June 2011

Managing for Impact
FIAS Strategy for FY12–16

FIAS
Facility for Investment Climate Advisory Services

International Finance Corporation
World Bank Group

Multilateral Investment Guarantee Agency
World Bank Group

THE WORLD BANK

About FIAS

FIAS was established by IFC in 1985 to provide advice on foreign direct investment (FDI) to client countries. It rapidly grew to include the World Bank (IBRD), the Multilateral Investment Guarantee Agency (MIGA), as well as an increasing number of donors and partners, and its focus expanded to the broader investment climate area, providing support to governments on reforms needed to improve their investment climates for domestic as well as international investors.

Today, the mission of the FIAS program is to facilitate reforms in developing countries to foster open, productive, and competitive markets and unlock sustainable private investments in sectors that contribute to growth and poverty reduction.

After many years of rapid growth, the FIAS program is currently operating with an annual budget in the order of $30 to $35 million, co-financed by IFC (International Finance Corporation), MIGA, the World Bank, and over a dozen donor partners.

FIAS is administered as a Donor Funded Operation under IFC's Advisory Services governance and managed by the World Bank Group's Investment Climate Department (CIC), which is part of the Bank Group's Financial and Private Sector Development (FPD) Vice Presidency. CIC has about 100 staff located in Washington, D.C. and four decentralized offices (in Istanbul, Vienna, Nairobi, and Dakar).

All FIAS interventions are implemented with internal World Bank Group and/or external partners.

Given the evolution of FIAS' mission over the past decade, FIAS' official name is changing from Foreign Investment Advisory Service to Facility for Investment Climate Advisory Services, effective with the FY12–16 strategy cycle.

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Abbreviations and Acronyms

ADR	Alternative Dispute Resolution
CASA	Conflict Affected States in Africa (IFC)
CIC	Investment Climate Department (IFC/World Bank)
EAC	East African Community
FCS	Fragile and Conflict-affected States and Territories
FDI	Foreign Direct Investment
FIAS	Facility for Investment Climate Advisory Services (formerly Foreign Investment Advisory Service)
FPD	Financial and Private Sector Development (Vice Presidency)
FY	Fiscal Year
I&R	Insolvency and Restructuring
IAB	Investing Across Borders (project and report)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
KM	Knowledge Management
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
OECD	Organisation for Economic Co-operation and Development
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
PPD	Public-Private Dialogue
SMEs	Small and Medium Enterprises
STCR	Secured Transactions and Collateral Registries

All dollar amounts are in current U.S. dollars unless otherwise specified.

Executive Summary

FIAS' mission for the FY12–16 strategy period is to facilitate reforms in developing countries to foster open, productive, and competitive markets and to unlock sustainable private investments in sectors that contribute to growth and poverty reduction.

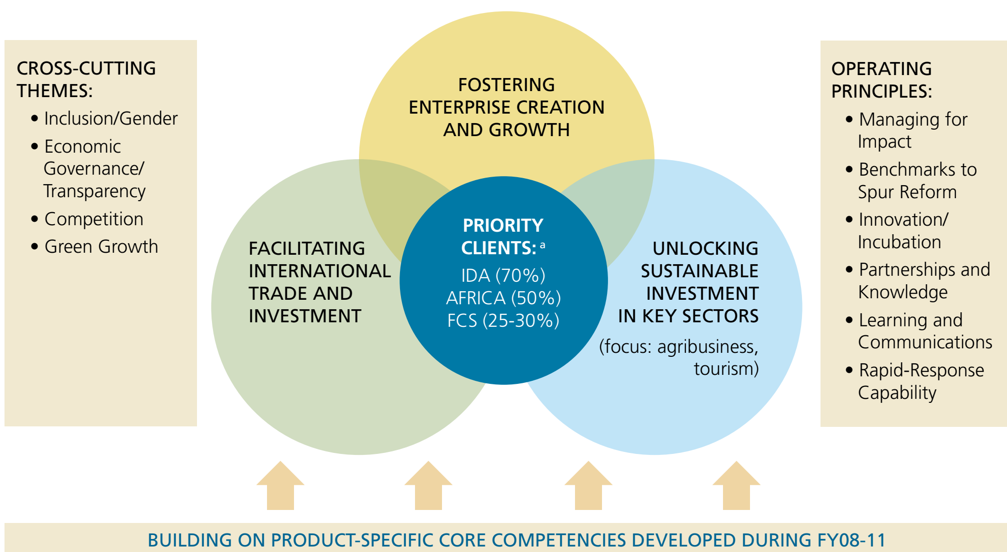
FIAS activities are situated primarily at the intersection of the public and the private sectors, in the space between high-level policy reform and firm-level transaction support. Most projects are undertaken in close cooperation with relevant World Bank Group internal and external partners.

Building on FIAS' longstanding track record of helping some of the poorest and most difficult countries and regions strengthen and rebuild their private sectors, FIAS support will be concentrated on activities benefitting priority clients in **IDA-eligible countries** (with a target of 70 percent of client-facing project expenditures), **Sub-Saharan Africa** (with at least 50 percent of project expenditures), and **fragile and conflict-affected states** (target of about 25–30 percent of project expenditures).

FIAS-supported work will focus on three **strategic priorities:**

- fostering enterprise creation and growth;
- facilitating international trade and investment; and
- unlocking sustainable investments in key industries, particularly agribusiness and tourism.

Figure 1: The Main Elements of the FIAS Strategy for the FY12–16 Operational Cycle



a. Indicative target share of client-facing project spending in International Development Association (IDA)-eligible countries, Sub-Saharan Africa, and Fragile and Conflict-Affected States, respectively.

A set of **cross-cutting themes**—inclusion, with particular focus on gender; economic governance and transparency; competition; and green growth—will underpin FIAS-funded activities, guiding resource allocation and enhancing overall development impact.

FIAS-funded projects are expected to support the following **outcome and impact goals** during the five-year strategy period:

- **Outcome-level target**: Support the implementation of 250 investment climate reforms, about half of which will be captured by *Doing Business* reports and 60 percent in IDA-eligible countries.
- **Impact targets (expected to result from the outcome-level target)**:
  - Generate private sector cost savings of over $600 million. This includes compliance cost savings ($350 million) and savings from streamlined trade logistics services reducing inventory, fees, and interest charges ($250 million).
  - Generate investment of $3 billion, via facilitation of FDI in priority sectors ($1 billion) and investment by new firms created following business entry reforms ($2 billion).
  - Increase trade flows by $2.5 billion following trade logistics reforms.
  - Enable more than 11,000 firms to continue as going concerns as a result of debt resolution reforms, therefore increasing return to stakeholders (funds returned to secured and unsecured creditors) by $1.5 billion.
  - Increase the number of enterprises complying with tax requirements (filing obligations) by 10 percent within three years of FIAS-supported tax reforms.

The overall **funding target** for the FY12–16 strategy cycle is $155 million (or an average of $31 million per year), with the World Bank Group expected to fund roughly 30 percent, donor partners about 65 percent, and clients about 5 percent.

1. Results and Learning from the FY08–11 Strategy Cycle

The strategy and objectives for the FIAS FY08–11 operational cycle were set out in the "*FIAS Strategy for FY08–11*," endorsed by IFC's Board of Directors in July 2007. Despite the global economic and financial crisis witnessed during the FY08–11 strategy cycle, FIAS is expected to achieve all objectives set out in this strategy, as confirmed by the independent external CIC/FIAS evaluation undertaken under the lead of IFC's Development Impact Department.[1]

Highlights reflecting the results achieved to date as acknowledged in the FIAS evaluation are summarized below; a more detailed overview of the evaluation's key findings and recommendations is included in Annex I. In particular, the evaluators commented that:

> *The CIC/FIAS strategy has yielded results in line with its objectives, giving rise to well over 400 results and more than 150 investment climate reforms.*

"Investment climate results"—significant improvements to a country's investment climate, as defined in the FIAS monitoring and evaluation (M&E) framework—were used as the primary performance indicator during the FY08–11 cycle. During the first three years of the current cycle, FIAS-funded projects supported the implementation of over 500 investment climate results, versus a four-year cycle target of 400. A solid majority (90 percent) of these results were achieved in countries classified as IDA or post-conflict, and in frontier regions of middle-income countries. Sub-Saharan Africa accounts for 45 percent of the reported investment climate results. (See Annex II for a summary of results achieved.[2])

During the same three years, FIAS-funded projects supported the implementation of 158 reforms related to specific Doing Business indicators (as documented by the *Doing Business* reports). Given this performance, FIAS is also on track to meet the target of 200 Doing Business reforms during the FY08–11 cycle. The lion's share of Doing Business reforms was in IDA or post-conflict countries, with Sub-Saharan Africa accounting for 40 percent of the total.

> *The literature shows that the types of reforms supported by CIC/FIAS have a positive impact on investment, employment, and economic growth."* Moreover, *"studies of five CIC/FIAS projects suggest that reforms have had positive economic impacts.*

An extensive review of the literature on the impact of investment climate reforms in selected areas suggests that the type of investment climate reforms supported by FIAS can have substantial impacts on private sector investment, trade, business formation, and growth.

This is confirmed by several studies that reviewed the impact of FIAS-funded investment climate reform projects in Burkina Faso, Liberia, Rwanda, and Sierra Leone. The studies suggest that these projects resulted in clear benefits to the private sector, including an estimated $14.5 million in private sector cost savings, the creation of 11,400 to 13,700 new businesses, additional private sector investment of between $70 and $232.5 million, and the generation of 52,700 to 64,300 new jobs. Other benefits—an expanded tax base, increased tax revenue, and higher trade flows—were not quantified, but are believed to be positive.

[1] Nexus Associates. 2011. *Independent Evaluation of CIC/FIAS 2008–2011 Strategy and Program, Phase I: Final Report*. Phase 1 of the evaluation covers FY08–10, the initial three years of the funding cycle. A supplemental report, to be prepared in Fall 2011, will expand the evaluation's coverage to the fourth year of the cycle.

[2] For additional details, see FIAS Annual Reports/Reviews, 2008–2010, accessible at www.wbginvestmentclimate.org.

For the FY12–16 operational cycle, FIAS builds on the rich set of experiences and lessons learned during the FY08–11 and previous strategy cycles…

According to the CIC/FIAS evaluation, other key elements of the FY08–11 strategy were implemented as follows:

- **FIAS-funded projects moved beyond diagnostic assessments, allowed to deepen the Bank Group's core areas of investment climate expertise, met client needs through differentiated project delivery, and focused more on knowledge management (KM) and outreach.**

  The FY08–11 strategy transformed FIAS' approach from standalone diagnostic assessments and ad-hoc interventions to reform implementation around core products. In line with this strategy, FIAS funding was used to strengthen technical expertise in 14 product areas, responding to evolving client demand. (See Annex III for an overview of the product mix covered by FIAS during FY08–11). Projects supported by FIAS were larger and often incorporated multiple products. Moreover, FIAS resource use concentrated on 26 major country programs, complemented by shorter-term interventions (often along the Doing Business agenda) in over 50 countries. Considerable funding was devoted to Knowledge Management efforts, resulting in a wide range of technical papers, practitioner guides, and toolkits, *Investment Climate In Practice* notes, and *SmartLessons*, as well as numerous deep-dive learning and peer-to-peer, knowledge-sharing events.

- **FIAS funding allowed the Bank Group to respond to increased demand from IDA countries and Sub-Saharan Africa.**

  With successful fundraising, $89.5 million was spent on FIAS-related activities in FY08–10, roughly 10 percent more than the amount originally contemplated in the strategy. Over 70 percent of client-facing project expenditures from FIAS were related to activities in IDA countries, and 40 percent of expenditures were related to projects in Africa.

- **FIAS-funded projects met high levels of client satisfaction (between 88 and 92 percent annually); and planning and control systems related to FIAS activities were strengthened.**

  CIC, the department managing FIAS, increased staffing levels in the field and transferred project management responsibility for most client-facing projects from headquarters to the field. IFC also strengthened planning and control systems (not only for FIAS-funded activities, but also for the entire IFC Investment Climate business line) and developed and implemented a robust system to track results and reforms. In preparation of the next strategy cycle, an approach to better measure the impact of investment climate projects is currently being developed.

For the FY12–16 operational cycle, FIAS builds on the rich set of experiences and lessons learned during the FY08–11 and previous strategy cycles, including the recommendations included in the independent CIC/FIAS evaluation. The strategy for FY12–16 as presented in the following chapters also draws from the findings and recommendations included in the **Independent Evaluation Group's 2009 evaluation of IFC's Development Results.**[3] Some of IEG's recommendations have already been added to FIAS' FY10 and FY11 work programs, including via the piloting of activities related to green growth and the increased emphasis on social inclusion.

Overall Recommendation from the Evaluation of CIC/FIAS' 2008–11 Strategy and Program:

"The World Bank Group and donors should continue to support CIC/FIAS. The WBG's investment climate work should continue to be anchored in a department which has control over funds that can be used to advance the goals of the organization with respect to strengthening the investment climate in developing countries. Given the WBG's product orientation, there is a strong case for centralizing strategic planning, product development, and project oversight. CIC serves this role, with the FIAS program providing funding needed to carry out departmental activities.

CIC/FIAS has demonstrated its ability to develop new products, disseminate best practices, and help countries reform their investment climates. Most elements of the FY08–11 strategy have been implemented as planned, yielding over 400 results and more than 150 reforms. While the impact of reforms is difficult to quantify, the general literature and preliminary findings from studies of CIC/FIAS projects suggest that benefits may be substantial. Provided that it continues to strengthen its strategy and operations, the WBG and donors should be prepared to support CIC/FIAS in the next strategy cycle."

Source: Independent Evaluation of CIC/FIAS 2008-11 Strategy and Program, Phase 1—Final Report (February 16, 2011), page 9.

[3] World Bank Group/Independent Evaluation Group. 2009. *Independent Evaluation of IFC Development Results 2009: Knowledge for Private Sector Development*.

2. Strategic Priorities for FY12–16

THE PRIVATE SECTOR AS ENGINE OF GROWTH

A vibrant private sector is the main engine of sustainable economic growth and employment, and an important pathway out of poverty. In recognition of this relationship, **FIAS' mission** for the FY12–16 strategy period is to support activities that facilitate reforms in developing countries to foster open, productive, and competitive markets and to unlock sustainable private investments in sectors that contribute to growth and poverty reduction. FIAS-supported activities will continue to be situated primarily at the intersection of the public and the private sectors, and in the space between high-level policy reform and firm-level transaction support. Most activities are implemented in close cooperation with relevant World Bank, IFC, and MIGA departments, as well as donors and other development partners.

MANAGING FOR IMPACT: GOALS AND TARGETS

During the FY12–16 funding cycle, and in line with the mission statement above, FIAS will co-finance advisory activities across the Bank Group that have the potential to deliver tangible impact to clients. The Investment Climate Department will track, measure, and report on the outcomes and the impact of all projects and activities co-financed via FIAS. For this purpose, FIAS projects include projects implemented directly by CIC with funding from FIAS, as well as projects managed by IFC's Investment Climate Business Line or World Bank regional units for which FIAS funding represents at least 10 percent of the respective project budget.

Based on preliminary assumptions on the number, scope and regional distribution of FIAS-funded projects over the coming five years, it is estimated that these projects will support the following outcome and impact goals:

Outcome-level target:

- Support the implementation of 250 investment climate reforms, of which
  - about 125 (50 percent) will be captured by *Doing Business* reports; and
  - at least 150 (60 percent) will be in IDA-eligible countries.

  Investment climate reforms supported via FIAS-funded projects typically lead to a reduction in the cost of doing business, a reduction in risks, or an increase in investment and business opportunities.

Impact targets:

The 250 or so investment climate reforms resulting from FIAS-funded projects are expected to contribute, *inter alia,* to the following impacts:

- Generate private sector cost savings of over $600 million. This includes compliance cost savings ($350 million) and savings from streamlined trade logistics services reducing inventory, fees, and interest charges ($250 million).
- Generate investment of $3 billion, via facilitation of FDI in priority sectors ($1 billion) and investment by new firms created following business entry reforms ($2 billion).
- Increase trade flows by $2.5 billion following trade logistics reforms.
- Enable more than 11,000 firms to continue as going concerns as a result of debt resolution reforms, therefore increasing return to stakeholders by $1.5 billion.
- Increase the number of enterprises complying with tax requirements (filing obligations) by 10 percent within three years of FIAS supported tax reforms.[4]

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4 Targets are set as aggregates for the countries in which FIAS funds will be used to co-finance investment climate work. It is expected that by facilitating firm entry and growth and investments, investment climate projects will also contribute to job creation. CIC will track job creation as an indicator, but without specific attribution.

FIAS' mission is to support activities that facilitate reforms in developing countries to foster open, productive, and competitive markets and to unlock sustainable private investments in sectors that contribute to growth and poverty reduction.

The impact targets are estimated on the basis of *ex ante* impact models and reflect current assumptions about the FIAS project portfolio to be implemented during the coming cycle. (For additional information on the Impact Measurement Framework that will be used to assess the impacts of investment climate reform activities, see Annex IV.) FIAS funding will contribute to these goals by co-financing projects that focus on new, innovative areas, and by contributing to mainstream projects that are managed by IFC or World Bank regional teams. This approach is consistent with two important elements of FIAS' delivery model: playing a leading role in the incubation and roll-out of new ideas, and working with regional teams to scale up by replicating successful pilots.[5]

THREE STRATEGIC PRIORITIES

FIAS funding will be used to co-finance investment climate advisory projects in three strategic priority areas that reflect the strategies of IFC's Investment Climate Business Line, the World Bank's FPD Investment Climate Global Practice, and MIGA:

1. **Fostering enterprise creation and growth**. Through FIAS, the Bank Group will continue to support economy-wide reforms that foster enterprise creation, provide businesses with new growth opportunities, unlock firms' productivity, foster competition, and create a level playing field by reducing barriers to entry, expansion, and exit. Relative to the FY08–11 cycle, increased attention will be given to the competition policy and growth dimensions.
2. **Facilitating international trade and investment**. FIAS funding will be expanded for activities that help catalyze international trade and investment through improvements in policies, laws, and regulations that influence cross-border trade and investment activities, by scaling up work on the rationalization of trade logistics systems and services, removing barriers to private investment, and supporting more effective and transparent business taxation.
3. **Unlocking sustainable investments in key industries**. FIAS funding will be increasingly used to finance industry-specific interventions that help create productive jobs and support economic growth in sectors critical for economic diversification, job creation, and poverty reduction. A particular focus will be on agribusiness and tourism, and in fragile and conflict-affected states also on other critical sectors. Industry-specific investment climate reform is expected to be a major growth area for FIAS during the FY12–16 cycle.

These three strategic priority areas are discussed in more detail in the following sections.

Strategic Priority I: Fostering Enterprise Creation and Growth

Unleashing private initiative in local markets requires that firms be able to **easily enter markets, access credit, and compete**. It also requires that unsuccessful firms be able to **exit quickly and efficiently**, allowing creditors to recover assets and entrepreneurs to seek new opportunities.

More firms enter the market and grow when start-up time and cost are cut, operating licenses and fees preventing entry to specific markets are removed, and required procedures are simplified. Registered firms operating as part of the formal economy have higher revenues and profits. Their workers have better salaries and working conditions. In addition to reducing informality, properly functioning revenue administrations increase revenue potential and help stabilize the investment climate.

In order to grow and thrive, firms also need access to credit. In many developing countries, access to credit tops the list of obstacles to growth as reported in the World Bank Group's Enterprise Surveys and other investor surveys. For banks to lend, basic regulatory foundations for property rights must be in place. These include a framework for business registration, a system that provides unique identification to companies, as well as a framework that permits registering and enforcing interests in movable and immovable collateral to secure credit.

Finally, for well functioning markets, swift exit is as important as swift entry and robust competition. Good insolvency and restructuring reforms facilitate the quick exit of unviable businesses while keeping viable businesses alive. The exit of unviable businesses enables creditors to recover their investments and entrepreneurs to discharge their obligations and seek new opportunities elsewhere. Keeping viable businesses alive is the most efficient outcome for creditors, employees, and their network of suppliers. Insolvency and out-of-court reforms

[5] A critical aspect of the FIAS FY12–16 strategy is that CIC works in close partnership with both IFC's Investment Climate Advisory Services regional teams as well as with the World Bank's FPD Investment Climate Global Practice, and with IFC, the Bank, and MIGA more broadly. In line with the overall decentralization of the Bank Group, client-facing projects are increasingly managed by IFC or World Bank regions. The regional mapping of projects is critical not only to meet client demand but also to scale up the impact of FIAS-funded activities. CIC staff, providing global technical expertise and investment climate know-how, will remain deeply involved in and provide critical inputs to investment climate projects managed by IFC and Bank regional teams.

reduce the failure rates of small and midsize enterprises, reduce non-performing loans and the cost of debt, and increase the aggregate level of credit.[6] Also, banks lend more money to firms if strong debt resolution mechanisms are in place, which in turn helps firms grow and employ more people productively.

In addition to having positive *direct* effects on the creation and growth of firms, reforms that facilitate entry, operation, and exit have *indirect* effects: they **increase productivity growth** of incumbents, **increase transparency,** and **reduce corruption**. Easing procedures related to entry and exit increases competition which forces incumbents to become more efficient or to exit the market and boosts overall productivity and investment.[7]

FIAS will continue to fund activities that support reforms in line with the above directions, in particular via three standardized products (or services):

Efficient Regulations for Business Entry and Operation

FIAS funding will continue to support business regulation projects designed to advise clients on reducing and simplifying business entry and operational procedures, rationalizing licenses and inspections, and making them accessible to all. This involves advisory activities related to business entry regulation, with a focus on facilitating the exchange of good practices among countries and cities of all income levels through peer-to-peer learning, and business operations and licensing advisory activities. Business operations and licensing activities will be refocused on removing barriers that are critical for competition in important segments of the economy. FIAS-funded projects will also continue to leverage technology by introducing online procedures, synchronizing the operations of different agencies through electronic systems, and putting laws and regulations online. This will lower transaction costs, increase private sector cost savings, and improve transparency. A deliberate effort will be made to capture the effects of these changes on informality and corruption.

Debt Resolution and Business Exit

FIAS funding will be used to continue supporting projects that deal with issues related to debt resolution and restructuring. At present, three distinct products cover that space: the Insolvency and Restructuring (I&R) product, which supports reforms that reduce the time and cost of exit proceedings and enhance the likelihood of viable businesses being rescued; the Alternative Dispute Resolution (ADR) product which supports reforms for resolving commercial disputes outside of court; and the Secured Transactions and Collateral Registries (STCR) product which supports reforms that allow firms and people to use movable assets as collateral. Going forward, it is planned that I&R and ADR work, and the legal and regulatory dimensions of STCR work, will be integrated into a consolidated Debt Resolution and Business Exit product, to maximize the impact of out-of-court mechanisms for resolution of non-performing loans. Standalone ADR interventions may be continued in fragile and conflict-affected states, and insolvency interventions will be pursued if they are related to non-performing-loan resolutions. The STCR product will remain in IFC's Access to Finance Business Line. More generally, work on Debt Resolution and Business Exit will continue to be undertaken in close collaboration with IFC, the Bank, and the International Monetary Fund (IMF).

Indicator-based Reform Advice

FIAS will continue to use indicators as an entry point for broader reform programs. Investment climate indicators have been proven to be a strong generator of client requests for regulatory reform assistance; more than 50 FIAS interventions during the FY08–11 cycle have been sparked by clients interested in improving their performance in *Doing Business* alone. FIAS will continue to support this first response technical assistance related to *Doing Business*, and it will expand its engagements to address issues identified through the *Women, Business and the Law* report, Investing Across Borders, and World Economic Forum indicators, among others. These datasets provide a framework for comprehensive investment climate programs and allow governments to monitor progress over time and against other countries. Investment climate indicators also form strong foundations for peer-to-peer learning networks at the subnational and regional level. (See Box 1 for examples of projects related to the strategic priority of Enterprise Creation and Growth.)

[6] Klapper, Leora. 2011. "The Impact of Insolvency Reforms. A Literature Review." Mimeo.

[7] Bartelsman, Eric, John Haltiwanger, and Stefano Scarpetta. 2004. "Microeconomic Evidence of Creative Destruction in Industrial and Developing Countries." *Policy Research Working Paper* 3464. World Bank.

Box 1: Fostering Enterprise Creation and Growth: Building on FIAS' Past Successes

Business entry. FIAS funding was used to help **Belarus** reduce time and cost of entry from 69 to 48 days and from 26 to 9 percent of gross national income per capita from 2006 to 2007 by introducing a one-stop shop. Firm registration increased by 76 percent in 2006–7 and by 28 percent in 2007–8. Research indicates that 5 to 6 percent of firms would not have registered without the reform. A simulation shows that the introduction of a (well functioning) one-stop shop in Bogota, **Colombia**, is associated with the creation of more than 9,500 new firms and more than 75,000 new jobs. Seven years after the reform, it is expected that more than 4,500 of the new entrants will still operate and employ more than 64,000 workers.[a] In FY09 and FY10, FIAS-funded projects supported business entry reforms in more than 30 countries, including **Haiti**, **Liberia**, **Peru**, and the **Republic of Yemen**.

Competition. In 2010, a FIAS-funded project helped the Communication Commission of **Kenya** reduce third-generation mobile licensing fees by 60 percent, from $25 million to $10 million. This is expected to lead to increased entry and investment in the Kenyan telecom sector and to create over 2,000 new jobs. Furthermore, thanks to the reform, at least 10 million subscribers will have access to third generation services and enjoy price reductions.

Business exit. In **Romania** in FY10, a FIAS project supported the enactment of legislative amendments that provide for expedited formal bankruptcy cases and facilitate the use of out-of-court restructuring mechanisms. These reforms are expected to impact the approximately 16,000 companies that file for formal insolvency proceedings each year in Romania and the $5.9 billion of non-performing loans. Effective insolvency and debt resolution mechanisms re-inject funds into the economy and help save or create new productive jobs. In FY09 and FY10, FIAS supported insolvency reforms in five countries, including **Latvia** and **Tajikistan**.

Alternative dispute resolution. Five countries in the **Western Balkans** introduced ADR reforms between 2006 and 2010, which resulted in more than 3,000 successfully mediated disputes. The average number of days to settle a case was reduced from 500 for a court case to 28 for a mediated case. The cost was cut by approximately 80 percent. FIAS has co-financed follow-up interventions in the Western Balkans (since FY10),[b] focusing on the construction sector, as well as ADR programs in nine other countries, including **Bangladesh**, **Burkina Faso**, **Cambodia**, and **Vanuatu**.

Secured transactions and collateral registries. A FIAS-funded project helped **China** improve its legal framework for secured transactions and establish an online registry for accounts receivables. Since the introduction of the reform, Chinese financial institutions have lent $960 billion to firms using accounts receivables as collateral, with 45 percent lent to micro and smaller firms. Unlocking movable assets for productive uses helps firms grow and create new jobs. In FY09 and FY10, FIAS-funded activities supported secured transactions reforms in five countries, including **Ghana** and **Rwanda**.

a. Motta, Marialisa, Ana Maria Oviedo, and Massimiliano Santini. 2010. "An Open Door for Firms: The Impact of Business Entry Reforms." *Viewpoint* note no. 323. World Bank.

b. Initial ADR activities in the Western Balkans (prior to FY10) were not co-financed via FIAS.

Strategic Priority II: Facilitating International Trade and Investment

Good **investment policies** that create a legal and policy environment fostering a **level playing field** for all investors, **efficient trade logistics systems** that allow for the efficient import and export of goods and services, and other measures are essential in connecting local firms with the global economy. **Business taxation reform** to eliminate tax distortions and simplify procedures also supports firms engaged in cross-border trade and investment by increasing transparency in the taxation administration and reducing opportunities for corruption. After accelerating steadily during the past 20 years, the pace of globalization has contracted sharply with the financial crisis. In emerging economies, net inflows of financial resources (capital flows and transfers) fell after the crisis due to sharp drops in bank financing and FDI. The dollar value of global trade is around 20 percent lower than its pre-crisis level and 40 percent below the projection had world trade continued to grow along its 2002–2008 trend. By the end of 2009, 350 new trade-restrictive measures had been put in place around the world, some 20 percent of them nontariff measures such as quantitative restrictions, import licenses, standards requirements, and subsidies.[8]

Measures to facilitate international investment and trade will be critical to turn around this trend and accelerate the pace of FDI and trade flows after the crisis. Such measures are not only important to foster the integration of developing countries into the global economy, but also to strengthen regional market integration. **Regional integration** can connect small and detached markets, which are individually and collectively constrained by high regulatory costs and risks and limited business opportunities. Improving the investment climate with a particular focus on removing obstacles to intra-regional trade and investment is an essential ingredient for a successful integration process that helps expand business activity, improve competitiveness, connect markets to the global economy, and spur growth and development.

Developing countries that successfully integrated into the global economy were also most successful in reducing poverty levels. Research based on enterprise survey data shows that firms which export grow faster than firms that do not, and that foreign and exporting firms are more productive than local non-exporting firms. Efficient trade logistics systems are also essential to attract FDI, as firms typically need to be able to ship and receive goods swiftly.

Under the "Facilitating International Trade and Investment" priority, FIAS funding will be used to support interventions that enable companies to access global or regional markets, via cross-border trade or investment. Advisory activities to be supported via FIAS will fall into three broad product (service) areas.

Reforms Facilitating Trade

To increase international trade, FIAS will continue to fund activities that build on the well-established trade logistics product. Under the trade logistics product, FIAS will provide advice to client governments on the reduction of non-tariff barriers and the rationalization of trade logistics systems and services, including the streamlining of border clearance processes, the introduction of risk management systems, and the support of automation in trade-related clearance services (such as electronic payment and e-signatures).

FIAS funding will support interventions that create efficient markets for logistics services, including in the agribusiness sector; funding will also be made available for projects that help countries assess their readiness to comply with the proposed World Trade Organization's Trade Facilitation Agreement and prepare for its implementation. These activities are expected to contribute to increasing trade flows, trade diversification, and FDI, in turn contributing to firms' growth and the creation of productive jobs. Trade logistics and facilitation support under FIAS will be closely linked to the new World Bank Group Trade Strategy.

Reforms Facilitating Cross-border Investment

To increase FDI, FIAS-funded activities will build on the successes and lessons learned through its investment generation and tax incentives work. Future investment policy advisory activities will focus on:

- Designing and supporting the implementation of investment laws and policies that create a level playing field for all investors, including legal guarantees for investors (for example, right to fair compensation in case of nationalization, national treatment) and reduction of discriminatory provisions;
- Promoting policies and strengthening institutional capacities to ensure that local economies are better positioned to attract, retain, and expand FDI, as well as maximize the

[8] World Bank and International Monetary Fund. 2010. *Global Monitoring Report 2010: The MDGs after the Crisis*.

Box 2: Facilitating International Trade and Investment: Building on FIAS' Past Successes

International trade. In FY09 and FY10, FIAS-funded advisory support helped Colombia reduce the time and cost traders spend to import and export by enabling electronic submission of customs documents and implementing a single window system. Preliminary estimates indicate that a medium-sized firm in Colombia would save over $3.5 million in a year through reduced trade transaction costs. Such savings can be reinvested productively and generate new jobs. In the same period, FIAS supported similar reforms in 13 countries, including **Bangladesh**, **Burkina Faso**, **Liberia**, and **Rwanda**.

Investment policy. A FIAS-funded project helped **Southern Sudan** in drafting the Investment Promotion Act enacted in 2009. The act grants investors key guarantees (for instance, against expropriation, repatriation of capital, profits, and dividends; protection of intellectual property rights; and access to arbitration). The act also grants investors investment incentives while reducing discretionary tax holidays. The Ministry of Investment is now staffed and operational and will offer investors facilitation and streamlined procedures through the one-stop shop it operates.

Tax simplification. In FY09 and FY10, a FIAS-funded project helped **Sierra Leone** introduce tax self-assessment returns and a new goods and services tax to replace seven different sales taxes, increasing the number of business tax returns by 40 percent and tax collection by 44 percent. During the FY08–11cycle, FIAS supported the implementation of tax reforms in 10 countries, including **Georgia**, **South Africa**, and the **Republic of Yemen**.

Tax incentives. A FIAS-funded project helped the government of **Sierra Leone** remove discretionary incentives and determine that all future tax incentives will be included in the tax law. A revenue management bill before Parliament mandates the government to improve the transparency of new incentives, as well as measure and report on their cost. It is expected that these measures will help create a level playing field for domestic and international investors in all sectors.

Regional integration via programmatic interventions. Regional integration offers the opportunity to better leverage advisory services for the benefit of clients, in particular for smaller markets. As an alternative or complement to country-level interventions, regional integration initiatives can benefit multiple countries at the same time. In the case of the **Organization for Harmonization of Business Law in Africa (OHADA)**, for example, the passing of the unified business registration code by OHADA's Council of Ministers in January 2011 automatically led to the enactment of the new regulatory framework in all 16 member countries. Similarly, the "pull" of regional integration offers direction and support to reforms in fragile neighboring countries. South Sudan, for example, has applied for membership to the East African Community (EAC) and is expected to pursue investment climate reform to conform to EAC requirements. Investment climate reform both in OHADA and the EAC are supported via FIAS-funded projects.

benefits from FDI related to supply-chain linkages as well as technology and knowledge transfers; and

- Advising clients on the appropriateness and efficacy of both fiscal and non-fiscal incentives, by drawing together experience in investment policy and business taxation. Special emphasis will be placed on assessing the appropriateness of incentives targeting climate change and low-carbon growth initiatives.

Activities in the area of Investment Policy will further leverage the cross-country data generated from two FIAS-supported benchmarking initiatives—Investing Across Borders (IAB) and Global Investment Promotion Benchmarking[9]—to stimulate government actions in several areas and as baseline indicators for country and project performance. Investment promotion interventions, which were part of the service offering during the FY08–11 cycle, will be phased out as a standalone product but will remain part of the investment climate advisory services offered to clients in the context of sector-specific interventions. (See Box 2 for illustrations of investment- and trade-related activities undertaken during the FY08–11 cycle.)

[9] IAB: see http://iab.worldbank.org/; GIPB: see https://www.wbginvestmentclimate.org/uploads/GIPB2009.SummaryReport.pdf.

Fair and Transparent Business Taxation

FIAS' support to Business Taxation interventions will continue to focus on the elimination of discretion and legal ambiguity, the streamlining of business related tax instruments (value-added tax, corporate income tax, turnover taxes), the reduction of the cost of complying with tax policies and procedures, and the expansion of the tax net by removing barriers—especially for small businesses—to formalize. Increased emphasis will be put on the introduction of reforms that expand the tax base, are revenue neutral or positive, improve the transparency and efficiency of tax administration, and reduce the overall burden of the tax system on the private sector, while reducing governments' dependency on aid. This work should lead to increased business formalization and government revenues. A new work stream will focus specifically on improving tax transparency and exchange of information with a view to help client countries meet emerging international standards in this area. FIAS' tax advisory work is coordinated with related work undertaken by the IMF, the Bank (Poverty Reduction and Economic Management Network), the Organisation for Economic Co-operation and Development (OECD), and other partners in the context of the International Tax Dialogue and country-level interventions.

Strategic Priority III: Unlocking Sustainable Investments in Key Sectors

Economy-wide reforms are often required to level the playing field for competition among businesses. Combining or following up on these reforms with sector-specific initiatives significantly enhances the probability, type, and extent of measureable impacts. For a country seeking to increase the competitiveness of its established businesses, and to attract new foreign and domestic investment, a sectoral approach to reform and investment generation is complementary and often necessary for success.

The real sector is a priority for developing country governments because it accounts for a predominant share of gross domestic product and employment opportunities in the formal economy. Real sector industries also represent the largest share of inbound investment opportunities for client IDA economies, as a majority of FDI projects continue to be targeted into the agribusiness, manufacturing, and tourism sectors. According to the Financial Times fDi Markets database, since 2003, non-financial sector FDI has contributed globally to an average of about 1 trillion dollars in new capital and 4 million new jobs per year. The real sector, beyond being a source of capital and jobs, also provides increased opportunities for client governments to raise tax and foreign exchange revenues.

During the FY12–16 funding cycle, FIAS funding will increasingly be used to support projects that focus on investment climate reform in two sectors with broad relevance to low-income countries: agribusiness and tourism. Both sectors can have significant impact on growth and poverty reduction, and are major sources of employment. Moreover, improving investment and business conditions in the agribusiness sector will contribute directly to improving food security in developing countries, through an increase in investment, higher outputs, and efficiency improvements in the distribution channels for agricultural products.

Improving Food Security through Reforms in the Agribusiness Sector

The Millennium Development Goals will not be achieved without improvements in the growth and productivity of agriculture.[10] For most agriculture-based economies in the developing world, raising agricultural productivity and sectoral value-added is arguably the best response to recurring food security and food price crises. The need for action is pressing—in order to meet the food requirements of the projected world population in 2050, global food production must increase by 70 percent between 2010 and 2050.[11]

The strategic focus on investment climate reform in the agribusiness sector also coincides with an IFC-wide effort to develop a Global Strategic Plan for Agribusiness, and it is linked to the Bank Group's Agriculture Action Plan (FY10–12) which calls for a significant increase in the Group's support to agriculture and related sectors.

Building on a sector-specific intervention model developed during the FY08–11 cycle, FIAS funding will be used to support the removal of binding constraints to the proper functioning of agribusiness markets. Interventions in agribusiness will primarily focus on:

- streamlining the regulatory environment for agribusiness competitiveness;
- identifying and removing industry-specific barriers stifling competition;
- improving the regulatory and institutional framework for accessing finance in agriculture;
- improving the framework to facilitate investment that supports agribusiness growth and diversification;
- improving trade logistics systems and services for agribusiness supply chains, and
- improving tax and incentive administration to support agricultural growth.

FIAS-funded projects will contribute to improvements in food security. The removal of barriers that restrict market entry or otherwise suppress competition in the agribusiness sector, for example, will open up input markets, logistics chains, and marketing mechanisms that are highly concentrated at present in many countries. As a result of the increased competition, production costs are expected to drop and output will increase. More competition also increases efficiency along the supply chain. These improvements increase the competitiveness of locally produced agricultural goods and boost internal food security. Another example is the introduction of warehouse receipt systems. Introducing warehouse receipts as a financial tool expands the range of goods that can be used as loan collateral by farmers; as a result, harvested goods are more likely to be professionally stored, which lowers post-harvest losses, minimizes the impact of brokers, and stabilizes prices. Interventions along these lines lead to significant improvements in food security.

FIAS-funded activities in agribusiness will be undertaken in close cooperation with relevant Bank Group partners, including IFC's Sustainable Business Advisory Business Line, to devise approaches that not only support growth and employment in the agribusiness sector, but do so in a way that takes into consideration sustainability issues such as deforestation, optimization of land use, and community engagement.

Unlocking Sustainable Investment through Reforms in the Tourism Sector

Tourism is an important, and in some cases the most significant, service sector for many IDA countries. Eighty percent of Bank Group client countries have identified tourism as a key economic sector in their economic diversification and poverty reduction strategies,[12] and the sector is second to agriculture only in terms of employment generation per unit of investment. However, many countries lack the knowledge and resources to effectively and sustainably grow their tourism sectors.

FIAS funding has contributed to the establishment of a strong foundation in tourism; a standardized mode of engagement has been articulated, with diagnostic, regulatory, and investment facilitation dimensions, resulting in an active portfolio currently encompassing nine countries. Building on this portfolio, funding support from FIAS will be used in the next cycle to scale up tourism-related investment climate interventions with the goal of achieving greater impact. By doing so, the focus will be on

10 Independent Evaluation Group. 2010. *Growth and Productivity in Agriculture and Agribusiness*. World Bank Group (June).

11 Food and Agriculture Organization of the United Nations. 2009. "How to Feed the World in 2050." High-level Expert Forum (October).

12 Hawkins, Donald E. 2007. "The World Bank's Role in Tourism Development." *Annals of Tourism Research*, Vol. 34, No.2: 348–363.

creating sustainable jobs, supporting cleaner energy and green buildings, and improving governance in the tourism sector. (See Box 3 for examples of industry-specific investment climate projects in agribusiness and tourism.)

Box 3: Industry-Specific Investment Climate Reform in Agribusiness and Tourism: Emerging Results

Ukraine. Ukraine has a large untapped potential to export foodstuffs and the ability to play a global role in food security. In 2009, FIAS funding supported a project aimed at addressing micro-level regulatory and policy constraints to agribusiness development. As a result, the Cabinet of Ministers abolished the requirement of mandatory certification of most food products by the State Committee for Technical Regulations and Consumer Policy, which represented the single most burdensome requirement for food processors. Its abolition reduced compliance costs for the private sector by $20 million and opened up new agricultural export opportunities, thanks to national food safety legislation that is more harmonized with EU standards and regulations. Building upon Ukraine's early success, FIAS funding is used to support the launch and progressive roll-out of agribusiness reform advisory programs in **Belarus**, **Cambodia**, **Moldova**, and **Tajikistan**.

Sierra Leone. As a result of a FIAS-funded project, a run-down, government-owned 200-room hotel on prime beachfront land in Sierra Leone has been successfully concessioned to a foreign investor working with an international hotel management group. The development is expected to create 400 new direct jobs, generate $40 million in investment, and stimulate a range of indirect jobs and smaller businesses that will provide goods and services to the hotel and its clients. As the first hotel meeting international standards and the first public-private partnership since the country's civil war, this development is expected to have a strong signaling effect that could influence other potential investors.

India's "Buddhist Circuit." A new FIAS-funded project in India aims to upgrade and enhance tourism infrastructure and services in some of **India's poorest regions**. The $5 million project targets $200 million in private sector-financed hotel investments, 1,000 new jobs, and 200 new small businesses to service the increased demand in market segments created by improved hotel accommodations.

Catalyzing Investment in Other Real Sectors

In certain circumstances, based on the need of the client and the potential to generate impact, FIAS-funded projects will work in sectors beyond agribusiness and tourism. This will be of particular relevance to fragile and conflict-affected states as they seek to develop the most appropriate sectors to help emerge from crisis. For instance, FIAS' work in Haiti both prior to and after the earthquake of 2010 has centered on boosting investment in light manufacturing and export-oriented businesses. This leverages preferential trade access to the U.S. market and is seen as one of the main routes to job growth in the short term. FIAS' work with South Sudan has taken a similarly flexible view on target sectors for investment and reform support as that country begins a new trajectory as an independent country. Over time, and based on the successful implementation of FIAS-supported work in both agribusiness and tourism, new real sectors may be added for more systematic roll-out.

However, at the request of FIAS donor partners, FIAS funding will not be used to support investment climate reform projects specifically related to the infrastructure sector as well as social sectors such as health and education. Investment climate advisory activities in such sectors will be funded via other funding vehicles such as, for example, the Public-Private Infrastructure Advisory Facility (PPIAF) and the Private Infrastructure Development Group (PIDG) for infrastructure, and IFC's Health in Africa multi-donor trust fund for health.

Partnerships for the delivery of reform and investment results continue to benefit from appropriate links with IFC's investment and MIGA's guarantee operations, as well as with policy-focused counterpart units in the World Bank. Each of these partners has accumulated expertise within the FIAS-supported priority sectors and can lend valuable insights to diagnostic work, on the one hand, and provide routes to impacts through their investment-oriented business. For example, a pilot project in Central Asia aims to identify key legal and regulatory constraints to cross-border investment in the real sectors by IFC and other investment banks, with a focus on agribusiness. Likewise, a cooperative program with MIGA involves a collaborative effort to address the specific needs of fragile and conflict-affected countries and territories in their efforts to limit the impact of political risk on inbound investments.

3. Clients and Priority Client Groups

The majority of advisory activities implemented with FIAS support involve national level governments as clients and counterparts, including ministries, president's offices, and government agencies. However, in certain projects, regional institutions or subnational government entities are also clients of FIAS-funded projects.

Examples of regional-level clients include the Secretariats of OHADA and the EAC, which serve as primary counterparts for two large regional programs in Africa. Programs with such clients often emphasize regional market integration that can be achieved by harmonizing business regulations as well as trade- and investment-related policies. Interventions involving clients at the subnational level may involve the benchmarking of cities on key indicators of the *Doing Business* report or focus on specific sector-specific issues where bottlenecks at the provincial or municipal level stifle business and investment activity. Finally, in limited instances, the primary client of a FIAS-funded intervention may also be a private sector or non-profit association.

FIAS funding support will continue to be concentrated on activities benefitting three groups of priority client countries:

- **IDA-eligible countries,** where the need for reform support remains high and successful investment climate reforms have an important signaling effect for both domestic and foreign investors. FIAS funding will be used to continue supporting IDA countries through targeted interventions that bring together global know-how with knowledge of on-the-ground conditions, supported in many cases by an in-country presence.

  Target: About 70 percent of FIAS' client-facing project expenditures.

- **Sub-Saharan Africa**, where the focus will be on fostering and supporting reformers, sharing good regional and global practices, and significantly scaling up FIAS support for industry-specific reform efforts. Fostering employment and competitiveness, reducing vulnerability, and strengthening resilience are themes in the Bank's Africa regional strategy with which FIAS'

The majority of advisory activities implemented with FIAS support involve national level governments as clients and counterparts, including ministries, president's offices, and government agencies.

strategic priorities are well aligned. Given the importance of Africa and its sustained needs for investment climate reform support, it is planned that a dedicated FIAS Africa Trust Fund will be maintained for donors who, as part of their support to FIAS, would like to earmark a share of their funding for activities in Africa. (For additional details on the investment climate focus for Africa, please refer to Annex V.)

Target: At least 50 percent of total client-facing project expenditures.

- Fragile and conflict-affected states and territories, where the agenda for private sector reconstruction and job creation needs to feature early in development partner assistance. FIAS funding for activities in these countries will support the implementation of integrated programs that draw on products and expertise that have been particularly useful to these countries to date, such as public-private dialogue (PPD), business entry, licensing and tax reforms, as well as special economic zones, trade logistics, and industry-specific investment climate work with related investment facilitation activities. (For additional information on the approach to FCS, see Annex VI.)

  Target: 25 to 30 percent of FIAS' client-facing project expenditures.[13]

Other regions besides Africa offer opportunities for high-impact involvement. In South Asia, for example, FIAS projects in the pipeline include economy-wide and sector-specific activities in Bhutan, Nepal, and Sri Lanka, as well as low-income states in India. Investment climate support to Bangladesh will continue to be funded via the separate Bangladesh Investment Climate Fund, a large, multi-year program co-financed by the United Kingdom's Department for International Development and the European Commission and managed by IFC with significant input from CIC staff. In the Middle East and North Africa region, recent changes provide new sources of demand for investment climate reform work to address the challenges and opportunities of economic governance, growth, and job creation. As a flexible funding mechanism, FIAS is well equipped to support the Bank Group's quick response to new demands arising from countries in the region.

Despite the focus on the three groups of priority countries mentioned above, FIAS funding will continue to support a limited number of activities in middle-income countries. Activities in mIddle-income countries will focus primarily on poor regions in such countries, and on the initial testing and roll-out of new products and approaches, as well as activities that generate learning and know-how that can later be transferred to priority client groups. Middle-income countries are expected to contribute to the funding of projects through cash or parallel contributions.

[13] Based on the FY11 Harmonized List of Fragile Situations. The target may be adjusted as the countries and territories included in the list may change over time.

4. Cross-cutting Themes

Throughout the FY12–16 cycle, FIAS-funded activities will generally be underpinned by four cross-cutting themes that will guide resource allocation and enhance the overall development impact.

FOSTERING ECONOMIC AND SOCIAL INCLUSION TO CREATE OPPORTUNITIES FOR ALL

By unshackling entrepreneurship, removing unnecessary barriers and unlocking entrepreneurial opportunities, investment climate reforms are a powerful tool for the democratization of business and economic activity. Burdensome and opaque regulations have a disproportionate negative impact on small businesses and entrepreneurs who lack connections; simpler business regulations are thus especially beneficial to socially weaker and less connected groups, including the poor and women. FIAS resources will be used to continue piloting projects and programs that support the engagement of women, minorities, and small entrepreneurs.

Box 4: Why Gender Matters in Investment Climate Reform

The gender gap in economic participation remains vast. Women own fewer businesses—only one-third of firms surveyed by the World Bank in 118 economies have female participation in ownership.[a] Businesses owned by women also tend to have fewer employees, lower sales, and lower invested capital.[b] There are fewer women than men in the global labor market, and women in every economy are paid less for their work than men—with the wage gap averaging 17 percent in 2008. Finally, micro-economic evidence also shows that gender inequalities in access to productive assets (such as land and credit) not only disadvantage women, but also reduce productivity and growth potential of countries as a whole. To reduce this gap, FIAS-funded projects have helped unlock economic dividend from gender equality. Recent projects include: (i) a PPD project in **Cambodia** which helped identify constraints for women entrepreneurs and advocated reduction of import duties and suspension of the value-added tax for 20,000 female silk weavers; (ii) an ADR program in **Karachi, Pakistan**, targeting women business owners which resulted in the release of $1.5 million of funds tied up in family business cases in three days during a "mediation week;" and (iii) a project in **the Republic of Yemen** where a newly appointed head of a "Female Business Registration Department" has started receiving applications from women entrepreneurs.

FIAS funding will be used to continue to work closely with governments interested in implementing investment climate reforms empowering women, supporting such efforts with global expertise and know-how. Such programs will apply the gender and investment climate methodology—as defined in the *Gender Dimensions of Investment Climate Reform* practitioners' guide[c]—consistently, with a view to identify key sectors in which women play—or could play—an important economic role, to analyze sector-specific constraints to business registration, licensing, and taxation so that a more gender-responsive approach can be developed, and to address regulatory hurdles facing women entrepreneurs.

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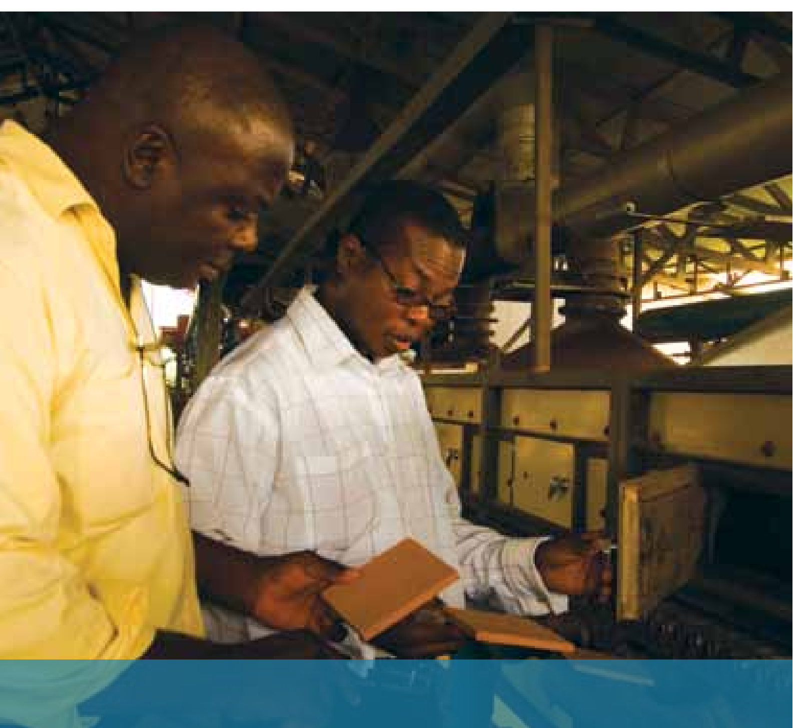
a. Data from World Bank Enterprise Surveys on 118 countries (see http://www.enterprisesurveys.org).

b. Bruhn, Miriam. 2009. "Female-Owned Firms in Latin America: Characteristics, Performance, and Obstacles to Growth." *Policy Research Working Paper* 5122 (November). World Bank.

c. Simavi, Sevi, Clare Manuel, and Mark Blackden. 2010. *Gender Dimensions of Investment Climate Reform*. World Bank.

IMPROVING ECONOMIC GOVERNANCE AND TRANSPARENCY

Strengthening economic governance and transparency will be another key feature in many FIAS-funded interventions. The *Investing Across Borders* report, published in 2010, showed significant and positive correlation between high IAB scores (less restrictive FDI regulation) and scores of the World Bank Governance Indicators and the Transparency International Corruption Perception Index (where a high score implies less corruption). Investment climate reform contributes to greater transparency and better economic governance in many ways, including through the simplification of cumbersome and ineffective regulations, higher information disclosure requirements, the harnessing of new technologies that improve quality and accessibility of information and increase transparency of government services, and by supporting clients in the adjustment to more stringent international norms on transparency and accountability. FIAS will also pilot an approach and methodology, as part of Phase Two of the Bank Group's Governance and Anti Corruption Strategy, to track "unofficial costs" saved from a reduction in administrative barriers, such as in trade logistics and business regulation programs. The pilot will test the methodology in a few projects and products, before rolling it out to other products and regions.



Box 5: Investment Climate Reforms that Strengthen Transparency and Economic Governance

In fragile and conflict-affected states, investment climate projects often put a strong effort into communicating reform goals and achievements. In **Liberia**, for example, a FIAS-funded project supported a series of media campaigns to inform the public about simplified procedures for company start-up and port improvements. Posters and checklists at government agencies were used as tools to publicize official fee schedules in order to reduce opportunities for corruption.

Tax simplification projects typically focus on improving the transparency and predictability of the tax system in law and administrative practice. In **Sierra Leone**, a tax simplification project assisted the government in re-drafting the tax law to make it clearer and less discretionary, supported the dissemination of copies of the legislation, assisted with upgrades to the National Revenue Authority's Web site to allow increased public access, and advocated for the government to periodically publicize its tax revenue expenditure figures for tax incentives granted. In **Georgia** and **Armenia**, ongoing tax simplification projects helped introduce the function of a Taxpayers' Ombudsman as an independent institution that advises taxpayers of their rights and provides them with recourse against the tax authorities on service matters such as undue delays, unfair conduct, and corrupt practices.

Trade logistics projects are designed to reduce corruption through more transparency in trade processes and fewer face-to-face interactions with officials. To ensure that laws and regulations are applied in a uniform and consistent manner—which increases predictability for the private sector—FIAS-funded projects help governments understand how they can clarify laws and regulations and simplify administrative guidelines in line with international standards. In **Liberia**, for example, a FIAS project supported the government in publicly displaying all mandatory documents, official fees and charges, and import and export steps. The trade logistics project in **Rwanda** includes the establishment of a portal to publish trade-related laws, regulation, and processes. And in **Colombia**, a FIAS-funded project is supporting the introduction of an electronic single window system that significantly increases transparency and lowers discretion by border clearance officials and customs brokers.

Investment climate reforms contribute to greater transparency and better economic governance in many ways…

PROMOTING COMPETITION

Recent data from the World Economic Forum and the World Bank Enterprise Surveys reveals that competition in developing economies still lags far behind more developed countries: the number of players is limited and competition policies are significantly less effective compared to OECD levels, with more than 40 percent of emerging markets exhibiting a monopolistic market structure. Strengthening competition plays a central role in fostering growth, investment, and job creation. Firms that face robust competition have strong incentives to reduce their costs and innovate to become more efficient and productive. FIAS-funded projects across the board will increasingly pay attention to competition issues, and interventions will be scaled up that foster efficient competition, prevent discriminatory treatment, and discourage anticompetitive actions.

Box 6: Improving the Effectiveness of Competition Policies in Developing Markets

Removing constraints that impede the development of competitive markets in key strategic sectors. Competition in key economic sectors of many Sub-Saharan African countries, for example, is hampered by regulations that limit entry or affect firms' capacity to compete. In the agribusiness sector, barriers in key input markets and restrictions in the marketing channels reduce opportunities for private investment. In the transport sector, restrictive road transport regulations limit the entry and operation of foreign companies leading to higher transportation costs. More generally, IAB found that 72 of 86 countries surveyed on this issue have at least one sector with some form of ownership restriction, a major impediment to competition.

Reducing barriers to competition in non-tradable sectors. Self-regulation imposed by business associations may lessen competition by either restricting entry or facilitating coordination of prices among members. In the new cycle, FIAS-funded activities will support the development of specific regulations on restrictive practices—for example in Kenya—where such restrictions affect the costs of markets related to the agribusiness and transport supply chain.

SUPPORTING GREEN GROWTH

Finally, FIAS will prudently increase its efforts to help client countries transition to a "green growth" path, by setting standards for and attracting private investment into low-carbon, resource-efficient economic activities. Building on the available regulatory reform experience, initial activities will include reforms fostering renewable energy and green buildings. Activities in this area will involve IFC's Sustainable Business Advisory and Public-Private Partnership Business Lines, and other partners.

Box 7: Investment Climate Solutions Fostering Green Growth

Green building codes. Better regulation can limit environmentally harmful activities (for example, pollution, landfill, waste water) and encourage more resource-efficient corporate behavior through binding and measurable environmental standards, such as building codes and emissions and performance standards for vehicles and appliances. Leveraging existing experience with construction permit reforms, FIAS funding is currently used for projects in **Jakarta**, **Indonesia**, and **Bogota**, **Colombia**, which aim to assist local governments with the design and introduction of "green" building codes; the expansion of such activities to several more countries in East Asia and Latin America is currently being considered.

Low-carbon investment areas and broader "green investment" approach. In many countries such as **China**, **India**, the **Republic of Korea**, and **Thailand**, special economic zones are catalyzing economic growth, while contributing significantly to greenhouse gas emissions. For example, in Korea, about 650 industrial parks produce 63 percent of industrial emissions nationally. FIAS funding will be used to assist a limited number of client governments to help reduce greenhouse gas emissions and pilot enabling regulatory environments for low-carbon growth in localized areas (such as special economic zones and tourism development areas).

5. Operating Principles

The delivery model for FIAS-funded activities rests on a number of operating principles, tested and proven during FIAS' FY08–11 funding cycle.

MANAGING FOR DEVELOPMENT IMPACT

FIAS' focus has evolved from funding diagnostic studies to helping governments implement specific reforms designed to yield results on the ground. During the FY12–16 cycle, emphasis will be put on approaches, tools, and implementation models that ensure measurable development impact. To enable the systematic tracking and measuring of the impact of FIAS-funded activities, the M&E system underlying FIAS (and IFC's Investment Climate Business Line as a whole) will be further refined.

The FY08–11 strategy focused heavily on the development of product-related expertise and know-how, thus strengthening the Bank Group's technical expertise in investment climate reform. During the FY12–16 cycle, investment climate activities supported via FIAS will continue to build on the strengths of the product approach, while allowing for greater flexibility to address client needs by **combining products in integrated programs** that exploit synergies, better meet client objectives, and maximize overall development impact. Projects will also increasingly **foster multiple parallel reforms** to increase impact. For example, the impact of reducing time and cost of business entry is far greater when firms have access to credit, their intellectual property rights are protected, and labor markets are flexible. Also, firms' ability to grow depends on the quality of infrastructure in their host countries, the existence of functioning logistics chains to bring goods to market and obtain inputs for production, the openness of their countries' trade policies, and good investment policies.

During the FY05–07 operational cycle, performance indicators used to assess FIAS' success were mostly input- and output-based (number of projects, reports, and recommendations). During the FY08–11 cycle, significant progress was made by implementing an outcome-based M&E framework that allows IFC to systematically track tangible improvements to a country's investment climate (investment climate results and reforms). For the FY12–16 operational cycle, the success of investment climate activities will also be measured by the impact achieved. To this effect, a new set of impact measures is currently being developed and will be gradually introduced in the next cycle. (See Annex IV for a description of the three pillars of the proposed impact measurement framework.)

USING BENCHMARKS TO SPUR REFORMS

The indicator- and benchmark-based work undertaken by the Bank Group and other organizations remains a key driver behind the continued high demand for investment climate advice. The annual *Doing Business* report, for example, continues to trigger numerous assistance requests from governments that would like to address weaknesses in their investment climates and improve their rankings. Some of these initial requests lead to more in-depth and extensive engagements which open the door for more systemic investment climate reform efforts. FIAS will continue to support the Subnational Doing Business project, which benchmarks the investment climate performance of selected cities within a country against other cities in that country (and against the global Doing Business benchmark), thus creating emulation and multiple poles of reformers within a country.

The IAB indicators, piloted in July 2010, should also generate client demand on FDI-related regulatory issues. As of March 2011, IAB baseline data has already led to engagements in reform discussions with governments in four different regions. The release of the second IAB report in FY12, which will benchmark countries' progress against the baseline data, is expected to further incentivize governments to use the IAB indicators as a tool for reforms.

INCUBATING NEW IDEAS AND PROGRAMS AND EXITING FROM OTHERS

A key factor of FIAS' continued success is its unique ability to adjust rapidly to changing circumstances on the global and regional scene and in client countries. Examples from the FY08–11 strategy cycle include the development and roll-out of the Insolvency and Restructuring product that was initiated in 2009 in the context of the global financial crisis; the addition of a Tax Transparency advisory component to the Business Taxation product; the development of the Investing Across Borders indicators; the development of pilot projects to respond to the challenge of climate change; and significant progress in rolling out e-government solutions. FIAS funding will continue to help incubate, develop, and roll out new programs to address emerging issues such as climate change (see Supporting Green Growth, p. 23), food security (see Strategic Priority III, p. 16), and other emerging global challenges.

As new tools and approaches are developed, tested, and rolled out, it will be important to ensure that there is sufficient space and resources to move into new areas that meet client demand. This can be accomplished by transferring successful programs and activities that have matured to other partners (within or outside the Bank Group), and by exiting from programs and products that have not demonstrated strong results. During the current cycle, investment climate programs in the Western Balkans and East Asia and Pacific regions—originally managed by CIC and funded via FIAS—were transferred to the respective IFC regional units; the Access to Land product was phased out due to insufficient traction, and, as part of an upcoming product consolidation, it is expected that the Special Economic Zones program will be transferred to World Bank units.

HARNESSING THE POWER OF PARTNERSHIPS AND KNOWLEDGE

FIAS has evolved from a standalone program to a funding facility that is fully integrated in the way the Bank Group delivers advisory services in the investment climate space and enables cooperation with a large number of partners. FIAS will continue to serve as a partnership platform that helps the Bank Group foster substance-based relationships with a wide range of donors and other development partners, including the IMF, the OECD, the European Bank for Reconstruction and Development, the African Development Bank, the World Association of Investment Promotion Agencies, the United Nations Conference on Trade and Development, and the World Trade Organization. FIAS also supports the activities of the Donor Committee for Enterprise Development, a forum for sharing experiences in investment climate reform and learning from participating agencies' expertise and knowledge. The Bank Group leverages the knowledge and networks of these partners to provide sound and effective advice and support to clients.

Linked to the knowledge management and dissemination functions supported by FIAS, an active KM platform has been developed as a means to deepening partnerships, with a state-of-the art website (www.wbginvestmentclimate.org, launched in FY11 to replace the former www.FIAS.net), publications, and events and activities typically open to partners, clients, and other stakeholders.

SCALING UP PUBLIC-PRIVATE DIALOGUE, PEER-TO-PEER LEARNING, AND COMMUNICATIONS

Public-private dialogue, peer-to-peer learning, and results communications are key tools to maximize the support for and impact of investment climate reform efforts. FIAS funding will be used to support the further refinement and deployment of PPD tools and expertise, with such activities focusing primarily on fragile and conflict-affected states and on industry-specific interventions.

FIAS projects will increasingly rely on deep partnerships with clients to increase the number of projects jointly designed and implemented with as well as co-financed by clients, and country-specific advisory activities will increasingly be complemented with regional peer-to-peer learning events.

PROVIDING A FLEXIBLE RAPID-RESPONSE CAPABILITY

Last but not least, the flexible business model behind FIAS and the agility it offers as an un-bureaucratic funding and resource mobilization platform make it a vehicle of choice to support rapid-response type efforts at the global, regional, and country-specific level. During the FY08–11 cycle, FIAS demonstrated its value as a flexible funding and resource mobilization mechanism that was readily available to support Bank Group-wide crisis-response activities in a flexible and nimble way, for example in the context of IFC's investment climate response to the global financial crisis as well as with regard to the financing of post-earthquake efforts in Haiti and pre-independence work in South Sudan. FIAS funding is currently also used to respond to urgent requests from countries in the Middle East and North Africa region for assistance with investment climate reforms. Indeed, the spark that ignited the revolution in Tunisia was the arbitrary application by officials of obsolete, restrictive, and bribe-generating licensing and permitting procedures for market vendors. Undoing the stifling and corrupting red tape has become a priority for many countries in the region.

Table 1 below summarizes the evolution of key dimensions of FIAS over the course of the recent funding cycles.

Table 1: Evolution of Key Aspects of FIAS from the FY05–07 to the FY12–16 Strategy Cycle

	FY05–07 STRATEGY CYCLE		FY08–11 STRATEGY CYCLE		FY12–16 STRATEGY CYCLE
INTERVENTION FOCUS AND OPERATING PRINCIPLES					
Focus of Client-facing Interventions…	Approx. 95% economy-wide	➡	Approx. 85% economy-wide, 15% industry-specific	➡	Cycle target: 60–70% economy-wide 30–40% industry-specific
Approach to Client Needs…	Mostly ad hoc	➡	Mostly product-centered	➡	Increasingly issue-based, integrated, programmatic
Use of Indicators and Benchmarking...	Limited	➡	Mostly Doing Business-centric	➡	Broader range of indicators
Role of FIAS-funded Activities…	Mostly diagnostic	➡	Solution design & implementation support	➡	Innovation/incubation, facilitator, catalyst
Managing for…	Input, output	➡	Outcomes	➡	Development impact
PRIORITY CLIENTS *(share of client-facing project expenditures)*					
IDA	66%	➡	73% (FY08–10 average)	➡	Cycle target: 70%
Africa	32%	➡	52% (FY08–10 average)	➡	Cycle target: 50%
FCS	n/a	➡	29% (FY09–10 average)[a]	➡	Cycle target: 25–30%

a. FY08: n/a; FY09: estimated at 27 percent; FY10: 31 percent of FIAS' client-facing project expenditures.

6. Institutional Set-up and Governance

UNDERLYING INSTITUTIONAL STRUCTURE

FIAS is managed by the Bank Group's Investment Climate Department, a joint department of IFC, MIGA, and the World Bank. The department serves as backbone and anchor for IFC's Investment Climate Business Line and will anchor the emerging World Bank FPD Investment Climate Global Practice; it also implements MIGA's technical assistance mandate that was integrated into CIC/FIAS in 2007. In addition, CIC manages other investment climate activities that do not fall under the scope of FIAS and which are funded separately, for example, the policy and advisory component of IFC's Health in Africa initiative as well as IFC advisory services related to policies and regulations affecting private participation in infrastructure.[14]

The portfolio of programs and activities managed by CIC and the anchor and lead role it plays vis-à-vis IFC and Bank regions—including via innovation and strategic product development, quality assurance, knowledge management and global thought-leadership—promotes effective cross-fertilization and transfer of investment climate reform expertise and knowledge across the various programs and activities.

The global FIAS funding mechanism supports the central role that CIC plays in providing an overarching umbrella over the Bank Group's investment climate programs and activities. FIAS is not an operational unit or separate legal entity, but a funding vehicle administered by IFC on behalf of the Bank Group and donor partners. In administering FIAS, CIC largely follows the policies, administrative processes, and systems of IFC Advisory Services, including those for project approval, reporting, and trust fund and financial management. Some minor exceptions (for example with regard to human resource systems and policies for non-IFC staff) are due to the fact that CIC operates across Bank Group institutional borders. FIAS-related donor and client agreements are normally signed by IFC on behalf of the Bank Group.

GOVERNANCE, REPORTING, AND INTERIM EXTERNAL EVALUATION

Formal oversight over FIAS rests with the **FIAS Supervisory Committee**. The high-level Committee currently consists of the Executive Vice President and CEO of IFC (chair), the Executive Vice President of MIGA, the Vice President for Financial and Private Sector Development (World Bank/IFC), IFC's Vice President for Business Advisory Services, and the World Bank's Regional Vice President for Africa. The Supervisory Committee meets at least twice a year to review progress achieved, approve FIAS' annual budget, and provide guidance on strategic matters. The composition and mandate of the committee provides assurance that FIAS-funded activities are implemented in close coordination with the rest of the Bank Group's private sector development activities.

In addition, FIAS donors provide general guidance and oversight via the **Annual FIAS Consultative Committee of Donors meeting**. The meeting typically focuses on a review of past activities and progress achieved and discussion of upcoming priorities and strategic matters related to FIAS' overall direction.

CIC will continue to report on the implementation of FIAS via an **Annual Review** report. The Annual Review report provides an overview of the programs and activities co-financed via FIAS, and it highlights the results achieved as well as key developments during the reporting period. The report also serves as a key input for the FIAS Consultative Committee of Donors meetings.

In order to assess progress achieved and to review and revalidate the strategic directions, an **interim evaluation** will be commissioned in FY14, midway through the FY12–16 operational cycle.

NAME CHANGE TO FACILITY FOR INVESTMENT CLIMATE ADVISORY SERVICES

Over the past decade, FIAS' mission has evolved from a narrow focus on FDI to one that encompasses a much broader range of advisory support in the areas of investment climate reform and private sector development for domestic as well as foreign businesses. To better reflect the expanded scope of activities funded by FIAS, effective July 1, 2011, the program's official name is changed from Foreign Investment Advisory Service to Facility for Investment Climate Advisory Services. The FIAS acronym will not change.

[14] Transaction-specific advice with regard to the fostering of public-private sector partnerships is provided by IFC's Public-Private Partnership Transactions Advisory Business Line.

7. Funding and Administration of Donor Funds

FUNDRAISING RESULTS FOR THE FY08–11 CYCLE

The FIAS strategy for FY08–11 set a funding target of $112 million for the four-year cycle. That target will be exceeded by mobilizing an estimated $122 million of funding for the entire FY08–11 strategy period (about $30.5 million per year). Roughly 67 percent of this amount ($81.8 million) was contributed by donors; 3 percent by clients ($4.3 million), and 29 percent ($36 million) are core contributions made available by IFC, MIGA, and the World Bank (see Table 2).

Total expenditures from FIAS trust funds during FY08–11 are expected to be around $107 million (an average of about $26.7 million per year), including projected FY11 expenditures of $26.4 million. A fund balance of about $15 million is planned to be carried over into the FY12–16 cycle, including about $5 million of core funds as well as about $10 million of program- and project-specific funds (the latter reflecting fund balances for multi-year projects extending beyond the end of the FY08–11 FIAS cycle). The planned roll-over of core funds into FY12–16 is based on prudent financial practice and will ensure liquidity during the initial months of operations in the new cycle.

Table 2: Fundraising Results, FY08–11 [d]

	FY08	FY10	FY11 (PROJ.) [a]	FY08–11 TOTAL (PROJ.)	FY08–11 AVERAGE PER ANNUM	SHARE OF FY08–11 TOTAL
World Bank Group – Core	10,000	8,600	8,300	36,000	9,000	29%
IFC [b]	4,000	4,000	4,000	16,000	4,000	13%
MIGA	4,000	3,000	2,700	13,200	3,300	11%
Bank	2,000	1,600	1,600	6,800	1,700	6%
Donors – Core	3,751	4,795	2,383	16,980	4,245	14%
Donors – Programmatic [c]	9,179	9,416	9,458	39,233	9,808	32%
Donors – Project-specific	5,525	8,868	6,822	25,651	6,413	21%
Client Contributions (cash)	129	1,830	1,205	4,257	1,064	3%
Total	**28,584**	**33,509**	**28,168**	**122,121**	**30,530**	**100%**
Expenditures [e]	**23,920**	**26,493**	**26,350**	**106,987**	**26,747**	

Notes:
a. FY11: Projections as of June 1, 2011.
b. IFC annual contributions normalized at $4 million per year, for total cycle contribution of $16 million.
c. Includes NIPP (FIAS-global) allocations.
d. Table excludes supplemental allocations from IFC under annual global Investment Climate Business Line envelopes, and one-time allocations in FY11 from IFC contingency funds and in FY10 from the World Bank in support of the global crisis response.
e. Excludes expenditures related to supplemental CIC funding indicated in note d.

INDICATIVE FUNDING TARGETS FOR THE FY12–16 CYCLE

On the basis of the FY08–11 fundraising results, the resource mobilization targets (estimates) for FY12–16 are set as shown in Table 3, based on the following considerations:

- The baseline used for the FY12–16 funding estimates was calculated on the basis of the average annual funding secured during the FY08–11 cycle after taking into account the transfer of investment climate activities in the Western Balkans and the Pacific regions to the respective IFC regional advisory services units.
- The share of Bank Group core funding in total funding would remain steady at around 29 percent of total funds.
- The share of donor contributions would drop slightly from around 67 percent to 65 percent of total funding.
- The estimated share of client contributions would increase from 3 percent to around 5–6 percent.

In addition, the following growth assumptions have been used to calculate the FY12–16 funding targets: a zero-growth environment in FY12 and 13, with no increase in overall funding levels expected; and modest increases in funding of approximately 9 percent per annum thereafter. These conservative assumptions were suggested by FIAS donors at the donor meeting in November 2010 when the draft strategy was discussed and reflect the difficult fiscal situation many donors faced at that time. The indicative fundraising target for the cycle will thus be set at $155 million (or an average of $31 million per annum).[15]

Table 3: Funding Targets, FY12–16
(baseline: average funding results for FY08–11, adjusted as described in text)

	BASELINE: FY08–11 AVERAGE PER ANNUM	FY12	FY13	FY14	FY15	FY16	FY12–16 TOTAL	FY12–16 AVERAGE PER ANNUM	SHARE OF FY12–16 TOTAL
World Bank Group – Core	9,000	8,400	8,400	9,000	9,600	10,300	45,700	9,140	29%
IFC	4,000	4,000	4,000	4,500	5,000	5,500	23,000	4,600	15%
MIGA [a]	3,300	2,700	2,700	2,700	2,700	2,700	13,500	2,700	9%
Bank	1,700	1,700	1,700	1,800	1,900	2,100	9,200	1,840	6%
Donors – Core	3,200	4,400	4,400	5,000	5,800	6,400	26,000	5,200	17%
Donors – Programmatic	8,600	8,600	8,600	9,000	9,600	10,500	46,300	9,260	30%
Donors – Project-specific	5,900	4,900	4,900	5,700	6,100	6,800	28,400	5,680	18%
Client Contributions (cash)	1,000	1,400	1,400	1,600	2,000	2,200	8,600	1,720	6%
Total	27,700	27,700	27,700	30,300	33,100	36,200	155,000	31,000	100%
Increase over previous year		0%	0%	9%	9%	9%			

Notes:
a. MIGA's projected contributions are subject to annual Board approval of the MIGA budget; and a portion of the indicated amount for MIGA will be in the form of funding for project-specific activities.

[15] Tables 2 and 3 do not include funding or expenditures for health- and infrastructure-related activities undertaken by CIC outside the scope of FIAS.

The FIAS trust fund structure established for the FY08–11 funding cycle allowed donors to contribute to FIAS in a number of different ways

In order to increase client cash contributions to the projected level of 5– 6 percent, IFC will continue to apply the Investment Climate Business Line Pricing Guidelines[16] in a systematic manner, in particular with regard to FIAS activities in middle-income countries.

Depending on the total amount of funding that can be raised over the course of the FY12–16 cycle, the scope and extent of activities to be financed by FIAS will be adjusted accordingly.

ADMINISTRATION OF DONOR CONTRIBUTIONS

The FIAS trust fund structure established for the FY08–11 funding cycle allowed donors to contribute to FIAS in a number of different ways, including via core contributions, contributions to thematic and regional trust funds, and contributions to project-specific trust funds. In response to expressed donor interest and preferences, about 20 FIAS trust funds were set up and used to administer donor contributions related to the FY08–11 funding cycle.

The FIAS trust fund structure is fully consistent with the Bank Group's trust fund administration policies and ensures that funding for different purposes (that is, different sub-sets of FIAS activities) is administered in separate trust funds. It provides a flexible and convenient way for donors to contribute to FIAS in a targeted way, in line with donor preferences and restrictions. However, the large number of trust funds managed under FIAS has complicated financial management significantly and led to high transaction costs. Moreover, the option of earmarking funding for specific programs and projects has meant fewer untied core funds, which is limiting the program's flexibility and undermines FIAS' business model.

For the FY12–16 strategy cycle, CIC is urging donors to consider making all or most of their contributions to FIAS available as core funding in support of the overall implementation of the FY12–16 strategy. CIC also asks donors to refrain from narrow earmarking of their funds and agree to pool contributions in a more limited set of trust funds. The initial set of trust funds will be limited to the following, reflecting FY12–16 strategic themes and priorities:

- a FIAS (FY12–16) Core Trust Fund, to administer core contributions to FIAS;
- separate FIAS Trust Funds for each of the three strategic priorities pursued under FIAS: Fostering Enterprise Creation and Growth; Facilitating International Trade and Investment; Unlocking Sustainable Investment in Key Sectors; and
- a FIAS Trust Fund for Investment Climate Reform in Sub-Saharan Africa.[17]

With the exception of the FIAS Sub-Saharan Africa Trust Fund, CIC does not plan to maintain region-specific trust funds under FIAS. Donor support for region- or country-specific investment climate activities should be channeled via the respective IFC or World Bank regional unit, unless donors request that their contributions be administered via FIAS.

To facilitate the administration of donor funding earmarked for specific programs or projects, and to take into account binding restrictions and preferences of certain donors, CIC will continue to set up program- and project-specific trust funds on a case-by-case basis. Such trust funds will normally be established as multidonor trust funds to allow a range of donors to support the purpose of a given trust fund. The minimum amount for which a separate FIAS trust fund will be established will be $1 million; exceptions may be made on a case-by-case basis. In accordance with IFC's trust fund policies, the trust fund administration fee will be 5 percent for FIAS trust funds established for the FY12–16 operational cycle.

[16] The Investment Climate Business Line Pricing Guidelines use two main criteria to determine appropriate client contributions for advisory projects: (i) the nature of the advisory service, and (ii) a client's ability to pay. Based on these guidelines, clients in IDA and low-income countries are not expected to contribute in cash to the costs of a project; however, modest parallel or in-kind contributions are expected.

[17] CIC is also planning to establish a separate FIAS trust fund to administer funding for activities related to tax transparency. Tax transparency is a new work stream that will be added to the Business Taxation/Global Tax Simplification program to assist countries in their efforts to strengthen tax transparency. Planned technical assistance in this area would focus on legal transparency; administrative process simplification; strengthening of audit processes; transfer pricing; and accounting reform.

Annexes

ANNEX I: FINDINGS AND RECOMMENDATIONS OF THE CIC/FIAS INDEPENDENT EXTERNAL EVALUATION (PHASE 1: FY08–10)[18]

Quotes and Summary of Key Findings

"CIC/FIAS has implemented most elements of the original strategy."

- ✓ Product mix is fully aligned with the Investment Climate Business Line offering.
- ✓ Focus on programmatic approach: FIAS has moved towards larger and longer-term interventions which often incorporate multiple products; 26 country programs were undertaken, in addition to a range of shorter-term/rapid-response type interventions.
- ✓ Considerable resources have been devoted to IDA, Sub-Saharan Africa, and conflict-affected countries (73 percent of project expenditures allocated to IDA, post-conflict, and/or frontier countries; 40 percent to projects in Sub-Saharan Africa).
- ✓ Increased focus on KM: 71 publications, expanded Web site, peer-to-peer learning events and seminars.
- ✓ Moved closer to clients: increased share of field-based staff to 27 percent; established regional offices in Dakar, Istanbul, Nairobi, and Vienna; increased share of client-facing projects managed in the field to 67 percent.
- ✓ Improved financial management structure: implemented iDesk project approval and supervision system; established system to track results and reforms; and developed a method to estimate private sector cost savings.
- ✓ Thanks to strong donor and Bank Group support, roughly $89.5 million was spent on FIAS-related activities in FY08–10, around 10 percent more than the amount originally contemplated.

"Project supervision reports suggest that projects are generally well managed," and "Development effectiveness ratings for completed projects have improved steadily during the strategy cycle."

- ✓ Project supervision reports suggest that projects are well-managed; on average, 75 percent of projects active at the end of each fiscal year were "on or above target" to achieve development results, and 91 percent were "on or under budget."
- ✓ IFC Results Measurement Unit-validated development effectiveness ratings for completed projects have improved steadily during the strategy cycle; from 43.8 percent in FY08 to 70.6 percent in FY10; this is roughly in line with Investment Climate Business Line ratings.

"The CIC/FIAS strategy has yielded results in line with its objectives, giving rise to well over 400 results and more than 150 investment climate reforms."

- ✓ Supported the implementation of 554 national investment climate results in the first three years of the strategy cycle, exceeding the cycle target of 400; with the lion's share of results (90.1 percent) in countries classified as IDA, post-conflict, and/or frontier (versus cycle target: 50 percent), and 45 percent in Sub-Saharan Africa.
- ✓ In addition, tracked 235 KM results (captured only since FY09), reflecting FIAS' role as innovator/incubator.

"The literature shows that the types of reforms supported by CIC/FIAS have a positive impact on investment, employment, and economic growth."

- ✓ Literature studies—taken as a whole—suggest that investment climate reforms in the topics pursued via FIAS can have substantial impact on private sector investment, business formation and growth, employment growth, productivity, and firm performance.

[18] Nexus Associates, Inc. 2011. *Independent Evaluation of CIC/FIAS 2008–2011 Strategy and Program – Phase 1: Final Report*. (February).

"Studies of five CIC/FIAS projects also suggest that reforms have had positive economic impacts."

✓ Studies conducted by CIC/FIAS and IFC's Result Measurement Unit (now Development Impact Department) on the impact of five investment climate projects (business simplification in Lima, Peru; and investment climate reform in Burkina Faso, Liberia, Rwanda, and Sierra Leone) suggest that reforms pursued under these projects had positive economic impacts.

Summary of Recommendations

- **"CIC/FIAS should continue to focus on IDA and conflict-affected countries, with activities guided by comprehensive country strategies."** Emphasis should be on longer-term country engagements, supplemented by smaller, short-duration projects which remain important as a point of entry for new clients.
- **"CIC/FIAS should continue to build the capacity of regional offices to design and manage investment climate projects,"** thus supporting the ongoing decentralization of investment climate advisory services and to ensure that regional staff possess the requisite knowledge and skills to deliver services in an effective manner.
- **"Decisions on the FIAS product mix should be grounded in rigorous analysis and backed by regional offices,"** in order to ensure that evolution in the suite of FIAS-funded products is supported by hard data with regard to cost and impact, and guided by market assessments (client demand assessments) undertaken with inputs from regional offices.
- **"Monitoring and evaluation should be strengthened along two dimensions:"** (i) with regard to data collection, quality, and analysis, to ensure that baseline data and evidence on reported results are captured accurately and that underperforming projects are being analyzed for their shortcomings and weaknesses, and (ii) with regard to impact assessment.
- **"The World Bank Group and donors should continue to support CIC/FIAS,"** in order to anchor the Bank Group's investment climate work in a department that has control over funds that can be used to advance the goals of the organization with respect to strengthening the investment climate in developing countries.

ANNEX II: RESULTS HIGHLIGHTS

Investment Climate Results – Breakdown by Region/Country and Topic (FY08–10)

(Source: compiled from FIAS Annual Reports/Reviews, 2008–2010) [a]

Investment Climate Results (FY08–10)

Region/Country	Access to finance	Alternative dispute resolution	Business licensing and regulatory governance	Business taxation	Closing a business	Dealing with construction permits	Employing workers	Enforcing contracts	Industry competitiveness	Investment policy and promotion	Protecting investors	Public private dialogue	Registering property	Special economic zones	Starting a business	Trade logistics	Grand Total
East Asia and Pacific	4	12	1			1				15		6		2	8		49
Cambodia										2							2
China	3									4							7
Indonesia														1			1
Papua New Guinea		1								1		1		1			4
Philippines										3							3
Solomon Islands		2								1		1			1		5
Timor-Leste												2					2
Tonga		6	1			1				2					3		13
Vanuatu		3								2		2			4		11
Vietnam	1																1
Europe and Central Asia	5		9	8	4	17	3			10	9		6		38	6	115
Albania										1	1				2		4
Armenia						1											1
Azerbaijan	1			1			1				1		1		1		6
Belarus	2			4	1	1							1		7	1	17
Bosnia and Herzegovina						1				2							3
Croatia			4							1							5
Kazakhstan						2					1				3		6
Kosovo										1							1
Kyrgyz Republic	1			2		6	1				1		3		5	3	22
Latvia					1												1
Macedonia, Former Yugoslav Republic of			1				1			1	2				5		10
Montenegro				1		2				1			1		6	2	13
Poland															3		3
Romania					1												1
Russian Federation			2														2
Serbia			2							3							5
Tajikistan	1				1	4					3				6		15

Continued on next page.

a. FIAS Annual Reports/Reviews cover investment climate results achieved under CIC-managed projects financed via FIAS and under projects managed by other units if the financial contribution from FIAS covered at least 10 percent of the respective project's budget. In contrast, the FIAS evaluation looked at the investment climate results of all projects that received contributions from FIAS, irrespective of the size of the FIAS contribution. As a result, the investment climate result count reported in the FIAS evaluation report (554 investment climate results) exceeds the result count from the FIAS Annual Reports/Reviews (513 investment climate results). These numbers do not include results achieved in FY11, which will only become available in October 2011.

Investment Climate Results (FY08–10)

Region/Country	Access to finance	Alternative dispute resolution	Business licensing and regulatory governance	Business taxation	Closing a business	Dealing with construction permits	Employing workers	Enforcing contracts	Industry competitiveness	Investment policy and promotion	Protecting investors	Public private dialogue	Registering property	Special economic zones	Starting a business	Trade logistics	Grand Total
Latin America & Caribbean	3			7	3	12		4	1	18	2		7	1	18	18	94
Antigua and Barbuda				1													1
Brazil										9							9
Colombia	3			5	3	6		3		6	1		3		3	17	50
Dominica													1				1
Dominican Republic											1				2		3
El Salvador															2	1	3
Grenada								1					1		1		3
Guatemala													1				1
Haiti										1				1	1		3
Honduras										2							2
Latin America and Caribbean Region									1								1
Mexico						2									4		6
Paraguay						2											2
Peru				1		2							1		2		6
St. Lucia															2		2
St. Vincent and the Grenadines															1		1
Middle East and North Africa	6							2	1		1			1	11		22
Egypt, Arab Republic of											1				3		4
Iran, Islamic Republic of	1														2		3
Jordan	2														2		4
Lebanon	1																1
Syrian Arab Republic	1							2							1		4
United Arab Emirates	1														1		2
Yemen, Republic of									1					1	2		4
South Asia	1		2						1			1	1		1		7
Bangladesh			2										1		1		4
India									1								1
Nepal	1											1					2

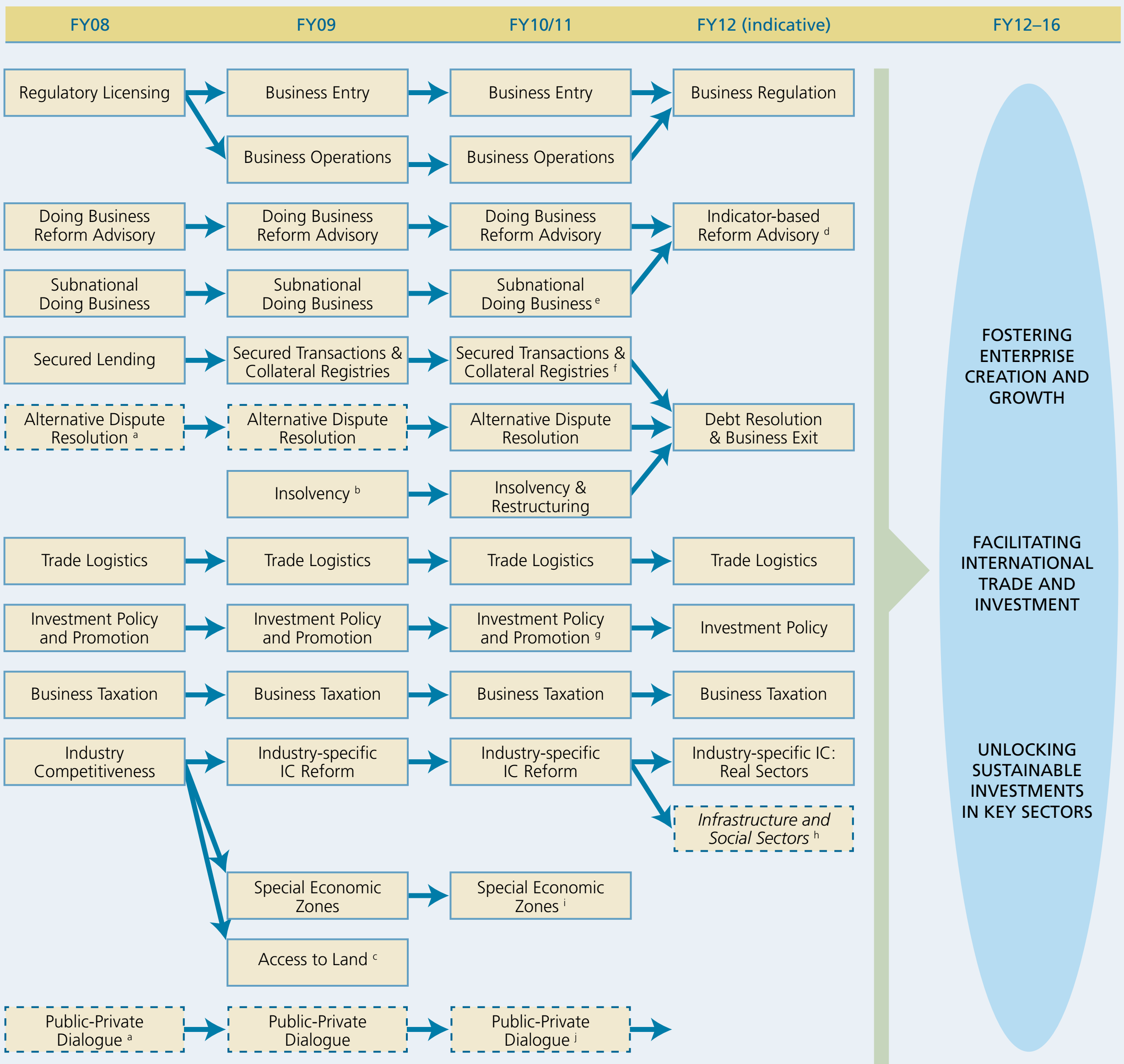
Continued on next page.

Investment Climate Results (FY08–10)

Region/Country	Access to finance	Alternative dispute resolution	Business licensing and regulatory governance	Business taxation	Closing a business	Dealing with construction permits	Employing workers	Enforcing contracts	Industry competitiveness	Investment policy and promotion	Protecting investors	Public private dialogue	Registering property	Special economic zones	Starting a business	Trade logistics	Grand Total
Sub-Saharan Africa	8		14	34		28	2	5	4	7	3	3	18		46	53	225
Burkina Faso				1		1	1						2			7	12
Cameroon															2	1	3
Congo, Democratic Republic of						2							1		3		6
Ghana	1														1		2
Guinea-Bissau										1							1
Kenya			13														13
Liberia	1					5						2	2		4	20	34
Madagascar			1	3					2	1					2		9
Malawi								1									1
Mali						5		2		2	1	1	1		5	5	22
Mauritania						4									1		5
Mozambique				2											7		9
Nigeria				6		7							7				20
Rwanda	5					2	1			1	1		3		6	20	39
São Tomé and Principe															5		5
Senegal				1		1		2					2		1		7
Sierra Leone	1			11					2	2	1				5		22
South Africa				10													10
Togo															1		1
Zambia						1									3		4
World			1														1
Netherlands			1														1
Grand Total	27	12	27	49	7	58	5	11	7	50	15	10	32	4	122	77	513

ANNEX III: EVOLUTION OF PRODUCT MIX COVERED BY FIAS

Evolution of Product Mix Covered by FIAS (FY08–11) and FY12 Line-up



Notes:
a. IFC Investment Climate Business Line products ADR and PPD were only included in the scope of FIAS in FY10. No FIAS funding was used to fund self-standing PPD activities during FY10 and FY11.
b. Insolvency was developed as a new product and included in FIAS in FY09 as part of IFC's response to the global financial crisis.
c. Access to Land was dropped as a product in FY10 due to lack of critical mass.
d. Indicator-based Reform Advisory activities will continue to be implemented jointly with concerned World Bank and IFC departments.
e. Subnational Doing Business was transferred to FPD's Indicators and Analysis department (GIA) in FY11 and will continue to be funded via FIAS.
f. Secured Transactions and Collateral Registries is a product of IFC's A2F business line to which FIAS contributes.
g. Investment promotion expertise to be deployed as part of industry-specific Investment Climate programs in FY12–16 cycle.
h. Activities related to Infrastructure and Social Sectors will not be financed via FIAS.
i. The Special Economic Zones product will be transitioned in the context of the new World Bank FPD Global Practices. FIAS will continue funding SEZ-related activities during the transition process and under special circumstances.
j. Public-Private Dialogue to be used in FY12–16 cycle as a cross-cutting tool under any product.

ANNEX IV: IMPACT MEASUREMENT FRAMEWORK FOR FY12–16 CYCLE

In line with the increased focus on development impact during the FY12–16 cycle, a new Impact Measurement Framework is currently being developed to be used by IFC for the monitoring and tracking of the development impact of investment climate reform projects, including projects implemented with FIAS funding support. The framework will rest on three main pillars, as described below.

First Pillar: Literature Reviews

Extensive literature reviews are undertaken to strengthen the knowledge base with regard to the development impact of various types of investment climate reforms. Literature reviews have been completed for four FIAS/Investment Climate Business Line products; additional reviews are ongoing. Below is a summary of the main findings of the literature reviews that have been completed.

Business Entry

Four clear findings emerge from existing research. First, more firms enter the market when registration procedures and costs are cut. Second, a large percentage of new firms survive and grow. Third, new firms increase competition, forcing incumbents to become more efficient or to exit the market and boosting overall productivity and investment. Finally, entry reforms have greater impact when coupled with other investment climate reforms.

Restructuring and Insolvency

Research finds two important goals of a bankruptcy system: weeding out unviable businesses from viable ones and keeping viable businesses in operation. Keeping viable businesses alive is the most efficient outcome for creditors, employees, and their network of suppliers. The impact of improved insolvency regimes—particularly efforts to speed up the resolution of debt recovery claims—is to increase the probability of timely repayments, reduce the cost of debt and interest rates, and increase the aggregate level of credit. In addition, the impact of new mechanisms to encourage debt restructuring or reorganization (and lower liquidation rates) is to reduce failure rates among SMEs.

Business Taxation

Research undertaken covers empirical papers related to the impact of corporate tax reforms. Evidence from cross-country studies points to a negative relationship between corporate tax rates and FDI. One cross-country study finds that an increase in corporate tax rates is associated with a decrease in business registrations. Finally, microeconomic studies conducted for Brazil, Hong Kong (China), India, Uganda, and the United States indicate that increases in corporate tax rates have a negative impact on economic performance.

Trade Logistics

Research shows that simplifying regulations and reducing trade transaction time and costs increases exports of developing economies and enhances growth in gross domestic product. Private firms directly benefit through savings from reduced inventory holdings, lower capital charges, reduced pilferage and damage of goods in transit, and lower fees and charges for import and export transactions.

Second Pillar: *Ex-ante* Estimation Models

Ex-ante estimation models to estimate the expected impact of reforms in the areas of business entry, trade logistics, business taxation, insolvency, ADR, construction permits, and industry-specific investment climate reform are currently being developed. These models will allow the ex-ante estimation of the impacts of new FIAS (and Investment Climate Business Line projects) during the design/approval phase; a solid understanding of expected impacts, based on the expectations of the type of reform a project will achieve, will help better allocate FIAS resources to projects that maximize (expected) development impact. A description of the ex-ante model used for business entry follows, by way of example.

Business Entry *ex-ante* impact estimation model

The *ex-ante* estimation model measures the impact of **business entry reforms** based on two sets of indicators:

- The first set (*measurable targets*) includes the **number of firms that register after the reform** and the **cost saved** by these firms; these targets are estimated *ex ante* and verified *ex post* by the project teams.
- The second set of indicators (*impact indicators*) includes the **number of firms created due to the reform** and the **investment generated** by these firms. These indicators are built based on findings from existing academic literature, and they can be verified *ex post* only by doing empirical evaluations.

A **business entry reform** is defined either as a legislative change, or as a change in administrative procedures or an institutional change that led to a reduction of at least 50 percent in the cost or time to start a business or in the minimum capital requirement.

The model allows for predicting the impact of business entry reforms in the FY12–16 **timeframe** in countries with active FIAS projects as well as in countries for which FIAS projects are expected during the FY12–16 cycle. The model defines and calculates each variable as specified below.

Measurable targets

Number of firms that register after the reform is equal to: historic trend of newly registered firms plus number of firms created due to the reform. Specifications:

- "Firms" includes sole proprietorships + limited liability companies + partnerships.
- Data on historic firm registrations is collected through: (i) the database "World Bank Entrepreneurship Survey," (ii) country company registry when available, and (iii) publicly available sources, such as local statistical agencies.

Cost saved by firms that register after the reform is equal to:

$$\left(\begin{array}{c}\text{Total}\\\text{Direct}\\\text{Cost Net}\\\text{of Tax}\end{array}\right) = \left[\begin{array}{c}\text{Number of}\\\text{firms that}\\\text{would have}\\\text{registered in}\\\text{the absence}\\\text{of the reform}\end{array}\right] * \left\{\left[\left[\left(\begin{array}{c}\text{Fees}\\\text{in US\\\$}\\\text{before}\\\text{reform}\end{array}\right) - \left(\begin{array}{c}\text{Fees}\\\text{in US\\\$}\\\text{after the}\\\text{reform}\end{array}\right)\right] + \left(\begin{array}{c}\text{Employee}\\\text{daily salary}\\\text{in US\\\$}\\\text{before the}\\\text{reform}\end{array}\right) * \left[\left(\begin{array}{c}\text{Employee}\\\text{work-days}\\\text{required to}\\\text{register a}\\\text{firm before}\\\text{the reform}\end{array}\right) - \left(\begin{array}{c}\text{Employee}\\\text{work-days}\\\text{required to}\\\text{register a}\\\text{firm after}\\\text{the reform}\end{array}\right)\right]\right]\right\} * \left[1 - \left(\begin{array}{c}\text{Corporate}\\\text{Income}\\\text{Tax before}\\\text{the}\\\text{reform}\end{array}\right)\right]$$

Specifications:

- Formula from IFC's Investment Climate Business Line's Compliance Cost Savings methodology

Impact indicators

- **Number of firms created due to the reform is equal to** 5 percent of the total number of formal firms registered before the reform. The 5 percent factor is based on findings from the literature review on business entry.[19]
- **Investment generated is equal to:** median investment per firm times the number of firms created due to the reform. Specifications:
  - Median investment is equal to: median book value of small firms (with fewer than 20 employees) as reported in the **World Bank Enterprise Surveys,** adjusted for firm age and sectors.

[19] Bruhn, Miriam. 2008. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." *Policy Research Working Paper* 4538, World Bank. See also Cárdenas, Mauricio, and Sandra Rozo. 2007. "La informalidad empresarial y sus consecuencias: ¿Son los CAE una solución?" *Fedesarrollo Working Paper* no. 38 (November); and Aghion, Philippe, Robin Burgess, Stephen J. Redding, and Fabrizio Zilibotti. 2008. "The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India." *American Economic Review* 98 (4): 1397–1412.

- Data on the net book value from the Enterprise Surveys refers to the **manufacturing sector** only. This value is discounted by a factor of 0.89, based on the assumptions that most firms that register after the reform would be small firms in the services sector.

Third Pillar: Impact Evaluations

Literature reviews and impact estimations based on the *ex ante* models will be supplemented by select impact evaluations on a sample of FIAS-supported projects. At present, impact evaluations are ongoing or under preparation for the following investment climate reform projects: (i) tax simplification reforms in Georgia targeting small and medium enterprises (SMEs); (ii) debt resolution reforms in Romania; and (iii) trade logistics reforms in four to five low-income countries. Additional projects will be added to this list throughout the FY12–16 strategy cycle, in particular for those products and strategic themes where the outcome-impact link needs to be further examined.

The following table summarizes the target goals and the impact indicators that will be measured for different types of FIAS-funded interventions.

Investment Climate Impact Project: Summary of impact targets for different types of investment climate programs

FIAS STRATEGIC PRIORITIES	PRODUCT	IMPACT TARGETS		
		BENEFICIARY FIRMS	COST SAVINGS	CAPITAL LENT USING MOVABLE ASSETS
Domestic Economy-wide Investment Climate Reforms	Business Operations - Business Entry	All firms that register after the reform.	Yes	
	Business Operations - Construction permits	All firms that get a license or a permit	Yes	
	Business Taxation [b]	All firms that pay taxes	Yes	
	Restructuring & Insolvency	Firms that reorganize through an out-of-court workout		
	Alternative Dispute Resolution	Number of commercial cases settled in ADR Centers	Yes	
	Secured Transactions and Collateral Registries	All firms that borrow using movable collateral		Yes
International Economy-wide Investment Climate Reforms	Investment Policy	All foreign firms and local firms (indirectly)		
	Trade Logistics	All firms that export or import	Yes [a]	
Industry-specific Investment Climate Reforms	Industry – Agribusiness	All firms operating in the agri-business sector		
	Industry – Tourism	All firms operating in the tourism sector		

Notes:
a. Cost savings includes savings from lower inventory, reduced interest charges, lower pilferage and damage of goods in transit, and lower fees and charges for import and export transactions.
b. Business taxation is part of both FIAS strategic priorities: Domestic and International Economy-wide Investment Climate Reforms.
c. The impact measures for corruption, informality, and employment will be developed at a later stage for tracking purposes mainly (highlighted in grey).

Investment Climate Impact Project *(continued)*

IMPACT TARGETS							
NUMBER OF FIRMS CREATED *DUE* TO THE REFORM	RECOVERY RATE	EXPORTS	INVESTMENT GENERATED	GOVERNMENT REVENUES	CORRUPTION [c]	INFORMALITY [c]	EMPLOYMENT [c]
Yes			Yes		Yes	Yes	Yes
					Yes	Yes	Yes
			Yes	Yes		Yes	Yes
	Yes				Yes		Yes
					Yes	Yes	
			Yes				Yes
			Yes				Yes
		Yes		Yes	Yes		Yes
			Yes				Yes
			Yes				Yes

ANNEX V: FOCUS ON AFRICA

The investment climate program in Sub-Saharan Africa is implemented jointly by IFC's regional team and the Investment Climate Department, with strong funding support from FIAS. The team coordinates its activities closely with the World Bank regional FPD team and also ensures that activities are linked with MIGA. Joint work with FPD will further intensify as a result of the launch of the Investment Climate Global Practice in July 2011. Financial support to the investment climate program in Africa from FIAS trust funds will continue, with about half of FIAS' client-facing project expenditures expected to be incurred for investment climate projects in Africa.

FIAS' Africa strategy builds on the strong momentum and considerable progress achieved in this area during the FY08–11 strategy cycle, and is closely aligned with, and complementary to, the respective strategies of the World Bank, IFC, and MIGA.

Program Objectives

Surveys of obstacles to investment in the region conclude that investment and economic growth in Africa are constrained by infrastructure deficiencies and poor investment climates. Over the last decade, a number of countries have started to reform their investment climates, which has led to positive effects on investment and growth. Several recent publications and many press reports have documented the value and impact of recent investment climate reform on Africa's economic growth.[20] The investment climate team in Africa advises governments on how to make improvements in their investment climates, contributing to increasing reform momentum. Over the FY12–16 cycle, the program will continue to provide this advice, scaling up its delivery reach by 50 percent and maintaining its strong support to FCS. By sustaining the reform momentum, FIAS-funded activities will contribute to further improved international investor perceptions of Africa as an investment location, leading to increases in investment, employment, and economic growth.

Progress to date

During the FY08–11 cycle, the program worked in 44 African countries, establishing longer-term in-depth programs in 20 of those countries, generally staffed in-country. An external evaluation of four of the first programs undertaken has noted impact results (see table), directly traceable to investment climate reform work supported with funding from FIAS. This early impact analysis was undertaken only two to three years after the first reforms were achieved; the full impact achieved over time may be considerably greater.

Table: Interim Impact Results for Four Africa Projects

RESULTS DURING PROJECT LIFE	RWANDA	LIBERIA	BURKINA FASO	SIERRA LEONE
Project cost ($ millions)	$3.3	$6.2	$2.8	$9.8
Private sector cost savings ($ millions)	$6.1	$4.6	$2.7	$0.9
Private sector investments generated ($ millions)	$41 – 49	$11– 13	$8	$10 – 12.5
Number of new businesses registered	4,900 – 5,800	3,300 – 4,100	1,000	2,200 – 2,800
Number of new jobs created	14,000 – 16,500	16,300 – 20,400	2,400	20,000 – 25,000

Source: Economisti Associati, March 2011. *Four-Country Impact Assessment*.

[20] These include *Lions on the Move* (McKinsey); *Emerging Africa: How 17 Countries are Leading the Way* (Center for Global Development); *Impact Results from Four African Investment Climate Projects* (Economisti Associates); Growth in Africa Reforms (*Doing Business*, annual).

Modes of implementation

Tailored strategies have been developed to support countries with varying characteristics and to allocate resources among potential clients. Potential client countries are grouped based on three criteria: (i) the reform commitment of the country's leadership,[21] (ii) the country category (FCS, IDA), and (iii) development partner interest.

At the early stages of a FIAS-funded intervention, a diagnostic assessment is undertaken that provides the basis for developing a medium-term program and identifying development partners to help implement it.

Fragile and Conflict-affected States: Africa is home to nearly 60 percent of FCS. FIAS funding will be used to support activities in FCS where there are prospects for effective reform progress.

Africa's 18 FCS have a complex legacy of regulations that constrain investment and business activity. These issues require significant regulatory reform with the aim to simplify regulations, enable informal businesses to formalize, and address impediments to investment in leading industries. Programs will be delivered on an incremental basis, starting with relatively basic reform advice, increasing in scope as clients demonstrate their commitment by making early reform progress.

The great majority of businesses in FCS operate informally, which limits their access to finance and growth opportunities. Investment climate activities in these countries will address barriers to company formalization (simplifying business entry, business operations, licensing, and tax regulation), coupled with support to lay the legal foundations for financial sector lending. In addition, substantial work is required to refine investment codes, simplify trade logistics, and help countries define, strengthen, and profile industry investment opportunities. The impact of these activities can be documented in increases in the number of formal businesses, and in new investments.

The Investment Climate Business Line is usually the first within the Bank Group to engage in FCS on private sector matters, and it will seek opportunities to deepen Bank Group involvement in these countries and territories, particularly in the areas of access to finance and public-private partnerships. Similarly, the team will work closely with the World Bank as well as other donor and development partners to design and implement programs that deliver development impact.[22]

Over the FY12–16 cycle, the FIAS-supported program will undertake activities in at least 14 of Africa's FCS. Among the FCS considered "committed reformers," the program will seek to make significant progress in removing barriers to formalization and addressing obstacles to investment in leading industries. Among "incipient reformers," the program aims to cement the leadership's commitment to reform and achieve early, tangible reform progress.

Other IDA countries: FIAS support will continue in other IDA countries where there is a commitment to reform and clear prospects of ongoing reform achievement.

Many of Africa's 22 non-FCS IDA countries are "committed reformers." In these countries, the work is closely coordinated with the World Bank's PSD programs. Priorities will be high-value industry regulatory work, including regulation of taxes, and support for the development of regulatory foundations for access to finance. The program will also scale up activities related to trade logistics and industry-specific obstacles. The impact of these activities will be documented in terms of increases in SME access to finance, streamlined trade logistics, and increased investments in targeted industries.

Non-IDA countries: Africa has eight non-IDA countries, some of which still have huge development challenges. In these countries, the program will engage only when a client government is willing to cover a significant portion of the program

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[21] Reform commitment is measured by recent investment climate reform activity. "Committed reformers" have undertaken six or more reforms in the last five years, as reported by *Doing Business*. The remaining countries can be broadly categorized into two nearly equal groups—"incipient reformers," which have achieved more than two reforms, and the remaining two dozen "reluctant reformers," which have yet to launch significant reform efforts.

[22] This approach is described in detail for Liberia in: Bridgman, David, and Robert Krech. 2010. *"Peace Building through Investment-Climate Reform"* In *From Civil Strife to Peace Building*, ed. Hany Besada. Wilfrid Laurier University Press.

cost (in line with the Investment Climate Business Line Pricing Guidelines). Exceptions may be made in the context of regional activities, where the participation of a more advanced country can be of significant value to other participants (for example, in the context of regional trade logistics programs).

Regional market integration in Africa remains a major focus. FIAS funding will be used for dedicated regional integration programs focused on OHADA and the East African Community, to help local markets grow by developing modern and compatible regulatory regimes that facilitate cross-border business. Based on early success and insights in the two programs in East and West Africa, other regional integration programs might be implemented. Metrics will be developed to measure how the work has helped strengthen regional market integration and access to global markets.

Industry-specific impediments: Programs supported by FIAS will also focus on industry-specific obstacles to investment, with a view to enabling and facilitating sustainable, high-value investments. Areas of industry focus include:

- Support to investment climate reform in key industries, including agribusiness and tourism, with a focus on removing administrative bottlenecks, improving the operating environment for new and existing private companies in these sectors, and facilitating new investment;
- Complementary investment climate activities undertaken in Africa, but not supported through FIAS, will include facilitating private investment in infrastructure, particularly power, and related upstream regulatory work to facilitate public-private partnerships and more generally private entry in infrastructure, and helping governments identify and address regulatory obstacles to investment in the health sector, to increase the delivery of services in this field.

The impact of FIAS-supported work in this area will be measured by increases in investment by foreign and local firms in the industries targeted.

Delivery Context

Implementing IC projects and programs in Africa is heavily conditioned by:

- Identifying areas of expressed need and critical investment climate issues through review of the Enterprise Surveys, Investment Climate Assessments,[23] and other competitiveness indicators and surveys, and drawing on the portfolio of investment climate products.
- Keeping a focus on client commitment, including as expressed via client contributions and non-financial support, such as strong political engagement.
- Maintaining and building on the excellent collaboration across the Bank Group. During the FY12–16 cycle, opportunities to engage even more deeply will arise: investment climate work is central to IFC's Africa strategy and in pillar 1 of the World Bank's new 10-year Africa strategy, focusing on competitiveness and employment. Similarly, FIAS-supported activities will be closely coordinated with MIGA's FCS strategy.

Implementation Goals FY12–16

The investment climate program in Africa would continue to be supported by FIAS during the FY12–16 cycle. FIAS support will contribute particularly to the new areas of regional integration, including support for regulatory reform in the OHADA countries and in the countries of the EAC. It will also ensure that programs undertaken in Africa draw effectively on learning from other regions, particularly non-African FCS.

The IC program in Africa will gradually increase its project implementation capacity by about 50 percent over the FY12–16 cycle, with the goal of supporting about 30 in-depth country programs (out of Africa's 48 countries) by FY16, up from about 20 in FY11.

[23] Investment Climate Assessments are conducted and published by the World Bank's Africa FPD Department.

The expected outcome of this support is that sub-Saharan Africa would further consolidate its investment climate reforms, resulting in more productive investments, heightened levels of job creation, and stronger economic growth. Those countries already reforming should further improve their investment climates, and consolidate and expand their investment levels, while the demonstration effect of the early reformers' success will motivate more countries to start on the path to investment climate reform. The program will facilitate these outcomes by providing best practice on reform implementation, and by supporting peer-to-peer learning among countries. The improved investment climate, coupled with infrastructure investments, including private-sector financed infrastructure investments, should result in enhanced levels of investment, employment, and growth.

ANNEX VI: FOCUS ON FRAGILE AND CONFLICT-AFFECTED STATES

Investment climate reform is an important element of the Bank Group's advisory work in fragile and conflict-affected states and territories. Most conflicts have a strong economic or commercial dimension, and conflict has wide-reaching impacts on people, infrastructure and institutions. Assisting in the process of economic reconstruction without exacerbating underlying tensions is a critical element in the transition from conflict to sustainable peace. By entering soon after the cessation of conflict and targeting our interventions to high-impact areas, investment climate reform projects can achieve significant results in some of the world's toughest investment climates.

Opportunities for reform

IFC plans to devote around 25–30 percent of client facing expenditures from FIAS to work on FCS in FY12–16. Projects will cover all three strategic priority areas: enterprise creation and growth, international trade and investment, and investment in key sectors. Global expertise in these areas will be applied to the particular challenges of FCS. The needs in FCS are large: on average, they rank 50 percent worse than non-conflict affected states on the Doing Business rankings, and they reform at half the rate. High costs for business registration, punitive tax rates, and a web of licensing requirements keep successful informal firms from formalizing. Investment rates are low and key sectors are dominated by a few prominent players.

During FY08–11, FIAS-funded activities helped more than 20 FCS improve their investment climate and lay the foundation for sustained economic growth. FIAS-funded programs in FCS work to:

- Establish and support **public-private dialogue**, which enables government and business to identify reform priorities together, often in the face of deep mistrust;
- Make it **easier to start new firms** in the formal economy through reliable and efficient business registries, clear regulatory requirements, and simplified tax administration for small firms;
- **Improve import and export processes**, allowing basic necessities and the equipment and material needed for businesses to flow into the country;
- **Revise investment and commercial legislation** to adapt to change which has occurred over the decades the country was in conflict;
- Establish programs and mechanisms to **attract investors** for investments in high-potential sectors;
- Establish **alternative dispute resolution** mechanisms;
- Set up new or upgraded **industrial, manufacturing, and commercial zones**, if necessary with "carve outs" from administrative and other barriers; and
- Improve governance, including through **broad communications campaigns** that improve transparency in government agencies, educate communities on regulatory changes, and motivate reformers to continue their efforts.

The ***Doing Business* report** has proven to be a powerful reform tool in FCS. The cross-country dataset includes detailed information on the investment climate in 42 fragile states, enabling leaders in FCS to identify reform opportunities and enact change in the short-term. *Doing Business* also publicizes the reforms completed each year, providing ambitious FCS leaders with a platform for demonstrating success. Afghanistan, Burundi, the Comoros, the Democratic Republic of Congo, Haiti, Liberia, Sierra Leone, Tajikistan, and the Republic of Yemen have all used the Doing Business data and FIAS technical support to catalyze investment climate reforms.

In some countries, for example South Sudan, reformers are building from scratch the basic institutions needed to govern their societies. These institutions are critical for maintaining a new rule of law and integrating previously marginalized members of society. Poor organization and low reliability of government agencies in FCS have a very real impact on business: for example, ineffective population identification systems and low business registration make it impossible for firms to present the unique identifier required by lenders, limiting access to finance. Institution strengthening is therefore a major component of FIAS-funded work in FCS.

Partnerships in reform

FIAS-funded activities in FCS are implemented in coordination with broader Bank Group initiatives to support communities coming out of conflict. One key partner is the **Conflict Affected States in Africa** (CASA) initiative of the IFC, which has supported work in a number of African countries. CASA programs seek to understand the causes of the conflict and tailor programs that contribute to peace and stability. Investment climate work usually comprises much of the early engagement in these states, and will likely grow.

Another key partner is **MIGA**, which is developing a Conflict-Affected and Fragile Economies Facility. This planned new facility aims to enhance MIGA's ability to support cross-border investments into FCS through the provision of complementary products such as medium-term export credit insurance and insurance for investments by local companies and for existing assets, coverage which is not provided by current market players due to risk or other considerations. The Facility is being developed by MIGA under a broad Bank Group initiative for FCS and leverages the Bank Group's current engagement in these economies through its full range of investments and advisory services.

FIAS-funded activities in African FCS also seek to **link up support to the financial sector** across the finance chain, by (re)establishing effective and efficient business registration systems support for the establishment of financial registries and encouraging IFC and others to make investments in financial institutions capable of lending to SMEs.

Continual effort to deepen effectiveness in FCS

Advisory work in FCS is not "business as usual." Fragile countries need to show early results and progress, especially on the economic and jobs front, to help avoid new outbursts of violence. They also frequently have very low capacity in government agencies, with strong leaders but a limited professional civil service underneath. The following lessons from past and current work in FCS inform the Bank Group's continued engagement in investment climate reform in FCS:

- Early intervention in the investment climate space matters in FCS, particularly interventions which seek to make a decisive break with the past. Technical assistance is extremely important in removing what is frequently a veritable web of regulatory constraints to business.
- Where FCS seek to make a break with the past, big improvements to the investment climate are possible. The private sector and government typically agree that the current system is broken and needs to be reformed, and there are relatively few vested interests able to make a case for the status quo. One continual reformer—Sierra Leone—was recognized in *Doing Business 2011* as one of the countries that has reformed the most globally over the past five years on the indicators measured by Doing Business.
- When a sense of urgency is developed, as in post earthquake Haiti or the new emerging republic of South Sudan, it may be possible to put in place an emergency program which can in short order reform the regulatory environment governing whole sectors of the economy.
- Reform to the investment climate makes it possible for business to formalize and to grow more rapidly, reducing the shock resulting from the end of disarmament, demobilization, reconstruction and rehabilitation activities which frequently follow the end of the conflict.
- Jobs and investment are critical to ensuring economic sustainability for FCS in the medium term.

During the FY12–16 cycle, FIAS funding will allow the Bank Group to continue responding to moments of crisis and supporting efforts by clients to break out of cycles of violence. In addition, FCS will be included in new pilots to address industry-specific investment climate obstacles, particularly in the areas of agribusiness, tourism, and the private sector provision of infrastructure. As part of this focus, FIAS-funded projects will help FCS present information on their own economies and their rules for investment by local and foreign firms. FIAS-funding will also be used to continue reviewing and evaluating its experience in FCS systematically, with a view to apply lessons learned to this increasingly important part of the Bank Group's work.

IFC International Finance Corporation World Bank Group

MIGA Multilateral Investment Guarantee Agency World Bank Group

THE WORLD BANK