrics that can be monitored over time and across countries and/or industries.
- Enable know-how through stronger linkages among firms with regional and global supply chains.
- Create a “bottom-up” policy agenda for champions of reform who have a reason to lobby for reform.

**Competition Policy:** An important feature of a sound business climate is the extent to which there exists free and fair competition on a level playing field between different businesses – privately or state-owned enterprises, large or small-sized firms, domestic or foreign controlled companies – engaged in commercial economic activity. Over 100 countries (up from 35 in 1995) have enacted competition laws to deal with cartels, bid-rigging, and various other forms of monopolistic behavior that adversely impact on consumer and producer welfare, and investment, productivity and growth. FIAS has been providing expert advice on competition policy in a number countries, most recently Costa Rica, India, Bangladesh and Pakistan.

**Corporate Social Responsibility:** Firms in emerging markets are realizing significant improvements in revenue, market access, productivity, and risk management as a result of corporate social responsibility (CSR) initiatives. FIAS works with relevant government agencies and stakeholders to design solutions that use CSR to help national competitiveness, including policy incentives, implementation mechanisms, monitoring and inspection, and reporting frameworks.

In FY 2006, FIAS undertook advisory work in: Sierra Leone (tourism and mining), Lesotho (apparel), El Salvador (apparel, coffee and sugar), Lesotho (apparel) and Russia (forestry). On-going CSR projects include Peru (textile and apparel), Lesotho (continued apparel), Russia (forestry), Indonesia (forestry), China (ICT) and Jordan (apparel). Projects in the pipeline include Tanzania and Democratic Republic of Congo (both mining), and Vietnam (mining).
CASE STUDIES: INDUSTRY COMPETITIVENESS

Identifying Constraints to Competitiveness

FIAS projects have identified sector and region-specific issues that hinder an open and responsible business environment.

CASE 1: INDUSTRY ANALYSIS

In Indonesia, cross cutting value chain issues affect both the shrimp and textile sectors, among others, and include inordinate delays in VAT redemption, advanced income-tax collection that increases transactions costs and ties down working capital, border management institutions and procedures that allegedly encourage illegal transshipment of goods, and labor policy rigidities that adversely affect productivity. Sector specific issues include enforcement of quality standards in the shrimp sector and technology upgrades and associated lack of investment attractiveness in the textile industry. Standards issues and recommendations will be implemented by the WB lending project in the shrimp sector, with potential technical assistance by PENSA.

In response to the Minister’s request for assistance on the textile sector’s technology upgrades and associated investment needs, the FIAS team has initiated discussions with MIGA to explore innovative options. In Mozambique, the insights and recommendations from the Mozambique Tourism Value Chain project are being operationalized by PEP Africa’s Anchor Tourism project and the FIAS-PEP Africa-ICF investment climate project. The project also provides valuable input into the Trans Frontier Conservation Area (TFCA) project funded by the World Bank Group; and the Communications (transport) project by the World Bank.

CASE 2: COMPETITION POLICY

In 2002 the Costa Rican government established CONARROZ, an enterprise with monopoly rights to purchase rice from farmers and to process and distribute it at controlled prices. The stated objectives of CONARROZ include stabilizing domestic rice prices, providing subsidies to farmers to augment output, and increasing productivity through technology transfer. This has not happened; in fact, FIAS studies show the opposite has occurred. FIAS found that many small farmers have been driven out of business due to high costs and low profits. In contrast, large-scale rice processing firms have been enjoying windfall profits by vertically integrating backwards into farming, and forward into distribution – while being insulated from international competitive discipline behind import tariff rates of 35 percent. Consumer prices have also increased steadily, and domestic production has decreased by 27 percent. Imports of rice have also increased. Since on average Costa Ricans consume twice the amount of rice as their neighbors, the impact of increased prices is particularly felt by the poor. With this in mind, FIAS has provided recommendations for policy changes to promote competition, efficiency and consumer welfare.

This project has allowed for consumers, civil society, private sector and some government institutions to question the monopoly rights granted to CONARROZ as well as the policy of regulating the rice market. The study’s findings have led to a lively debate and are challenging policy makers to either justify the current system or to dismantle or reconstitute it to better meet the stated objectives. The project points to alternative ways in which Costa Rica can meet its socio-economic-political objectives in respect to this important sector.

CASE 3: CORPORATE SOCIAL RESPONSIBILITY

In collaboration with the Multi-Fiber Agreement (MFA) Forum, FIAS advised the government of Lesotho and the apparel industry on strategic ways to overcome the expiration of this arrangement (MFA) and the potential expiration of the third country fabric provision in the African Growth and Opportunity Act (AGOA). At a high-level stakeholder forum in the capital of Maseru, representatives from the government, apparel industry, unions, major brands and international organizations agreed on a road map to improve regional integration, expand into new markets, and ensure decent working conditions.

ABOVE: Musician Bono visits Lesotho to lend his support to fashion industry reforms

Photograph courtesy of Product (RED)
“The number one fascination of working for FIAS is the opportunity to work in ‘real-time’ with real reformers. FIAS has a dual focus on hands-on policy advice and knowledge management.

This makes FIAS capable of not only delivering top-notch analysis and guidance to our clients, but also of pushing the conventions for how and when to reform. That’s what I call job satisfaction.”

Peter Ladegaard
Senior Investment Policy Officer
FIAS
Washington, DC

“My work with FIAS brought me in contact with a wide range of amazing people including dynamic investors entering emerging markets, government officials determined to implement bold reforms, and experienced local and international professionals eager to learn from each other.

Working with such people affords me the privilege of gaining insights from their experiences and ideas.

Sometimes I feel my job is not that different from that of the bees - we move from place to place, enriching ourselves by collecting good ideas from everyone while benefiting all others by spreading the best practices around. It is a real joy when we see the fruits of our efforts.”

Xiaofang Shen
Senior Investment Policy Officer
FIAS/Private Enterprise Partnership-China
Chengdu, China
Over the past few years, FIAS has shifted its focus towards serving lower-income clients. In FY06, more than half of FIAS advisory projects were dedicated to frontier countries (characterized by a high-risk or low-income environment) – up from only 25 percent in 2001.

This is perhaps best exemplified in the growth of our Sub-Saharan Africa and South Asia programs over the past two years. Prior to FY05, FIAS was averaging 14 projects in Sub-Saharan Africa, and in the past year this number increased to an all time high of 27 projects, which represents more than 36 percent of FIAS’ advisory projects held during the fiscal year. Similarly, FIAS engagement in the South Asia region was minimal (averaging two to three projects per year from FY01 to FY04).

Since then, FIAS’ program in South Asia has been scaled up substantially, both with the establishment of IFC’s South Asia Enterprise Development Facility (SEDF) and the opening of the Dhaka office in Bangladesh. The upswing in the program has been particularly true for Bangladesh and Pakistan, where FIAS completed six projects in FY06 and, more important, prepared the way for the establishment of the $55 million Bangladesh Investment Climate Fund (BICF). FIAS is also implementing a multi-year regulatory reform program in Pakistan.

In East Asia, FIAS completed 20 projects in FY06 (including Vietnam and Cambodia), as well as expanded our program in Western China – a region that has significantly underperformed the rest of the country.

Beyond the shift towards low-income markets, the last few years have witnessed an increasing emphasis by FIAS on “post-conflict” countries. In FY06, FIAS worked on projects in the Democratic Republic of Congo, Liberia, Sierra Leone, the Solomon Islands, Sudan, as well as “post-post-conflict countries” such as a number of countries in the Balkans.

At the same time, strong demand continues for FIAS intervention in middle-income and more sophisticated countries. This is of critical importance for FIAS, not only because continued engagement in these countries is important in supporting their legitimate reform efforts, but also because the experience gained in middle-income countries can be applied to the reform efforts of lower-income clients. This is particularly true with respect to the establishment of Regulatory Reform Units and Regulatory Impact Analysis (RIA) systems in low-income countries. Over the coming years, we will continue to explore additional ways to share knowledge on private sector development and regulatory reform issues between middle-income and low-income countries.
The Africa Program in FY06 broke from the past by emphasizing multi-year program interventions and moving away from diagnostics towards solution design and implementation. The program was underpinned by structural changes, including the establishment of a FIAS base in Johannesburg and the fusing of FIAS with PEP-Africa's investment climate work. The result was the creation of a strong team able to respond quickly to clients and able to deliver seamless service effectively from diagnosis to implementation. Further, FIAS began to work together with all WBG units to create a single “Investment Climate Team for Africa”. Finally, functionally, the 2006 Africa program concentrated on working in post-conflict countries at an early stage as well as continuing to focus on sector-based analysis and policy advice. In FY06, FIAS undertook 27 advisory projects in the region, which were equally balanced in both Francophone and Anglophone Sub-Saharan Africa.

Conflict-affected countries are a WBG priority, but during the past year, the idea of introducing PSD reform early in the post-conflict process has been integrated into FIAS’ African strategy. In FY06, FIAS began a multi-year, multi-dimensional program in both Liberia and Sudan, beginning with a mini-diagnostic needs assessment study. In addition, FIAS expanded its presence in Sierra Leone by launching a multi-year implementation project designed to remove administrative barriers and re-design business procedures.

Following the success of the pilot tax project in Zambia during FY05, FIAS began a regional project, studying the impact of the tax system by sector in eight countries in Southern Africa. These sectors include agriculture, tourism, manufacturing, mining, and finance. The goals were three-fold:

- To assess the effective tax burden in each sector in an individual country to understand if the tax/incentive schemes are enabling growth in that sector;
- To determine whether individual sectors within each country bear disproportionately high or low tax burdens relatively; and
- To establish how the effective tax burden in an individual sector in one country compares to the same sector in another country - that is, a competitiveness indicator.

The qualitative and quantitative data from this program is being analyzed with the aim to siphon out international best practices in the area of tax [especially of Micro, Small and Medium Enterprises (MSMEs)] and will become a component of our knowledge management program. In addition, FIAS conducted an analysis of land policy in Benin.

Finally, FIAS launched an innovative survey to study the characteristics and causes of informal economic behavior, piloting the survey in Sierra Leone and Rwanda. The surveys were done to allow the authorities and FIAS to understand what procedures and policies are too costly for businesses and result in informality. The methodology proved to be useful and is being extended to both Francophone and other Anglophone countries during 2007.

Recognizing the interface between macro- and micro-level reform and assistance, the Africa strategy has focused on sector analysis in all of FIAS products. This approach was applied to new products (tax study, competition policy) and as an adaptation of existing products (administrative barriers, mini-diagnostics). FIAS also completed its first value chain analysis in Africa, analyzing the tourism sector in Mozambique.
The South Asia region has experienced a rapid GDP growth rate, averaging 5.5 percent a year for the past two decades as a result of domestic reforms and external assistance. Although growth has resulted in poverty reduction, almost 400 million South Asians still live on less than $1 a day. South Asia attracts significantly less domestic and foreign investment than any region except Sub-Saharan Africa. The region needs to increase investment from the current 15-20 percent of GDP to 28-30 percent of GDP to achieve its growth targets. There have been severe constraints on growth and poverty reduction due to lack of investment in infrastructure and social services. Increasing investment requires a concerted effort from regional governments to improve their investment climates.

In the first year since the opening of the FIAS South Asia Office in Dhaka in FY05, FIAS has helped the government of Bangladesh gain significant momentum towards investment climate improvement. The Bangladesh program is the largest in the region and has leveraged many aspects of FIAS expertise and innovation, and — as a joint venture with the IFC’s South Asia Enterprise Development Facility (SEDF) — has served as a model of integration within the World Bank Group. Under the governmental leadership of the top level PSD Task Force, the PSD Core Group of mid-level officials and the Private Sector Consultative Group (PSCG) of business leaders proved to be highly successful initiatives to ensure government ownership and incorporate multiple stakeholder perspectives into strategies for private sector development.

The formulation and management of the PSD Core Group, a group of 37 mid-level officials of the rank of Deputy Secretary and Senior Assistant Secretary drawn from ministries and agencies involved with the private sector, has indeed been the most critical element of building ownership within the government of Bangladesh for implementation of an ongoing commitment to investment climate reform. The work with the PSD Core Group has created champions for reform and paved the way for the conception and commitment to the IFC’s new planned Bangladesh Investment Climate Fund (BICF), an eight-year multi-donor funded program to continue improving the regulatory environment and institutions, strengthening the civil service, and supporting private participation in serviced industrial land.

In Pakistan, the completion of the value chain analysis of six key products begun in FY05, combined with a comprehensive review of administrative barriers to investment, lay the foundation for continuing work. The government has requested the establishment of a Better Business Unit to address the investment climate issues reported in the FIAS diagnostics, and donors are expressing interest as well. FIAS assistance in India, in conjunction with UK’s DFID, was directed towards assessing competition policies and presenting the findings at a workshop for stakeholders. Complimentary capacity building efforts are underway at the newly formed Competition Commission. An initial visit to Orissa (a state in East India bordering on the Bay of Bengal) towards the end of the year has laid a foundation for future engagement in India’s frontier states.

**Above:** Bangladesh PSD Core Group Members on a study tour to Malaysia. Throughout the year, study tours to Malaysia, Korea, Jordan and United Arab Emirates gave the participants a first-hand look at the best practices in investment and regulatory environments through discussions with various government agencies and site visits to operating special economic zones.

Photograph courtesy of Mustafizul Hye Shakir
Economies in East Asia and the Pacific (EAP) continued to grow at a steady pace during FY06. GDP has increased by an estimated 8.8 percent in 2005, down from a 9.1 percent increase in 2004, and growth exceeded 4 percent in every country except Timor-Leste. The Pacific Islands, however, showed a much weaker performance, with only two out of ten countries having a growth over 4 percent. In 2005, FDI flows to the region rose to $65.3 billion (up from $64.6 billion in 2004). However, the majority of this amount went to China, while the Pacific nations attracted minimal FDI flows. In response to increasing requests for business enabling environment reforms, FIAS has moved away from purely FDI-focused assistance in order to better serve a broader investment climate approach.

In FY06, 20 projects were completed in the region, comprising 10 projects in the EAP and 10 projects in the Pacific. These projects were conducted at regional, national and sub-national levels, working closely with World Bank Group partners as well as with other multilateral and bilateral donors in the region. In the Pacific, FIAS developed long-term business enabling environment reform programs in Fiji, Tonga, and Samoa. FIAS collaborated closely with IFC’s Pensa in Indonesia and the Mekong Private Development Facility (MPDF) in Vietnam to improve business registration and licensing regulations and administrative procedures at the sub-national level.

During fiscal 2006 FIAS was asked to play a high-profile role, in partnership with PEP-Aceh/Nias, in assisting the tsunami-devastated province of Aceh. FIAS delivered a rapid-response diagnosis of the investment outlook in the province, leading to an extended assistance program in FY06 comprising strategic economic development planning, investment promotion, policy and legislation. Leveraging experience in other regions, FIAS is also addressing private sector access to land issues. In Vietnam, FIAS is working with MPDF on an ambitious long-term program to improve regulations and administrative procedures for business to access land.

FIAS also assisted the Cambodia Investment Board (CIB) in the design and implementation of a Duty Suspension Scheme (DSS) that provides exporters in targeted sectors with automatic, frictionless access to world priced inputs. In addition, FIAS and MIGA prepared a strategic plan to address CIB’s need for a greater focus on investment promotion. In the Pacific, FIAS assisted in the establishment and implementation of a Foreign Investment Registry (FIR) function within the Ministry of Commerce and Industry in the Solomon Islands.

In China, FIAS assists the authorities at the central and local level to improve the investment climate in less developed regions of the country. In collaboration with IFC’s PEP-China, FIAS is supporting the National People’s Congress and the People’s Bank of China in developing the legal and institutional framework for a modern secured transactions system for movable assets, which holds a potentially major impact on SMEs’ access to financing. Working with MIGA, FIAS has initiated a multi-year program in support of the Ministry of Commerce’s efforts at improving the investment climate, and attracting domestic and foreign investment to the central and western regions of China. Concerning the future support of China’s outward FDI, FIAS conducted a survey of Chinese companies investing abroad, the results of which highlighted areas of successes and areas where assistance is likely to be required at both the government and company’s levels.

The year also saw FIAS providing some of its traditional FDI packages in the EAP region. For example, FIAS worked with the World Bank in Jakarta to provide drafting guidelines for sub-decrees to implement Indonesia’s new Investment Law, while also analyzing government policy proposals for the reform of investment tax incentives. In the Pacific, FIAS continued its long-term program of assistance to attract foreign investment in the Solomon Islands. Assistance to finalize and implement the new Investment Law passed in November 2005 was part of this program.

On the regional level, FIAS initiated a joint venture operation in Sichuan, West China with IFC’s local facility, PEP-China. In FY06, the shared Business Enabling Environment program, led by a senior FIAS staff posted in PEP-China, launched several value chain studies in strategic sectors including agro-business, electronics and tourism. These Value Chain Analyses (assisted local governments and business communities in diagnosing cross-cutting policy and regulatory issues, developing practical solutions, and facilitating public and private sector dialogue to help boost the implementation phase.)
To boost private investment (both domestic and foreign), the countries in the MENA region have to implement far-reaching reforms to improve the business environment, including fostering governance and transparency, adopting more open investment policies, restructuring the public sector, liberalizing services and utilities, tackling labor market issues, removing non-tariff barriers to trade, modernizing physical infrastructure, and investing in education and training. The association agreements that some of the MENA countries (particularly in the Maghreb) have concluded with the European Union and the process of acceding to the World Trade Organization (WTO) have given much-needed momentum to address some of these policy issues, notably in the trade area. But much remains to be done, and FIAS is providing the specialized advisory and technical assistance to support the reform efforts, in close coordination and collaboration with the World Bank and IFC (through its PEP-MENA facility).

In 2006, in spite of a challenging geopolitical situation, FIAS has continued to deploy a range of advisory services in the region. FIAS continues to be very active in Egypt. In July 2005 we submitted to the government a comprehensive review of Administrative Barriers to Investment that complemented the Investment Climate Assessment (ICA) carried out by the World Bank. The FIAS report is actively being used by the investment authority of Egypt (GAFI) to simplify the procedural environment, including with PEP-MENA in Alexandria, Egypt. We also prepared, through the World Bank’s MENA region, a report on “Free Zones in Egypt: Strategic Recommendations” for the Ministry of Investment. Finally, we are also working at the sub-national level with a pilot program to improve the Institutional Framework for Industrial Estates in Alexandria, with support from the World Bank and Cities Alliance. In Syria, we carried-out an updated Diagnostic of the Investment Climate (March 2006) and participated to a UNDP-led workshop on Business Regulation Reform. In addition, we also plan to assist the authorities in upgrading its investment legislation, as a continuation of our 2004 review of the Investment Law. In Lebanon we have initiated a review of Administrative Barriers to Investment to complement a parallel program by PEP-MENA focusing on business start-up simplification.

In West Bank & Gaza, FIAS contributed to the World Bank review of the Palestinian economy (Country Economic Memorandum report). In Saudi Arabia, at the government’s request, FIAS has conducted a needs assessment for a technical assistance program on special economic zones and administrative barriers to investment, following up and building upon our previous work in the Kingdom.

In addition to the direct in-country advisory work described above, FIAS also contributes to the PSD work program of the World Bank’s MENA region through peer review of country assistance strategies, lending operations with PSD components, technical reports and research papers on investment climate and PSD issues in the region. FIAS also contributes to the OECD initiative on investment in the MENA region. FIAS welcomes the opportunity to have similar dialogues and partnerships with other development partners.

In spite of a challenging geopolitical situation, FIAS has continued to deploy a range of advisory services in the MENA region.

3 PROJECTS COMPLETED IN FY06: Saudi Arabia, Syrian Arab Republic, and the West Bank/Gaza
**Latin America & Caribbean**

FIAS helped LAC clients improve their business environments through sub-national *Doing Business* diagnostics.

The FIAS strategy for Latin America is demand driven. The strategy is to carefully select countries and projects where FIAS is most likely to have significant impact. During FY 2006, FIAS completed eight advisory projects in six countries. In Peru, FIAS continued its successful partnership with the IFC Technical Assistance Facility by supporting the municipality of Lima in the reform of construction permits. In July 2006, the project was awarded the First Prize in the Administrative Simplification Category at the Good Governmental Practices during the Peru Conference. FIAS is also supporting Central America governments to articulate a Central America Free Trade Agreement (CAFTA) assistance strategy. In El Salvador, for example, FIAS helped the government develop a national Corporate Social Responsibility (CSR) framework to improve social and environmental practices for exporters. In Costa Rica, FIAS is strengthening the Competition Commission to foster the effective implementation of the country’s competition policy in selected sectors. In Panama, FIAS is creating the groundwork for IFC advisory services by advising the government on the conversion of the Howard Base into a special economic zone.

The perception of Latin America and the Caribbean as a region of middle-income countries hides glaring income inequalities – in fact, the highest in the world. Poverty levels are persisting and progress on social indicators is painfully slow. More than 25 percent of Latin Americans live with less than $1 per day. Latin America is also falling behind in GDP growth. From 1997 to 2006 (projected), the region will have grown at 2.8 percent while world growth will have averaged 3.9 percent, split between 2.7 percent for advanced economies and 5.3 percent for developing markets. Latin America may be the only other region, in addition to Sub-Saharan Africa, not to reach the Millennium Development Goals of halving the 1990 level of income poverty by 2015.

8 PROJECTS COMPLETED IN FY06: Costa Rica, El Salvador, Jamaica (2), Mexico, Panama, and Peru (2)

Latin America and the Caribbean rank just above Sub-Saharan Africa on the ease of *Doing Business* as measured by the *Doing Business* (DB) indicators. Only Chile is among the 30 economies where it is most straightforward to do business. On the other side of the spectrum are Brazil (121), Haiti (139), and Venezuela (164). The informal sector is estimated to be approximately 40 percent of GDP on average. This is why in fiscal 2006 FIAS deepened its engagement in regulatory reform by targeting national subdivisions in large countries and by creating competition across regions. In Mexico, four DB indicators were measured in 12 cities and states (opening a business, registering property, registering collateral and enforcing a contract). The report was presented in December 2005 to over 400 business leaders, politicians and public officials from the federal, state and municipal levels of government.

Two main conclusions developed out of the *Doing Business* in Mexico report. First, there are wide divergences in the performance across states, despite similar regulations. Many of the applicable regulations measured are federal, but implementation is local. There is scope for significant improvement by implementing the administrative practices of the best performers, without major legislative changes. Second, even the top performers lag behind international best practices in most areas. Deepening reforms and adapting practices from best international performers is a necessary step if Mexico wants to reduce its competitiveness gap with other OECD countries. This project will be extended to cover all 31 states and the Federal district in FY07. Similar projects are underway in Brazil and in Peru.

In Jamaica, FIAS completed a diagnostic study of the investment climate and a study of the country’s tourism sector. However, recognizing that puntual interventions in small islands are usually not cost efficient, FIAS is increasingly relying on regional approaches for the Caribbean. One example is the ongoing project with six independent members of the Organization of Eastern Caribbean States (OECS) to use benchmarking to stimulate inter-island competition. Another example is the recently initiated tourism linkages work across the OECS.

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FIAS work in Europe and Central Asia has been evolving to take account of the accession of 10 Central European countries into the EU, the preparations for Southeast European countries for EU accession, and the need for more focused attention on the poorer regions of Eastern Europe and the Central Asian Republics. While FIAS work in the more advanced countries in the region serves as an exemplar for countries with lower capacity, the bulk of FIAS resources shifted into countries and regions where help is more urgently needed. FIAS completed 10 projects in the region in FY06, with a strong pipeline for FY07. FIAS has strengthened its partnerships with other units in the World Bank Group, including the Private Enterprise Partnership (PEP) and the new PEP-SE for South East Europe. During FY06, FIAS and PEP-SE made preparations for a joint program, building on the past work of FIAS and the former Southeast Europe Enterprise Development (SEED) program. The new joint program will focus on the business enabling environment, reform of business regulations, and development of institutional capacity for on-going regulatory impact assessment in the countries of the region.

In Russia, a series of comprehensive diagnostics concluded that the most important constraints to private sector development related to access to commercial land and real estate. Lack of transparent and defensible property rights for immovable assets deprived businesses of collateral needed to finance operations and made firms susceptible for extortion by municipal authorities since most land remains publicly owned. Today, in order to purchase a plot of land in an urban area, businesses currently spend a minimum of 273 days, preparing at least 11 documents which should be issued and/or approved by 11 different agencies at federal, regional and municipal levels. FIAS’ approach to improving access to land in Russia is to focus on reducing time and cost in going through key administrative processes in the area.

FIAS is assisting the Russian Ministry of Economic Development and Trade, the “champion of reforms” in land and real estate in Russia, in drafting a law on privatization of plots of land under privately-owned enterprises. Adoption of the law will boost the asset base of privatized enterprises, which received only insecure land lease rights upon privatization of State-Owned Enterprises (SOEs) in 1990s when the reforms stopped short of transferring property land rights to the new owners.

On the sub-national level, specialized assistance is being provided to the FIAS project regions (e.g. Irkutsk and Rostov oblasts and their municipalities) where FIAS experts spend extended periods of time looking at the barriers in land and real estate transactions, trying to advise how to increase competitiveness and transparency of auctions and tenders for immovable assets, and how to tame the municipal abuse of the land holdings.

FIAS also carried out a path-breaking project in the Russian forestry sector to introduce international standards for corporate social responsibility and environmental sustainability. Further work in the Russian Federation will concentrate on depressed regions (e.g., in the Southern Federal Okrug) and in regions with resources to make substantial contributions on their own behalf to the financial cost of FIAS projects.

In the CIS countries (Commonwealth of Independent States), FIAS and PEP are working closely and exploring joint programs. As mentioned previously, FIAS work is also incorporated into World Bank programs. In Tajikistan, FIAS and MIGA provided joint assistance to enhance the attractiveness of the investment environment as well as the capacity of the institutions that deal with investment policy and facilitation. In Armenia, FIAS worked with the World Bank to analyze the country’s collateral laws and the newly established collateral registry, and agreed on an action plan to enhance access to finance. FIAS also plans to help the government streamline administrative procedures and establish capacities for better regulations. In Azerbaijan, FIAS is developing solutions to reform the licensing system and improving the regulatory quality for private sector development.
“The FIAS/PEP Africa SWAT Team takes a further step beyond the traditional FIAS role of investment climate policy advice by permitting rapid response to government requests and a sustained presence in client countries through policy implementation.

African governments’ growing commitment to broad based development of their countries through international best practice makes the NEPAD driven African renaissance increasingly achievable.

After 7 years of legal work across various African countries, I am excited to learn from the world leaders in investment climate reform and to be able to contribute to translating policy recommendations that recognise the uniqueness of each country into tangible positive results.”

Kobina Daniel
Legal Advisor
Joint FIAS-PEP Africa SWAT Team
Johannesburg, South Africa

“Advising on business environment reform is more an art than a science. Yes, we do need to be on top of global best practices in core areas of the investment climate but we cannot replicate these solutions “wholesale”.

Our advice must be tailored to each country’s circumstances. This requires imagination, the ability to ask open questions and to listen to public and private stakeholders in the country.

With such an approach we can facilitate the emergence of a solution that may not exactly be the “best practice” but has greater chances to be implemented and produce positive results.”

Xavier Forneris
FIAS Program Coordinator
Middle East and North Africa Region
Washington, DC
Ensuring Success
FIAS strives to evaluate its own performance, the extent to which interventions achieve the stated objectives, and how future impact can be improved based on the knowledge gathered and lessons learned from past and ongoing projects. FIAS has developed tools to focus on the relevance, effectiveness, efficiency, sustainability, and the potential developmental impact of its work in client countries as well as to assess project outputs, outcomes and impacts, ex-post.\footnote{Outputs are defined as FIAS recommendations for policy or regulatory change. Outcomes constitute legal and regulatory changes resulting from FIAS recommendations. They imply response and action by the government. Impacts are quantitative measures of the effects of the legal, policy and regulatory changes, such as increases in investment flows, economic growth, etc.}

**MONITORING & EVALUATION (M&E) FROM THE OUTSET**

During FY06, FIAS has institutionalized M&E from the inception of its projects, as the success of a project to a great extent depends on its initial design and the articulation of measurable end goals. To improve project design and integrate FIAS projects more fully with other World Bank Group activities, FIAS participates in the IFC’s Technical Assistance and Advisory Service (TAAS) Project Document System. Each task manager is asked to identify, ex-ante, a set of key outcome and impact indicators and to design an appropriate mechanism to monitor those indicators over a number of years once the project is completed. This in turn helps management evaluate the potential contribution of this project in the client country.

**PROJECT IMPLEMENTATION MONITORING SYSTEM (PIMS)**

Once a project is completed, FIAS monitors the status of the implementation of its key recommendations on an annual basis over a period of three years through the PIMS. The objective is to generate a steady flow of information at the project level on the state of implementation of individual recommendations, and to assess the effectiveness of FIAS advisory work across different regions and products. In FY06 the PIMS was enhanced by creating panel datasets of PIM scores, which allow for a comprehensive analysis of project results across time, countries, project categories or result types. Consistent with the overall M&E framework, PIMS now classifies and tracks over time every project result as an output, outcome or impact.

As shown in Figure 1.1, the average implementation rate – that is, the percentage of FIAS recommendations that were fully or partially implemented after one year – was about two-thirds in FY05. The graph also illustrates that this figure has risen continuously since FY01. Implementation also tends to strengthen with

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{IMPLEMENTATION OF RECOMMENDATIONS}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{REGIONAL IMPLEMENTATION DIFFERENCES}
\end{figure}

In FY06, implementation rates of FIAS recommendations continued the positive trends of the last few years. Implementation rates varied by region, with the ECA region showing the highest levels of implementation.
time – shown through increases in the implementation rate in the second and third year after project completion – reflecting the often longer-term nature of many of these reforms. Viewed on a regional basis, as illustrated in Figure 1.2, the PIMS found that the best outcomes were achieved in Europe and Central Asia (ECA), followed by Sub-Saharan Africa.

**IFC CLIENT SURVEY**

While the PIMS attempts to monitor the outcome and impact of FIAS work, FIAS is also keen to have an independent assessment of clients’ feedback on its service delivery. To that end, FIAS is the first technical assistance program that began participating in the IFC Client Survey since its inception in 2003. The survey is conducted by an outside third party. In the 2005 IFC Client Survey, as shown in Figure 2, 89 percent of our clients, all of whom are governments, were “satisfied/very satisfied/extremely satisfied” with FIAS’ advisory services, while none rated FIAS performance as “poor.”

**FIAS PROJECT ASSESSMENT & DONOR SURVEY**

In addition to the annual IFC Client Survey, FIAS has developed two surveys in order to improve our services. The first, the Project Assessment Survey, is used to obtain feedback from the client regarding the performance of FIAS once the project has been completed. The second survey is used to obtain feedback from donors. At least 90 percent of the surveyed FIAS bilateral and multilateral donors were satisfied or very satisfied with FIAS performance results, as presented in Figure 3. The same number expressed their satisfaction with FIAS M&E framework and instruments.

**MONITORING & EVALUATION OF FIAS PROGRAMMATIC INTERVENTION: THE RESULT AGENDA**

Measuring the effects of private sector reforms is critical for our client governments, as well as for our donors and FIAS itself. For this reason, FIAS has traditionally conducted ex-post evaluations of the status of implementation of FIAS recommendations after project completion. FIAS currently uses standard indicators of the quality of the business environment, such as those in the World Bank Group’s annual Doing Business reports, and supplements them with ad-hoc country surveys and impact evaluation studies of FIAS’ completed projects.

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1 FIAS results are based on the responses from 12, 22 and 18 clients respectively for 2003, 2004 and 2005. IFC result is based on 63 survey responses. IFC TAAS refers to the average of all IFC TAAS Units (FIAS, CAS, SRMF, EDF, TATF, SEED, SEDE and MPDF) that participated in the IFC TAAS Pilot Client Survey 2005.
In addition, as FIAS is shifting emphasis from Diagnostics to Solution Design/Implementation, M&E is critical to assess the effect of FIAS intervention in order to evaluate which reforms are working, which ones are not working and why, and what can be done better. FIAS started pilot benchmarking projects in several of its client countries (e.g., Russia, Bangladesh, and Sierra Leone) and regions (e.g., Africa Investment Climate Facility). In these countries FIAS has developed a comprehensive M&E log-frame with clearly set goals, objectives, targets, and objectively verifiable indicators to measure the progress of PSD reforms. This concept and methodology draws in particular upon the Integrated Impact Assessment Framework of DFID.

The objective is to collect baseline information on key PSD reform outcome and impact indicators so that the impact of the reforms can be evaluated over time following the FIAS M&E framework (as outlined in Figure 4) through follow-up surveys. In Sierra Leone, the set of outcome and impact indicators includes those that are related to FIAS interventions in administrative barriers removal, institutional reform and capacity development, as well as the government’s broader Private Sector Development Strategy. The first survey of enterprises and business intermediaries, conducted in FY06, has provided data which will be used as a baseline for evaluating the impact of the reforms through subsequent surveys. In FY06 FIAS also supported the establishment of the Africa Investment Climate Facility (ICF)/NEPAD through development of an updated investment climate indicator database as a platform for an M&E framework, among other indicators.
Latvia’s Business Environment

FIAS carried out a series of projects in Latvia to help the government remove administrative barriers to investment.

According to the progress reports on implementation of the Action Plan, by the end of 2003, 91 of 106 tasks were successfully implemented, which represented a very high success rate. FIAS’ Administrative and Regulatory Cost Survey or ARCS carried out in Latvia in late 2001 and again in late 2003 and 2005 showed the following signs of business environment improvement:

- Steady reduction in the share of businesses regarding different regulatory areas as an obstacle for the operation and growth of their business;
- Improved access to information regarding tax issues;
- Reduction in the frequency and duration of inspections (see Figure 1 above);
- A decrease in the incidence and severity of fines imposed on businesses; and.
- Reductions in time/cost of several administrative procedures, such as time spent on company registration and time spent registering title transfers.

What kind of benefits can be claimed at the level of impact? Consider just one set of reforms that resulted from the projects: Reform of Government inspections. The surveys confirmed that the average repetitiveness and duration of inspections for the five most common inspections (State Revenue, Fire Safety, Labor, Sanitary and Municipal Police) fell between 2001 and 2003, resulting in a time saving of more than 38 hours per year for an average Latvian enterprise. If we assume each firm needed to assign one staff member to accompany a government inspector during the inspection, with an average wage of about $2.2 per hour in 2003, that time alone represented a saving of $85/year for each active enterprise operating in Latvia. This does not even include benefits from other reforms which reduced the incidence of arbitrary and severe fines and improved transparency and accountability in government inspections. According to the data from the Ministry of Economics, there were 40,668 economically active firms in 2001 and 45,300 in 2003. This change in the way inspections are conducted has enabled businesses to free up over $3.8 million in 2003 alone.

The Latvian experience in institutionalizing a framework for periodic assessment of the business environment was praised by the EU during the accession process. As regards the impact on the broader economy, the question of attribution is always problematic and the majority of the credit belongs to the government of Latvia. Taking this into account, the improvements in the investment climate have contributed to a 75 percent increase in the gross fixed capital formation in the private sector between 2001 and 2004. Reforms have also helped create new employment opportunities, with unemployment falling from 20.5 percent in 1996 to 10.6 percent in 2003 with a further decline to 9.3 percent by 2005. The real income of employees in the period from 2000 till 2004 has increased by 24 percent. Similarly, GDP growth per annual accelerated from 6.5 percent in 2002 to 10.2 percent in 2005, making Latvia the fastest growing economy in Europe last year.
The total number of FIAS staff as of June 30, 2006 was 47, including 10 long-term consultants (ETCs). Of these, 38 (81%) were based in Washington DC headquarters and 9 in Sydney, Dhaka, Chengdu/Beijing, Johannesburg and Moscow. These numbers only include staff mapped to FIAS, and not IFC Facilities staff working in joint programs with FIAS. Two years ago Sydney and Moscow were FIAS’ only non-HQ presence; since then we have established joint ventures with four IFC Facilities (PEPs/PDFs) in the field. Another major trend in FY06 has been to leverage FIAS senior staff with junior professionals. Two years ago, there were only three junior professional staff; as of June 30, there were 19 (including 10 ETCs). These additions will help develop future Investment Policy Officers for FIAS and beyond (including the IFC Facilities). The excellent quality of the FIAS working environment is also reflected in the 2006 staff survey, which saw the highest score in appreciation of management since 2003 and showed that both accountability (97 percent of respondents) and staff contribution (77 percent) are properly enforced and recognized.

**EXPERTISE BY REGION**

**SUB-SAHARAN AFRICA (SSA)**
- Richard Stern  
- Gokhan Akinici  
- Paul Barbour  
- Jackie Coolidge  
- Kobina Daniel  
- Noura Dione  
- Babacar Faye  
- Xavier Forneris  
- Jean-Paul Gauthier  
- Catherine Masinde  
- Rina Oberai  
- Vincent Palmaide  
- Roy Pepper  
- Aminur Rahman  
- Uma Subramaniam

**SOUTH ASIA (SA)**
- James Crittle  
- Rughvir Khemani  
- Roy Pepper  
- Aminur Rahman  
- Fatima Shah  
- Craig Wilson

**MIDDLE EAST & NORTH AFRICA (MENA)**
- Xavier Forneris  
- Joseph Battat  
- Fatima Shah

**LATIN AMERICA & THE CARIBBEAN (LAC)**
- Mierta Capaul  
- Igor Artemiev  
- Zenaida Hernandez  
- Uma Subramaniam  
- Xiaofang Shen  
- Lihong Wang  
- Zuo Xin

**EUROPE & CENTRAL ASIA (ECA)**
- Gokhan Akinici  
- Igor Artemiev  
- Margo Thomas  
- Jackie Coolidge  
- Peter Ladegaard  
- Catherine Masinde  
- Roy Pepper  
- Tatyana Ponomareva  
- Sevi Simavi

**EXPERTISE BY TOPIC**

**INVESTMENT CLIMATE DIAGNOSTICS**
- Across the Team

**INVESTMENT LAWS, POLICIES, & PROMOTION**
- Gokhan Akinici  
- Joseph Battat  
- James Crittle  
- Xavier Forneris  
- Jean-Paul Gauthier  
- Russell Muir  
- Margo Thomas  
- Geoff Walton

**ADMINISTRATIVE BARRIERS SOLUTIONS**
- Gokhan Akinici  
- Igor Artemiev  
- Paul Barbour  
- Mierta Capaul  
- Jackie Coolidge  
- Noura Dione  
- Xavier Forneris  
- Jean-Paul Gauthier  
- Russell Muir  
- Margo Thomas  
- Geoff Walton

**INDUSTRY COMPETITIVENESS**
- Gokhan Akinici  
- Kristoffer Hvidsteen  
- Shyam Khemani  
- Vincent Palmaide  
- Fatima Shah  
- Uma Subramaniam  
- Kristina Svensson  
- Nigel Twose

**KNOWLEDGE MANAGEMENT / M&E**
- Jackie Coolidge  
- Vincent Palmaide  
- Alberto Criscuolo  
- Sumit Manchanda  
- Aminur Rahman
Finances
## Sources and uses of funds

<table>
<thead>
<tr>
<th>SOURCES OF FUNDS</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<th>2006</th>
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<td>World Bank Group Contributions</td>
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<td>Other Donor Contributions</td>
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<td>$910.80</td>
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<td>$129.80</td>
<td>$155.50</td>
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<td>Italy</td>
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<td></td>
<td>$266.50</td>
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<td>Luxembourg</td>
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<td></td>
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<td>$500.20</td>
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<td>Netherlands</td>
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<td>$276.00</td>
<td>$380.80</td>
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<td>$488.20</td>
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<td>$250.00</td>
<td>$250.00</td>
<td>$250.00</td>
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<td>Sweden</td>
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<td>$500.00</td>
<td>$500.00</td>
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<td>United Kingdom</td>
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<td>$225.20</td>
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<td>Australia (EAPRO)</td>
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<td>$430.70</td>
<td>$914.90</td>
<td>$1,397.20</td>
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<td>Canada (Africa)</td>
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<td></td>
<td></td>
<td></td>
<td>$340.30</td>
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<tr>
<td>New Zealand (EAPRO)</td>
<td>$127.90</td>
<td>$136.20</td>
<td>$164.30</td>
<td>$216.50</td>
<td>$209.70</td>
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<tr>
<td>Ireland (Africa)</td>
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<td></td>
<td></td>
<td></td>
<td>$118.70</td>
</tr>
<tr>
<td>Sweden (Africa)</td>
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<td>$340.30</td>
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<td>Switzerland (Africa)</td>
<td>$53.90</td>
<td>$35.00</td>
<td>$99.60</td>
<td></td>
<td>$240.00</td>
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<td>Switzerland (Balkans)</td>
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<td>$129.40</td>
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<td>Subtotal Donor Contributions</td>
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<td>$5,088.90</td>
<td>$5,723.50</td>
<td>$8,699.10</td>
<td>$10,127.70</td>
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<tr>
<td>Project-Specific Donor Contributions</td>
<td>$1,703.40</td>
<td>$1,712.00</td>
<td>$1,742.00</td>
<td>$3,124.00</td>
<td>$5,565.00</td>
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<td>Client Contributions</td>
<td>$537.00</td>
<td>$476.70</td>
<td>$304.40</td>
<td>$285.10</td>
<td>$130.00</td>
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<tr>
<td>Total Receipts</td>
<td>$6,977.60</td>
<td>$7,277.60</td>
<td>$7,769.90</td>
<td>$12,108.20</td>
<td>$15,822.70</td>
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<tr>
<td>Total Available Funds</td>
<td>$12,623.30</td>
<td>$13,586.40</td>
<td>$13,848.10</td>
<td>$17,266.20</td>
<td>$20,386.20</td>
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1. The FIAS Annual Report is prepared as a reporting tool for FIAS Donors and Management, utilizing generally accepted accounting principles.
2. EAPRO is the East Asia Pacific Regional Office formed in Sydney and funded by Australia, New Zealand, and a contribution from FIAS’ core trust funds.
3. See page 44 for a breakdown of project-specific donor contributions in FY06.
4. In FY05, FIAS operational reporting changed from accrual to cash based reporting to align with IFC’s Donor Funded Operations (DFO) Quarterly Financial Report. The information presented in this report for FY05 and FY06 was cleared by the DFO Financial Controls Unit (CCBFC) of the IFC Controllers.
Funding Analysis

Total expenditures for the year increased to $13.7 million, representing an 8 percent increase on the $12.7 million spent in FY05. At the same time, this growth in the program was matched by additional funding from clients and donors. This increase reflected the growth in FIAS business over the past year, as number of completed projects increased by 13.5 percent. FIAS completed 84 advisory and analytical projects, or 4 more than planned, and developed a strong demand-driven pipeline of projects for FY07 and beyond.

Staff and consultant costs represented over 75 percent of expenses. Fixed costs remained within budget. Much of the growth in expenditures came from additional consultants and travel needed to address additional client demand and new assignments. Operating Costs (administration and general management costs) have risen only 16 percent in total over the past three years, while overall costs and project numbers have increased by 36 percent and 58 percent respectively, over the same period.

FIAS received $10.1 million of new core and programmatic donor funding in FY06, with an additional income of $5.7 million coming from significantly increased project-specific donor contributions and client co-pay. Current core donors to FIAS include Canada, Ireland, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom, while regional funding is provided by Australia, Canada, New Zealand, Ireland, Switzerland, and Sweden.
## Sources and uses of funds

### Project-Specific Donor Contributions

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Donor Country</th>
<th>Amount (in $ thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam Better Land Regulations</td>
<td>Australia</td>
<td>$778.80</td>
</tr>
<tr>
<td>Competition Policy in Costa Rica</td>
<td>Canada</td>
<td>$258.00</td>
</tr>
<tr>
<td>Design Phase of PSDSP Bangladesh</td>
<td>Canada</td>
<td>$44.00</td>
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<tr>
<td>Informality Seminar in Africa</td>
<td>Denmark</td>
<td>$247.00</td>
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<td>Implementation and Monitoring Phase II FYROM (Macedonia)</td>
<td>Netherlands</td>
<td>$11.00</td>
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<tr>
<td>Sectoral Tax Study in Zambia</td>
<td>Sweden</td>
<td>$73.00</td>
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<td>Business License Reform and RIA in Kenya</td>
<td>United Kingdom</td>
<td>$200.00</td>
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<td>PSDSP Bangladesh</td>
<td>United Kingdom</td>
<td>$309.00</td>
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<td>Tax Impact on Business in Africa</td>
<td>United Kingdom</td>
<td>$482.00</td>
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<td>Administrative Barriers Phase II in Africa (Sierra Leone)</td>
<td>United Kingdom</td>
<td>$75.00</td>
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<tr>
<td>Administrative Barriers Phase III in Africa (Sierra Leone)</td>
<td>United Kingdom</td>
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<td>CSR on Gold and Tourism</td>
<td>United Kingdom</td>
<td>$76.00</td>
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<tr>
<td>One Day Workshop</td>
<td>United Kingdom</td>
<td>$44.00</td>
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<tr>
<td>Competition Commission in India</td>
<td>United Kingdom</td>
<td>$258.00</td>
</tr>
<tr>
<td>Lesotho Apparel</td>
<td>United States</td>
<td>$52.00</td>
</tr>
</tbody>
</table>

**Total FY06 Project-Specific Donations**: $5,565.00
Appendix
## Projects completed in FY06

### Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Project type</th>
<th>Budget</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional</td>
<td>Administrative Barriers Solutions</td>
<td>$256,613</td>
<td>FIAS conducted a series of workshops in selected African countries (Burkina Faso, Ethiopia, Madagascar, Mozambique, Niger, Sudan) that leveraged the varied expertise of different WBG units to diagnose and deliver more comprehensive and coordinate assistance to African clients.</td>
</tr>
<tr>
<td>Benin</td>
<td>Administrative Barriers Solutions</td>
<td>$170,000</td>
<td>FIAS identified major constraints affecting land access for private, commercial, industrial and residential development in Benin, and contributed to the conceptualization and implementation of a reform program to improve the conditions for land access for private companies and to establish a secure and fluid land market that promotes private sector development.</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Administrative Barriers Solutions</td>
<td>$256,613</td>
<td>FIAS implemented a 30-month program with PEP-Africa in order to improve key areas of Burkina Faso’s business climate.</td>
</tr>
<tr>
<td>Comoros</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$6,000</td>
<td>FIAS prepared a detailed commentary of the draft investment code that the government of Comoros had prepared and formulated recommendations for its improvement before adoption by the Cabinet and submission to Parliament.</td>
</tr>
<tr>
<td>Guinea Bissau</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$12,192</td>
<td>FIAS prepared a detailed commentary of the draft investment code that the government of Guinea-Bissau had prepared and formulated recommendations for its improvement before adoption by the Cabinet and submission to Parliament.</td>
</tr>
<tr>
<td>Guinea Bissau</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$58,473</td>
<td>After receiving FIAS’ detailed comments on the draft investment code, the Government requested additional technical assistance from FIAS to revise and finalize the draft legislation. FIAS quickly deployed a team of international experts who worked with policy-makers and lawyers to this end.</td>
</tr>
<tr>
<td>Kenya</td>
<td>Administrative Barriers Solutions</td>
<td>$880,000</td>
<td>Support to the government of Kenya’s Business Licensing Review, leading to the identification and review of more than 1,400 licenses, and the announced elimination or simplification of more than 800 licenses.</td>
</tr>
<tr>
<td>Kenya</td>
<td>Administrative Barriers Solutions</td>
<td>$152,200</td>
<td>FIAS, in conjunction with IFC-GEM, performed a gender and growth diagnostic study and produced a Voices of Women Entrepreneurs publication. This document helps to demonstrate links between gender and economic growth, identify challenges facing women entrepreneurs in Kenya, and suggest solutions to remove legislative and regulatory barriers to women's entrepreneurship.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Administrative Barriers Solutions</td>
<td>$99,585</td>
<td>FIAS investigated the effects of tax systems on the business climate by linking tax policy impacts with the impacts from the administrative discretion of revenue authorities. This project was part of a multi-country program in Africa to provide an analytical basis for assessing the relative effective tax burdens faced by businesses in key sectors identified in each government’s development plan as crucial for economic growth.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Industry Competitiveness</td>
<td>$232,400</td>
<td>In collaboration with the Multi-Fibre Arrangement Forum (MFA Forum), FIAS assisted the government and the apparel industry in preparing for the expiration of AGOAs 3rd country fabric provision and utilizing good social and environmental standards to retain and attract international buyers.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Administrative Barriers Solutions</td>
<td>$112,000</td>
<td>FIAS sought to increase the proportion of investor capital inflow, increase the rate of creation of new formal businesses, and reduce the costs to government of managing the licensing system through reducing the costs of registering a business and securing trading and manufacturing licenses to a level well below that of its neighbors.</td>
</tr>
<tr>
<td>Country</td>
<td>Project type</td>
<td>Budget</td>
<td>Description</td>
</tr>
<tr>
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</tr>
<tr>
<td>Liberia</td>
<td>Administrative Barriers Solutions</td>
<td>$72,160</td>
<td>As part of a WBG-wide diagnostic mission, FIAS helped put together a PSD agenda for the new government of Liberia. FIAS performed a “SWAT” diagnostic of the investment climate, where 3 FIAS experts looked at business startup procedures, tax/customs, and sector-specific licensing and procedures. FIAS provided authorities with options for addressing barriers, and helped identify a public-private dialogue group for capacity building/training.</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Administrative Barriers Solutions</td>
<td>$150,000</td>
<td>FIAS performed a sectoral tax study to examine the impact of business taxation in order to identify distortions and ways for improvement. This is the sixth in a series of country studies in Africa that look at the impact of tax policy and administration on the business climate in five key sectors: agriculture, tourism, mining, manufacturing and financial services, along with an additional focus on small and informal businesses.</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Administrative Barriers Solutions</td>
<td>$40,000</td>
<td>The government of Mauritius has embarked on a 4 point economic reform program geared towards creating a business climate comparable to the top ten countries in the 2006 Doing Business Report (Mauritius currently ranks #35), fiscal consolidation and rationalization, facilitating growth development of tourism and fishing, and ending the vestiges of central planning. To this end, FIAS assisted the government through engaging in startup/licensing reform and implementation and assessing tax and incentive impacts on business.</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Industry Competitiveness</td>
<td>$226,355</td>
<td>FIAS assisted the government of Mozambique in improving the investment climate for tourism by identifying which features can be improved to enable the sector to grow, be competitive, and diversify. The project included sector profiling, competitiveness and value chain analyses, and a review of administrative barriers affecting the tourism sector, and recommendations for capturing growth opportunities.</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Administrative Barriers Solutions</td>
<td>$138,665</td>
<td>As part of a multi-country program in Africa to provide an analytical basis for assessing the relative, effective tax burdens faced by businesses in key sectors, FIAS investigated the effects of tax systems on the business climate by linking tax policy impacts with the impacts from the administrative discretion of revenue authorities.</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Administrative Barriers Solutions</td>
<td>$127,832</td>
<td>FIAS conducted a survey of informal businesses to identify the incentives for informal economic activity in order to propose policy recommendations to encourage businesses formalization.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Industry Competitiveness</td>
<td>$204,900</td>
<td>FIAS designed solutions for Sierra Leone that will establish the existence and profitability of a niche market with a price premium for diamonds that are certified to the responsibly mined, in order to achieve the ultimate foals of attracting new investments from responsible firms, improving working and living standards for diggers, and increasing tax revenues for Sierra Leone’s government.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Administrative Barriers Solutions</td>
<td>$251,055</td>
<td>As part of a larger Monitoring and Evaluation project in Sierra Leone, FIAS conducted a survey of informal businesses to identify the incentives for informal economic activity in order to propose policy recommendations to encourage business formalization.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Administrative Barriers Solutions</td>
<td>$204,900</td>
<td>FIAS, in conjunction with DFID, completed a two-phase administrative barriers project in May 2005 which analyzed the institutions tasked with designing and promoting private sector development. The results of the study were validated in a public-private workshop that created action plans for business startup procedure reform, harmonizing of 5 current land policies, operating procedures, tax and customs, and institutional reform.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Administrative Barriers Solutions</td>
<td>$210,777</td>
<td>This project is the first of 3 implementation sub-projects to be undertaken by FIAS in Sierra Leone during Stage 1 of the PSD implementation program co-financed by DFID.</td>
</tr>
</tbody>
</table>
Projects completed in FY06

Sierra Leone

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $210,777  
  **Description:** Sierra Leone is one of the three countries where FIAS’ programmatic approach has been piloted through a multi-year donor-coordinated support for administrative barriers removal, institutional reform and capacity development, all geared towards private sector development in the country. The overarching goal of this M&E project is to measure the result of this reform program based on the FIAS Administrative Barriers Reform Action Plan and DFID’s Private Sector Development Strategy.

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $138,500  
  **Description:** To support the multi-phase FIAS Administrative Barriers project in Sierra Leone, FIAS commissioned the production of two videos, one to be aired on BBD and the other prepared for donors. The objectives of the video were to document the reform process beginning from the early stage of solution design, and to build broad consensus for reform in Sierra Leone.

South Africa

- **Project type:** Investment Laws, Policies, & Promotion  
  **Budget:** $260,000  
  **Description:** Impact of Competition Law Policy on South Africa’s Investment Climate and Investment

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $128,860  
  **Description:** As part of a multi-country program in Africa to provide an analytical basis for assessing the relative, effective tax burdens faced by businesses in key sectors, FIAS investigated the effects of tax systems on the business climate by linking tax policy impacts with the impacts from the administrative discretion of revenue authorities.

Sudan

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $164,845  
  **Description:** FIAS conducted a review of administrative barriers to investment in the Sudan, including a mini-diagnostic of investment constraints in Southern Sudan, and presented findings at a PSD Policy Conference in Spring 2006.

Tanzania

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $138,665  
  **Description:** Based on a similar work piloted in Zambia last year, FIAS looked at the way tax policy was formulated and executed in five key sectors - agriculture, mining, tourism, manufacturing, and the financial sector. FIAS compared relative tax burdens borne by firms to neighboring countries, and analyzed the impact on small businesses.

South Asia

Bangladesh

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $141,500  
  **Description:** FIAS, together with SEDF, explored the rationale for Regulatory Impact Analysis (RIA), widely recognized as an important mechanism which can contribute to improving the business environment. FIAS suggested options and recommendations for a gradual implementation of RIA, and exposed stakeholders in the public and private sector to the process through pilot workshops.

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $165,000  
  **Description:** FIAS and SEDF jointly assisted the government of Bangladesh to take a “whole of government” approach to develop a strategy to generate private investor interest through analyzing the political economy of PSD reform in Bangladesh, evaluating stakeholder interests, and developing a communication strategy on PSD issues.

- **Project type:** Administrative Barriers Solutions  
  **Budget:** $326,725  
  **Description:** The FIAS-SEDF joint venture implemented the first Bangladesh Administrative Barriers Review (ABR), which targeted 6 carefully-selected administrative processes for review, demonstrating to the government of Bangladesh and other stakeholders one particular methodology for analyzing barriers to investment and for identifying and agreeing on possible reforms aimed at achieving improvements to the overall investment climate.

- **Project type:** Investment Laws, Policies, & Promotion  
  **Budget:** $270,000  
  **Description:** As part of the Institutionalizing the PSD Reform Process project, FIAS and SEDF created a “PSD Core Group” in order to create broad-based Government ownership of a complex and multi-faceted investment climate reform agenda in a challenging political environment. Formed in March 2005 and made up of 37 mid-level civil servants, the Core Group draws from 17 private-sector facing Government ministries and agencies.
<table>
<thead>
<tr>
<th>Country</th>
<th>Project type</th>
<th>Budget</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$231,200</td>
<td>At the request of the Principal Secretary to the Prime Minister and the Chair of the Board of Investment, FIAS, in conjunction with SEDF, developed a series of options for modernizing Bangladesh’s economic zones regime, with an emphasis on enabling privately developed and managed sites under a regulatory framework that separates public ownership from regulation.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Industry Competitiveness</td>
<td>$315,000</td>
<td>FIAS, in collaboration with the World Bank’s PSD Department, led a pilot VCA study in Pakistan to identify the critical policy and regulatory constraints to increased competitiveness of key sectors - dairy, mining, fisheries, garments, auto parts - by tracing the costs of representative products from the sourcing of raw materials to delivery of the final product in the market. Results from this project can be seen in the World Bank’s Growth and Competitiveness Report, the NWFP Economic Report, and the Rural Development Report.</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>Administrative Barriers Solutions</td>
<td>$149,000</td>
<td>With co-funding from the Agence Francaise de Developpement in Phnom Penh, FIAS assisted the Cambodia Investment Board in the design and implementation of a Duty Suspension Scheme for exporters in targeted sectors.</td>
</tr>
<tr>
<td>China</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$141,229</td>
<td>The project, conducted by the Ministry of Commerce, FIAS and MIGA, consisted of the diagnostic phase of developing a national and local capacity to improve the investment climate of, and to attract investment to, the Western and Central regions, which are among the poorer regions of China.</td>
</tr>
<tr>
<td>Fiji</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$88,510</td>
<td>FIAS, in collaboration with the World Bank, undertook a diagnostic study to support reform addressing the regulatory constraints facing business.</td>
</tr>
<tr>
<td>Fiji</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$280,524</td>
<td>This project was the solution design and implementation phase of the above project (Investment Approvals Reform Program) to support reform addressing the regulatory constraints facing business.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$47,000</td>
<td>Working closely with IFC/PENSA and PEP Aceh/Nias, FIAS conducted a rapid response mini-diagnostic of the Aceh/Nias investment climate.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$85,000</td>
<td>Working jointly with PEP Aceh/Nias, and through the Aceh Reconstruction and Rehabilitation Agency (BRR), FIAS delivered a half-day investment law workshop covering basic good practice in relation to investment coverage, registration, the use of negative lists, incentives, regulation, and promotion.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$14,900</td>
<td>FIAS provided advice through an Investment Incentives Review and Policy Seminar to the Ministry of Trade on international best practices for the provision of fiscal and non-fiscal incentives for investors.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$125,000</td>
<td>FIAS, working through the World Bank in Jakarta, provided a range of working papers, guidance notes, and drafting guidelines in support of the new Investment Law.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Industry Competitiveness</td>
<td>$40,000</td>
<td>In cooperation with IFC/PENSA, FIAS provided strategic advice to the Indonesian Directorate General of Geology and Mineral Resources on the promotion of backward linkages between the mining industries and local suppliers of goods and services.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Administrative Barriers Solutions</td>
<td>$621,000</td>
<td>FIAS worked in partnership with IFC PENSA-SMEs facility in Indonesia to provide technical assistance to improve business regulations and administrative procedures at the sub-national level in Indonesia, that is at regencies (Kabupaten) and municipalities (Kota) levels.</td>
</tr>
</tbody>
</table>
### Projects completed in FY06

**Marshall Islands**
- **Project type:** Administrative Barriers Solutions
- **Budget:** $18,800
- **Description:** In association with the ADB, FIAS examined investment-related problems that foreign investors experience in dealing with the variety of administrative authorities, processes and procedures at various stages in the investment process.

**Pacific Regional**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $153,800
- **Description:** FIAS presented two sessions, one on enhancing the investment policy environment, and one on the Multilateral Investment Guarantee Agency’s global benchmarking survey on the performance of investment promotion agencies (IPAs) at the 2005 HIPAM meeting.

**Pacific Regional**
- **Project type:** Administrative Barriers Solutions
- **Budget:** $109,220
- **Description:** As part of a regional program focused on Administrative Barriers, FIAS and the World Bank worked with the government of Tonga to identify investment-related problems that foreign investors experience in dealing with the variety of administrative authorities, processes and procedures at various stages in the investment process.

**Philippines**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $117,390
- **Description:** With inputs from MIGA, FIAS provided assistance with the development of a foreign investment retention, expansion and diversification (RED) program with the Board of Investments.

**Samoa**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $281,692
- **Description:** The government of Samoa requested FIAS and the World Bank’s services to implement regulatory reforms to improve the ease of Doing Business in Samoa, based on the World Bank’s Doing Business indicators, through a joint public/private sector task force.

**Solomon Islands**
- **Project type:** Administrative Barriers Solutions
- **Budget:** $285,000
- **Description:** Following FIAS assistance on foreign investment legislation, the government of the Solomon Islands requested further assistance on removing administrative barriers to investment in two key areas: business registration and labor and immigration.

**Solomon Islands**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $84,640
- **Description:** This project assisted in the establishment and operation of a Foreign Investment Registry (FIR) function, which included designing an organizational structure and operating procedures, and developing and making operational a simple registry system.

**Solomon Islands**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $147,420
- **Description:** FIAS reviewed and assessed the Solomon Islands “location offer” to investors, the operation and effectiveness of the current system of investment incentives (tax and otherwise), and the appropriateness of special economic zones within the “location offer”.

**Thailand**
- **Project type:** Administrative Barriers Solutions
- **Budget:** $354,150
- **Description:** Working closely with Thailand’s Board of Investment, FIAS conducted an administrative barriers to investment study in Thailand. The study also included an ARCS survey and application of FIAS agency templates.

**Tonga**
- **Project type:** Investment Laws, Policies and Promotion
- **Budget:** $269,310
- **Description:** In conjunction with the World Bank, FIAS proposed improvements in regulations and streamlined procedures affecting private sector investment and activity through a public/private Task Force and working groups focused on the specific reform areas of starting a business, licenses, permits and inspections, immigration, and fishing.

**Middle East and North Africa**

**Saudi Arabia**
- **Project type:** Investment Laws, Policies, & Promotion
- **Budget:** $56,166
- **Description:** At the request of the Government, FIAS conducted a field mission to assess the priority needs for technical assistance in the area of special economic zones (SEZ). The Aide-memoire outlined a possible program of assistance based on our mission findings and is under review by the authorities.

**Syrian Arab Republic**
- **Project type:** Investment Laws, Policies, & Promotion
- **Budget:** $165,800
- **Description:** In order to update and supplement the ICA of the World Bank, FIAS reviewed the Syrian FDI environment to identify policy, legal, procedural, institutional and other types of impediments to the flows of FDI in Syria.
West Bank & Gaza Strip

**Project type:** Industry Competitiveness  **Budget:** $53,035

**Description:** The MENA region of the World Bank solicited FIAS’ participation to prepare the Country Economic Memorandum (CEM). FIAS focused on investment climate issues in the overall economy and in a few sectors.

Latin America and the Caribbean

**Costa Rica**

**Project type:** Administrative Barriers Solutions  **Budget:** $470,000

**Description:** FIAS conducted a review of the major impediments to competition and the role that an effective competition law-policy (CLP) plays in alleviating these impediments and fostering private sector-led economic growth and poverty reduction in IDA member countries.

**El Salvador**

**Project type:** Industry Competitiveness  **Budget:** $346,260

**Description:** FIAS helped to integrate corporate social responsibility into the El Salvador’s overall development and competitiveness strategy and developed a framework for public-private partnerships in a range of social and environmental areas of concerns.

**Jamaica**

**Project type:** Investment Laws, Policies, & Promotion  **Budget:** $210,700

**Description:** Per the request of the Planning Institute of Jamaica, FIAS conducted a detailed diagnostic of the Jamaican investment climate, including survey design and implementation. This project was co-financed by LCSFP, CICIC, DFID and FIAS.

**Jamaica**

**Project type:** Industry Competitiveness  **Budget:** $100,700

**Description:** FIAS assessed Jamaica tourism sector’s competitiveness, especially issues related to tourism policy and regulations, in a regional context.

**Mexico**

**Project type:** Administrative Barriers Solutions  **Budget:** $247,000

**Description:** Per the request of the government of Mexico, FIAS, in conjunction with USAID, conducted a Doing Business report for 12 states across Mexico in 2005. The report inspired competition among the 12 Mexican states to reform as well as to lobby for an expanded study of 31 states.

**Panama**

**Project type:** Industry Competitiveness  **Budget:** $41,250

**Description:** FIAS led assistance in privatizing the Howard US Air Force Base and converting it into a multi-modal logistics and ICT-driven Special Economic Zone. Following Phase I legal advisory services, Phase II assistance focused on guiding the development of the implementing regulatory framework for the project.

**Peru**

**Project type:** Administrative Barriers Solutions  **Budget:** $100,000

**Description:** After a thorough diagnostic by FIAS of administrative barriers in the Municipality of Lima, FIAS entered into a partnership with the IFC Technical Assistance Facility in supporting the Municipality’s reform of issuing construction permits which led to changes in zoning rules and envisaged applications of different procedures to various categories of construction permits.

**Peru**

**Project type:** Administrative Barriers Solutions  **Budget:** $101,303

**Description:** This project was aimed at development of a detailed proposal with details and procedures for the Municipality of Lima, and earned for the IFC/FIAS partnership the First Prize in the Administrative Simplification Category in July 2006 in the competition for Good Governmental Practices in Peru, organized by a group of Peruvian and international NGOs.

Europe and Central Asia

**Albania**

**Project type:** Administrative Barriers Solutions  **Budget:** $99,400

**Description:** FIAS advised and supported the government of Albania with the design of a Regulatory Reform Action Plan based on streamlining existing regulation, improving the flow of new regulation, building regulatory capacities and institutions; and monitoring and evaluating regulatory performance.

**Czech Republic**

**Project type:** Investment Laws, Policies and Promotion  **Budget:** $72,300

**Description:** FIAS reviewed policy advocacy activities to provide assistance to CzechInvest in strengthening its current policy advocacy function and clarify the role of the Business Environment Development Council (BEDEC).
# PROJECT DATA

## Projects completed in FY06

<table>
<thead>
<tr>
<th>Country</th>
<th>Project type</th>
<th>Budget</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz Republic</td>
<td>Investment Laws, Policies and Promotion</td>
<td>$14,850</td>
<td>FIAS implemented a review of the investment law as an entry point for broader public-private dialogue on a more comprehensive IC reform agenda in the Kyrgyz Republic, with a view to working with the Ministry of Finance and the Presidency to implement far reaching IC reforms in the medium to long term.</td>
</tr>
<tr>
<td>Latvia</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$15,000</td>
<td>FIAS provided assistance to the government of Latvia in supervising the third bi-annual round of ARCS Survey for purposes of monitoring the impact of reforms to remove administrative barriers to investment, and helped develop domestic capacity for local organizations to supervise future monitoring surveys.</td>
</tr>
<tr>
<td>Macedonia</td>
<td>Administrative Barriers Solutions</td>
<td>$105,245</td>
<td>FIAS provided implementation inputs and assistance on business environment reform, construction permits, and licensing. FIAS also conducted an intermediaries cost of business survey, as well as a survey of potential investors.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Industry Competitiveness</td>
<td>$250,375</td>
<td>As Russia emerges as a key supplier of timber to Europe and Asia, intensive illegal logging in Russia’s Far East is being reported. FIAS provided support for the high-level international cooperation process called “Forest Law Enforcement and Governance” aimed at preventing illegal logging in Europe and North Asia embracing 30 countries.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Administrative Barriers Solutions</td>
<td>$327,550</td>
<td>FIAS designed and carried out a baseline survey of businesses regarding procedures for access to land and real estate in the Russian Federation. This survey documented problems of bureaucratic delays and corruption and established a baseline against which the impact of reforms can be measured.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Administrative Barriers Solutions</td>
<td>$171,500</td>
<td>FIAS worked with the Ministry of Economic Development and Trade to develop new federal legislation to improve the transparency and efficiency of procedures for access to land throughout the Russian Federation. FIAS also worked with the Federal Antimonopoly Service to help improve the effectiveness of their efforts against the anti-competitive behavior of some public sector bodies in the area of land and real estate.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Investment Laws, Policies, &amp; Promotion</td>
<td>$113,400</td>
<td>FIAS found that in Sakhalin Oblast it was quite easy to register a business, but it was more difficult than in other Russia’s regions to buy a land plot or to obtain a license or a building permit. This project came up with solutions aimed at simplification of relevant procedures.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>Administrative Barriers Solutions</td>
<td>$92,500</td>
<td>FIAS conducted a second round of business surveys which demonstrated some positive trends in decreasing of administrative barriers and improving of business environment in the Tomsk Region.</td>
</tr>
</tbody>
</table>

## Knowledge Management

<table>
<thead>
<tr>
<th>Country</th>
<th>Project type</th>
<th>Budget</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>Administrative Barriers Solutions</td>
<td>$45,000</td>
<td>Development of the manual to diagnose Administrative Barriers to investment in developing and transition economies and development of the inspection reform toolkit. Publication of Viewpoint Note on “Reforming Inspections: Countering Corruption and Waste”.</td>
</tr>
<tr>
<td>World</td>
<td>South-South FDI</td>
<td>$418,000</td>
<td>Preliminary study (and country surveys) of the emerging phenomenon of South-South FDI trends, with the goal of increasing World Bank Group knowledge of the phenomenon, focusing on the trends and characteristics of SS-FDI, including its regional and sectoral distribution, and on any policy related issues in host or home countries, for the purpose of potential TA interventions.</td>
</tr>
</tbody>
</table>

¹ Does not include joint KM projects with the SME Department and other Units of the WBG.
<table>
<thead>
<tr>
<th>Project type</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Project type: Investment Laws, Policies &amp; Promotion</td>
<td>$8,600</td>
</tr>
<tr>
<td>Description: Drawing upon the extensive project experience and expertise on investment legislation and promotion, FIAS developed a KM package on investment legislation, comprising a note that summarizes the “lessons of experience” on investment Code, a set of drafting guidelines for government lawyers tasked with developing such a piece of legislation, and a list of issues to pay attention to.</td>
<td></td>
</tr>
</tbody>
</table>

| World Project type: Reform Process | $133,931 |
| Description: FIAS completed and published a major research effort to better understand the underpinnings of successful investment climate reform processes, synthesizing the lessons from 25 investment climate reform case studies. This research has been published as a World Bank Group book: “Reforming the Investment Climate: Lessons for Practitioners”, and the key findings were also disseminated at the WBG workshop “Reforming the Investment Climate” in June 2006. |

| World Project type: Taxes | $100,000 |
| Description: FIAS delivered a global KM research and outreach program on the effects of tax on business and growth, assessing their importance in terms of the business impact and offering recommendations and next steps based on a survey of international best practice. |

| World Project type: Enterprise Formalization | $330,000 |
| Description: FIAS published a research paper entitled: “Rising informality” and conducted an exploratory assessment of successful enterprise formalization policies as a way to deepen WBG understanding of successful firm formalization processes both in developed and developing countries. As part of the effort, FIAS delivered a workshop for Bank staff on the dimensions of informality and the rationale for government policies and programs to promote formalization. |

| World Project type: Trade Logistics | $28,000 |
| Description: FIAS worked on the design of project, survey, and development of global trade logistics indicators for over 150 countries, several of which formed the basis for the trade chapter and indicators in Doing Business 2006. FIAS also held a conference, jointly hosted with Stanford University, on “Global Logistics and Trade Competitiveness,” and published several research papers, notably “Global Logistics Indicators, Supply Chain Metrics and Bilateral Trade Patterns” and “Measuring the Impact of the Investment Climate on TFP”. FIAS also produced a paper based on network trade and industry value chains “Can Sub-Saharan Africa Leap into Global Network Trade?” that was extensively drawn upon for the Africa Region’s flagship report “Africa’s Silk Road”. |

| World Project type: Land | $125,000 |
| Description: FIAS published a research paper entitled: “Land Markets” based on ten original good practice case studies, an extensive literature search. FIAS also developed an extensive checklist on land market policy issues as they pertain to private sector development. |

| World Project type: Regulatory Governance | $52,600 |
| Description: As part of FIAS project portfolio on regulatory governance and regulatory reform in Southeast Europe, FIAS delivered a capacity building program for civil servants on regulatory reform in collaboration with the OECD and the Southeast Europe Investment Compact. |

| World Project type: Corporate Social Responsibility | $21,050 |
| Description: FIAS developed a tool called “A Corporate Social Responsibility (CSR) Diagnosis Module for Application in Value Chain Analysis (VCA)”. The tool is designed to identify:  
• the demand-side factors driving CSR through the value chain in a given industry sector,  
• the supply-side constraints from both a government failure and market failure perspective,  
• viable CSR-based strategies to overcome these constraints, and  
• to calculate the costs and benefits of implementing the strategies and putting in place performance monitoring metrics. The tool is being piloted by FIAS in the Peruvian apparel and textile sector, in the Chinese ICT sector in Shenzhen Province and Indonesia’s forestry sector. In January 2006, FIAS also held a high-level conference to discuss the concept of “Responsible Competitiveness”. The National Corporate Responsibility Index that measures and compares countries’ responsible competitiveness was introduced, and international experts debated methods to apply the concept on a country level basis. |

SECTION 6: APPENDIX
Acronyms

ADR  Alternative Dispute Resolution program
AGOA  African Growth and Opportunity Act
ARCS  Administrative and Regulatory Cost Survey
BEDEC  Business Environment Development Council
BEER  Business Environment Reform and Institutional Strengthening
BICF  Bangladesh Investment Climate Fund
BiH  Bosnia and Herzegovina
BOI  Board of Investment
BRR  Aceh Reconstruction and Rehabilitation Agency
CAFTA  Central America Free Trade Agreement
CAS  Country Assistance Strategy
CCBFC  IFC Facilities Financial Control Unit
CCD  Consultative Committee of Donors
CEM  Country Economic Memorandum
CIB  Cambodian Investment Board
CIC  World Bank Investment Climate Department
CIS  Commonwealth of Independent States
CLP  Competition Law Policy
CONARROZ  Corporacion Arrocera Nacional
CSR  Corporate Social Responsibility
DFID  UK Department for International Development
DFO  Donor Funded Operation
DSS  Duty Suspension Scheme
EAP  East Asia and the Pacific
EAPRO  East Asia Pacific Regional Office
EOF  Environmental Opportunities Facility
EPZ  Export Processing Zone
ETC  Extended-term Consultants
EU  European Union
FDI  Foreign Direct Investment
FIR  Foreign Investment Registry
FIAS  Foreign Investment Advisory Service
FPD  Finance and Private Sector Development
GAFI  General Authority for Investment and Free Zones
GDP  Gross Domestic Product
GOSS  Government of Southern Sudan
GM  General Manager
IBRD  International Bank for Reconstruction and Development
IC  Investment Climate
ICA  Investment Climate Assessment
ICT  Information and Communication Technology
IDA  International Development Association
IFC  International Finance Corporation
IFI  International Finance Institution
IMF  International Monetary Fund
IPA  Investment Promotion Agency
KM  Knowledge Management
LAC  Latin American and the Caribbean
LCSFP  Finance Private Sector and Infrastructure Department (LAC)
MENA  Middle East and North Africa
MFA  Multi-Fiber Agreement
MIGA  Multilateral Investment Guarantee Agency
MNC  Multinational Corporations
MPDF  Mekong Private Development Facility
MSMEs  Micro Small and Medium Enterprises
M&A  Mergers and Acquisitions
M&E  Monitoring and Evaluation
NEPAD  New Partnership for Africa’s Development
NGO  Non-governmental Organization
OECD  Organization for Economic Cooperation and Development
OECs  Organization of Eastern Caribbean States
PDF  Project Preparation and Development Facility
PENSA  Program for Eastern Indonesia Small and Medium Enterprise Assistance
PEP  Private Enterprise Partnership
PEP-SE  Private Enterprise Partnership Southeast Europe
PIMs  Project Implementation Monitoring System
PSCG  Private Sector Consultative Group
RED  Retention Expansion and Diversification Program
RIA  Regulatory Impact Analysis
RPC  Regional Program Coordinator
SEDF  South Asia Enterprise Development Facility
SEED  Southeast Europe Enterprise Development Facility
(now PEP-SEE)
SFMF  Sustainable Financial Markets Facility
SOE  State-Owned Enterprise
SMEs  Small and Medium Enterprises
SSA  Sub-Saharan Africa
SS-FDI  South-South Foreign Direct Investment
TA  Technical Assistance
TAAS  Technical Assistance Advisory Service
TATF  Technical Assistance Trust Funds
TFCA  Trans-Frontier Conservation Area
UNCTAD  United Nations Conference on Trade and Development
VAT  Value-Added Tax
VCA  Value Chain Analysis
WBG  World Bank Group
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