



FOREIGN INVESTMENT ADVISORY SERVICE PROGRAM

ANNUAL REPORT FOR FY2003

September 2003

**Foreign Investment Advisory Service
a joint service of the
International Finance Corporation
and
The World Bank**

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I. OVERVIEW

1. FIAS completed forty nine advisory projects for government clients in fiscal year 2003 [FY03]. It also pilot tested three new products, and continued to engage in applied research and knowledge management in support of its advisory program.
2. Actual expenditures amounted to US\$7.5 million or 3.5 percent below the budget for the year. Compared to FY02, expenditures were 19 percent higher, accounting for the planned strengthening and expansion of knowledge management and the product line, and a higher utilization of consultants. In addition, FIAS experienced a substantial increase in completed projects to review administrative barriers, the costs of which are generally higher than an average project cost, as they often include an administrative and regulatory costs survey [see Table 1].

Table 1
Overview of FIAS Inputs and Outputs

	FY01	FY02	FY03	FY03
	<u>Actual</u>	<u>Actual</u>	<u>Planned</u>	<u>Actual</u>
Staff years (GE level and above)	16	17.8	17	17.8
Program costs (millions)	\$6.10	\$6.30	\$7.80	\$7.50
Larger advisory projects	35	35		27
Smaller advisory projects	13	14		22
Multi-country conferences and other activities	1	3		4
Research publications	3	9		6

3. Donors contributed 34 percent to FIAS's FY03 operations, of which 26 percent was through the FIAS Trust Fund and 9 percent was in support of FIAS's programs in targeted regions, such as the support from the governments of Australia and New Zealand for Asia/Pacific. Within the World Bank Group [WBG], IFC (27 percent) and the Bank (14 percent) continued their support of FIAS. Client contributions amounted to 24 percent of the total [see Table 2]. Total donors contributions to the FIAS Trust Fund totalled \$1.3 million. The trust fund balance at the end of FY03 was \$6.1 million, down from \$6.3 million at the end of FY02.

Table 2
FIAS Sources of Funds in FY01, FY02 and FY03
(US\$ thousands)

	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Budget support			
IFC	1,903	1,961	2,019
World Bank	953	1,040	1,072
Reimbursement from clients	1,506	1,676	1,770
Cross support	202	74	69
Direct donor support	549	598	659
Drawings from FIAS Trust Fund	<u>1,018</u>	<u>967</u>	<u>1,918</u>
TOTAL*	6,131	6,315	7,508

* Total may not add up due to rounding.

4. To reflect the increasing importance that the WBG is giving to the role of the private sector in alleviating poverty, a joint Bank-IFC Private Sector Development [PSD] Vice Presidency was established in the Spring of 2003. The PSD Vice-Presidency will work on improving approaches to reforming the investment climate in developing countries, seeking better ways to prioritize and sequence the reforms. It will also provide support to various PSD operations of the WBG, whether they take the form of policy-based lending or advisory services.

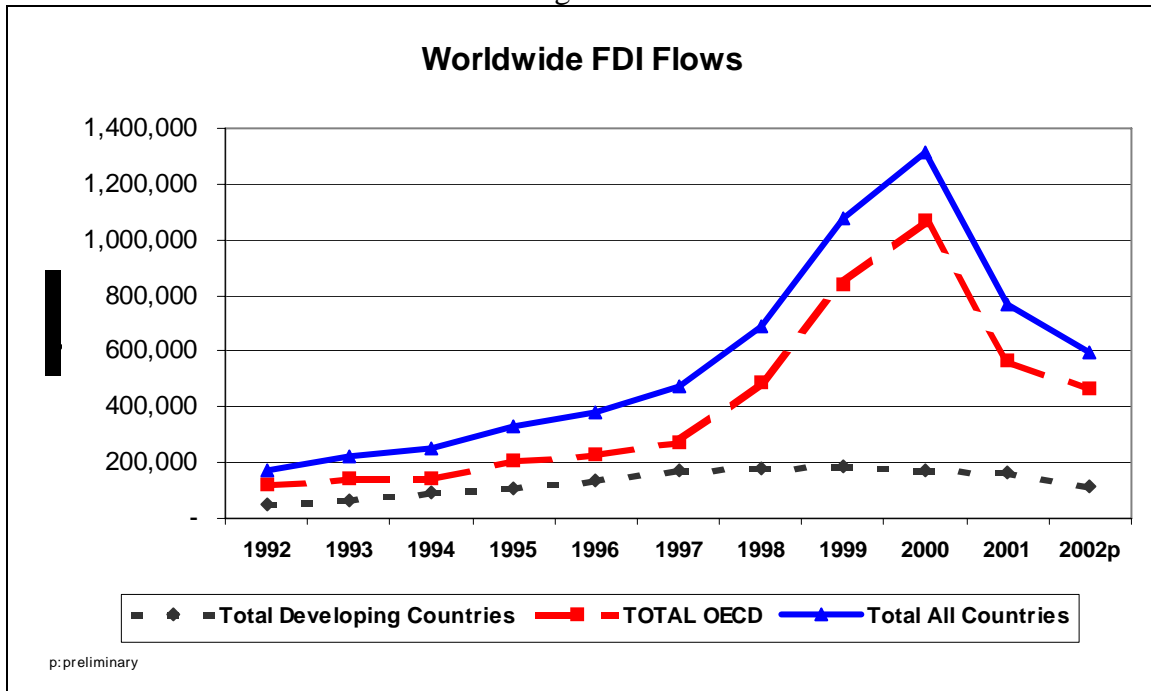
5. The FIAS Program is now housed in the newly established Investment Climate Department, under the PSD Vice-Presidency. To contribute to the fulfillment of the objectives of the Vice-Presidency, the Department provides technical and logistical support to the diagnostics of the investment climate conducted in the Bank and the production of the Investment Climate Assessments, and to the development and dissemination of information on investment climate data, including the publication of *Doing Business*, which compares such data for 130 countries. The Department taps the knowledge and expertise of the staff of FIAS in support of its operations, as well as to provide more synergy among the various programs for a better service to governments. The new organization is expected to facilitate closer coordination between the FIAS program and investment climate work within the WBG, leading to an enhancement of opportunities for implementation of FIAS recommendations through the Bank's PSD program.

II. FDI AND TECHNOLOGY SPILLOVERS

FDI Flows in 2002

6. A sharp decrease in global foreign direct investment (FDI) flows in 2002 occurred due to global slowdown of the world economy, stock market collapse with falling market valuations, and corporate scandals. Global FDI fell by 22 percent in 2002 to an estimated \$600 billion. Coming at the heel of their decrease of over 40 percent in 2001 over 2000, FDI flows in 2002 were less than half of those for 2000, and at their lowest level since 1998.

Figure 1



7. Other reasons for this slump include global uncertainty, particularly fears of terrorism and war, the winding down of privatization projects in some countries, and a big drop in the value of cross-border mergers and acquisitions (M&As). During the difficult economic climate of 2002, most investors and shareholders preferred to focus on improving current business operations rather than conducting takeovers. The decline was especially steep in the United States, where, in addition to economic slowdown, corporate accounting scandals undermined M&A activity.

8. In 2002, FDI flows to developing countries and economies in transition declined by 17 percent over the previous year [see Figures 2 and 3]. Two of the six regions saw an

increase in their FDI inflows. With a new round of economic liberalization, and optimism about its domestic economy at the time of its accession to the WTO, China experienced a sharp increase in FDI flows. China's performance contributed to the 17 percent increase of FDI flows to the Asia and the Pacific region, and allowed the region to recover its position as the largest recipient of FDI, after being overtaken by Latin America over the last five years. With the gradual improvements of the investment environment in South Asia, particularly in India, the region saw a 23 percent jump of FDI flows. Yet, with a low FDI to GDP ratio, the region is well below its potential in attracting FDI.

9. A regional recession, the absence of large M&A transactions of the size seen in the region over the last five years, and the winding down of the privatization process explained the US\$27 billion [or 39 percent] decline of FDI flows in Latin America. Flows to Sub-Saharan Africa dropped down to an estimated US\$7 billion or 49 percent. Their level is more in line with the pre-2001 flows, when they spiked to US\$13.8 billion. Europe and Central Asia experienced a mild drop in FDI flows, while the Middle East and North Africa saw theirs dropped to an estimated US\$7 billion or 45 percent.

Figure 2

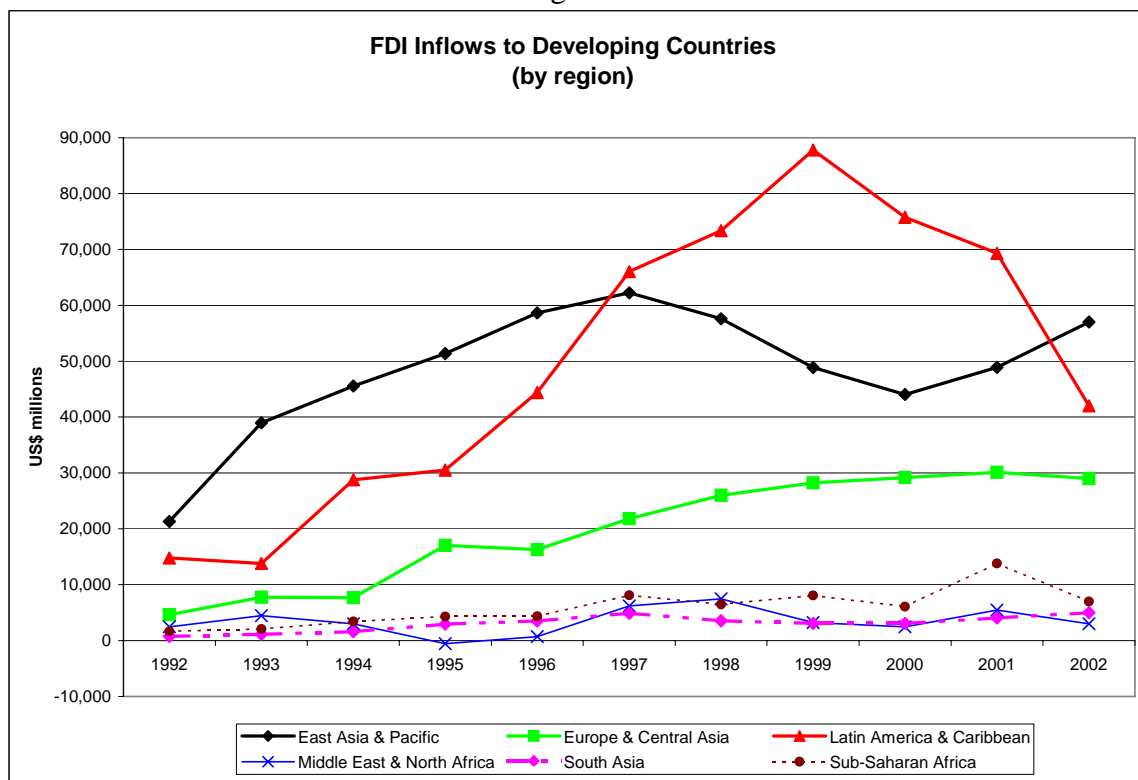
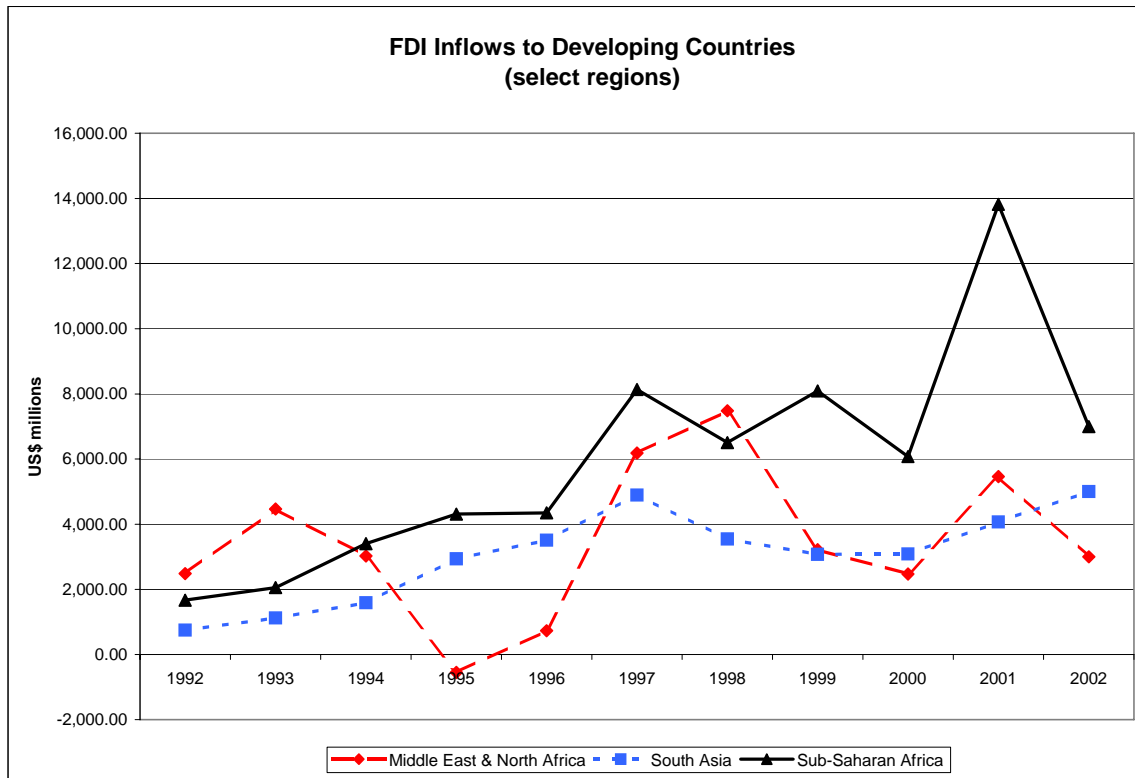


Figure 3



Technology Spillovers into the Domestic Economy

10. There has recently been an increased emphasis on the importance of improving the investment environment and on technology spillovers from FDI. First, investors are likely to favor economies with better and more hospitable investment environments. Second, better investment climates are more likely to allow host economies to benefit more from the FDI projects that they were able to attract. Internalizing such “spillover” benefits within the domestic economy is after all the *raison d’être* for all the efforts being made at attracting FDI.

11. Indeed, access to technology is viewed as essential to economic development. For a developing economy, it is seen as part of the phenomenon of catching up with technological advancements elsewhere and the diffusion of “best practice.” The success of a few countries—Chile, South Korea, Malaysia, and Ireland—has supported this view. Acquiring or developing both hard and soft knowledge¹ is perceived as crucial, because it can help a country with limited natural resources generate growth, and for others, to diversify their sources of growth. Still, the generation of knowledge is concentrated in relatively few industrial countries and companies, making its acquisition and assimilation a difficult and challenging task.

¹ Hard knowledge is generally defined as engineering or scientific innovations, while soft knowledge as managerial or behavioral improvements.

12. The recent literature has emphasized two basic channels for firms seeking to upgrade their technological capacities; either they can develop their own, or they can acquire new technologies from other firms and partners.² For most emerging countries, the second option is viewed as essential due to the limited financial and human resources of their local firms. A recent survey conducted by FIAS indicates that even in a country that is relatively developed as Latvia, about two-thirds of the local firms have mainly relied on external partners to upgrade their technological capacities against only one-third that indicated developing their own R&D capacities.³

FDI as One Source of Technology

13. With the vision of integrating the local economy within the global production network, it has been well documented that, together with importing capital goods, FDI has been crucial for countries that are not at the technological frontier. Few countries have been able to succeed without the direct involvement of foreign companies. For example, until the 1997 East Asia financial crisis, South Korea was able to achieve its post-war development in the absence of FDI. However, it was the beneficiary of the United States and Japan's technologies available through licensing.

14. FDI can provide technological transfers under multiple forms, falling into two main categories. First, local companies can simply copy and imitate the technology used by the affiliates of foreign firms operating in the local market. This transfer is unpredictable in its magnitude and is not voluntary, in the sense that foreign companies have little control over it. Actually, it is likely to be limited, as foreign companies will attempt to retain their technological advantage over their local competitors. Second, local companies can become integrated in the production process of the multinational company through forward or backward linkages. These linkages—often referred to as vertical linkages—have proved to be a significant source of productivity increase for many local firms in recent studies. In Latvia, the productivity associated with local suppliers to foreign multinational is about 50 percent higher than the one associated with the other firms.

Benefiting from FDI Spillovers

15. FIAS's recent analytical work and experience in a few developing countries (including Latvia, Czech Republic, and Malaysia) reveal that at least two initial conditions are necessary to benefit from FDI spillovers. First, the country needs to offer an investment climate favorable enough to attract the right kind of foreign investment. Indeed, the firms that are likely to be the main sources of knowledge development and diffusion are sensitive to the quality of the business environment. Foreign firms can

² See for example, S. Lall, Linking FDI and Technology Development for Capacity Building and Strategic Competitiveness, *Transnational Corporations*, December 2002: 11(3).

³ For more details, see FIAS, Latvia: Toward a Knowledge Economy, June 2003.

choose between multiple locations, especially in knowledge intensive sectors where international firms are mobile and can relocate in a short period of time. If the investment climate is poor, FDI might simply not come. Similarly, if the laws and regulations were not up to international standards or not properly enforced, foreign investors would be concerned about losing their technological advantage to local competitors illegally duplicating their production processes.

16. The second condition is that the local firms should be able to absorb the technology transferred by the affiliates of the foreign companies. The local firms need therefore to be developed enough and offer the right mix of skilled labor so that they can be efficiently integrated in the production process of the multinational companies. Training at the firm level has been proven to be an effective tool in enhancing vertical linkages between foreign and local companies.

17. In the 1980s and 1990s, Malaysia was able to move up the ladder of technological development. By offering an attractive investment climate and by enhancing the technological absorptive capacity of local firms, the government was able to maximize FDI spillovers. Almost half of the foreign companies that have invested in the country over the past decade have developed vertical linkages with local suppliers. The latter have benefited from a substantial amount of technology transfers through training of key personnel, purchase of equipment, and the use of technical consultants from the multinational companies.

III. FY03 PROGRAM OUTPUT

Advisory Program

18. FIAS completed 49 advisory projects in FY03, 45 of which were conducted for government clients in 36 countries. The remaining four projects addressed issues of the FDI environment in three regions: Southern Africa, The Pacific, and Central and East Europe, and helped expand the number of countries receiving FIAS advice. In FY03, with the addition of Eritrea and Suriname, the number of countries where FIAS has worked increased to 127.

Distribution by Advisory Product

19. Projects completed in FY03 fell into six of the seven advisory product groups [see Table 3]. Annex II describes the seven product groups. FDI Linkages and Spillovers was pilot tested in two countries. The pilot testing of two other new policy products – FDI and Competition Policy, and FDI and Corporate Social Responsibility – continued in FY03.

Table 3
Topics Covered in Completed FIAS Advisory Work

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
Diagnostic	3	9	10	6
Policy, laws and regulations	17	16	20	13
Administrative barriers	9	11	10	16
Promotion:				
Institutions	11	7	3	8
Strategy	6	4	3	7
Investment incentives	5	8	5	3
Backward linkages and spillovers	1	0	0	3
FDI data systems	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	52	55	51	56

* Some projects cover more than one topic.

20. Of the six diagnostic studies, which were conducted to take stock of the FDI environment in countries, five were completed in Africa, including Algeria and Eritrea. This seems to reflect the desire on the part of these African countries to take a broad look at their investment climate for the purpose of positioning themselves to attract more FDI. FIAS assisted the Southern African Development Community (SADC) to develop and implement a survey of public sector agencies working with foreign investors for the purpose of improving the regulatory and promotion functions of FDI in Southern Africa.

21. Thirteen projects, or about a quarter of the advisory program, were of an investment policy nature, eight of which focused on the legal framework for FDI. Two projects – for Honduras and Nicaragua – addressed issues of FDI and competition law, an advisory product that FIAS is currently developing. Investment policy projects reflect governments’ continuing efforts at improving and fine tuning various aspects of the investment climate in their countries. As part of the fine-tuning, FIAS completed three projects on fiscal policy and incentives for investment.

Bulgaria – Investment Incentives

In 1998, the Deputy Prime Minister and Minister of Industry asked FIAS to review Bulgaria’s tax incentives. In essence, the Ministry of Finance and the IMF wanted to abolish the tax holidays, which were seen as vulnerable to abuse. The government didn’t want to do that unless they could replace the tax holidays with other forms of investment incentives.

The government adopted FIAS’s recommendations to improve the tax regime, and introduced the following changes in the fiscal incentives for investors:

- The foreign investment law was amended to repeal the tax holidays and other fiscal incentives in force before the end of 1998. Any new investment incentives are now provided only through the tax laws.
- Corporate income tax rate was lowered in steps from 30% to 23.5%, and the municipal income tax rate from 10% to 9%.
- Accelerated depreciation for computers and related equipment was introduced.
- More inclusive registration for VAT for firms with annual turnover over BGL50,000; improved timeliness of VAT refunds for exporters from six months to 45 days; and improved customs/VAT treatment for imported capital equipment were adopted
- “Thin capitalization rule” was liberalized by removing restrictions on tax deductibility of interest payments.

Until the late 1990s, Bulgaria was a country still struggling with its reforms, and there was little interest in the country on the part of foreign investors. Since the late 1990s, due to many important reforms, including tax and customs, Bulgaria has received net FDI inflows in the range of \$500 million to over \$ 1 billion per year.

22. Demand for the review of administrative barriers to investment has increased in the last year, and is expected to continue to be high in the coming years. Countries with a reasonable investment policy environment are now focusing on streamlining their investment procedures. Governments’ demand for assistance on administrative barriers are either for an initial study or for follow up to and implementation of previous FIAS recommendations. Sixteen such projects were completed in FY03 across all regions, with the exception of Asia and the Pacific. Demand for assistance in removing administrative barriers has noticeably increased in Africa.

23. Over the last two years, FIAS has conducted administrative and regulatory costs [ARC] surveys to complement the review of the administrative barriers. The ARC survey canvases domestic and foreign firms about their experience in terms of costs and delays with investment procedures when establishing and operating their business,

including company registration, business licensing, getting access to land and construction permits. The results of the surveys are then compared with the data in the templates that government agencies prepare, pointing to issues that need to be addressed. Client governments can now compare their progress over time and between countries using standardized ARC surveys.

24. FIAS continues to work closely with client governments to develop a constructive dialogue between them and investors, prioritizing the reform agenda; to develop workable reform strategies; to assess the impact of reforms on the business environment; to determine which reforms are working well and which are not; and to make the necessary adjustments to ensure that each country's overall reform program is having the desired effect both on investment levels and on positive FDI spillover benefits throughout the economy. Moreover, with the unique, firm-level data that it has been collecting, FIAS is building up an ARC database, to provide a basis for comparing countries, to identify "best practices," and to conduct research. In addition, FIAS has initiated a review of the lessons learned from its work on administrative barriers worldwide, and plans to publish the results by the end of FY04.

25. With four projects completed on investment promotion strategy, five on investment promotion institution and three on both, FIAS experienced a jump in demand for investment promotion products. Countries, such as Bangladesh, Colombia and Eritrea, were interested in better understanding how investors perceived their investment climate to position themselves accordingly. Others, such as Indonesia, the Maldives, Mongolia, and in the Pacific region, were interested in adjusting their investment promotion institutions to either shift their principal function from regulation to investment promotion, or to strengthen their investment promotion function and their ability to advocate for a better investment environment in their country. Peru, Suriname and Turkey conducted a review of their investment promotion strategies and institutions.

26. FDI linkages and spillovers are the mechanisms through which a host country is likely to benefit from its foreign investment projects. To assist government clients at enhancing their ability to harvest such benefits, FIAS has reviewed its backward linkages product and replaced it with a new, wider scope product to advise clients on various aspects of FDI spillovers into the domestic economy. The new product was pilot tested in Malaysia and Latvia.

Bangladesh Investment Promotion Strategy

At the request of the newly appointed Executive Chairman of the Board of Investment (BOI), an intensive three-day investment promotion strategic planning workshop was held off-site in September 2002. It involved the participation of about fifteen key members of the BOI executive management team, along with the Executive Chairman. Intensive preparatory work was undertaken by the BOI to FIAS specifications and after collation, pre-circulated to participants. Among the objectives of this exercise were the development of an investment promotion strategy for the BOI, the training of the team in strategic planning and the building of team spirit within the BOI.

The workshop was highly participatory, involving a combination of presentation by FIAS, small breakout group activities, and discussion in plenary. Issues canvassed and agreed upon included the competitiveness of the country, activities of the BOI, strategic investment objectives, and appropriate marketing strategy mix. The strategic framework agreed for the period 2003-2007 provided a basis for development of an action plan for implementation in 2003 and necessary restructuring of investment promotion activities. Following the workshop, FIAS assisted the BOI in the finalization of the strategy and the detailed annual action plan, on a sector specific and country-of-origin basis. Detailed materials from the workshop, including its outcomes, were provided to the BOI. Also, FIAS made two short follow-up visits after the workshop.

At a meeting chaired by the Prime Minister and held in February 2003, the BOI Board approved the strategic plan and its US\$1 billion 'stretch' target for FDI. This was announced publicly and covered extensively in the media. The Prime Minister commended the BOI on the strategic planning and requested the Executive Chairman to brief other relevant ministers and agencies on the approach. The action plan for 2003 was also approved and is now being implemented. One of the resulting initiatives was a first ever BOI survey of FDI designed to measure re-investment activity. Reflecting its innovative nature, the BOI survey is showcased in the UNCTAD World Investment Report 2003. Approval for restructuring of the BOI has taken longer but was signed off in July by the government, through the Ministry of Finance and the Personnel Ministry, for immediate implementation. It covers redundancies, redeployment and new recruitment, including from the private sector.

Previously unsuccessful attempts had been made by FIAS and other development agencies to assist in reforming and refocusing the BOI. Persistence in client contact meant FIAS could take immediate advantage of a new reform-minded Executive Chairman, who was drawn from a CEO position in the private sector, a first in the history of Bangladesh civil service. Valuable close links with USAID, who provided co-financing for the project, and the World Bank, who now proposes to provide substantial financial assistance in the restructuring of the BOI added to the success of the project. Subsequently, with the support of the Prime Minister, FIAS received additional requests from the Government for assistance in reviewing investment incentives and in tackling administrative barriers.

Small Projects, Implementation and Impact

27. A high proportion of the completed projects in FY03, or 22 out of 49 projects, were categorized as being "small projects." Small projects are a quick response to a client's request for specific assistance under time pressure, requiring a modest amount of resources. As usual, reviews of investment laws constitute the largest part of such projects, and were conducted for Armenia, Azerbaijan, Bhutan, East Timor, Jordan, Palau, Sierra Leone and Turkey. It is interesting to note that two other types of request fitting under small projects were also encountered. The first type was to assist governments in the design and conduct of surveys, either to assess investors' perception

of the investment environment in their country or to strengthen their diagnosis of their investment environment, particularly investment procedures. Projects conducted for Algeria, Burkina Faso, Ghana, Malaysia, SADC fitted this type. The other type was, at the request of governments, to complement advisory assistance efforts on the part of the World Bank to enhance the investment climate in the country. Afghanistan, East Timor and Zambia were such cases.

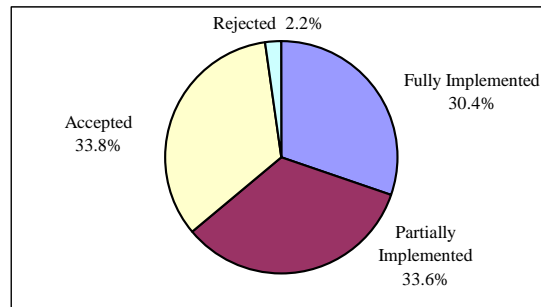
28. Following the completion of an advisory project, a government may request advice from FIAS about putting into place the human, financial and organizational resources for an effective adoption of recommendations, and to contribute to its capacity building. A government may also request FIAS to review its efforts made over recent years at reducing administrative barriers. These “implementation projects” are deemed to be crucial to the improvement of the investment environment and the positioning of a country to profit from FDI flows and contribute to its economic and social development. Eight such projects were completed for Bosnia and Herzegovina, Ghana, Guinea Bissau, Romania, Sao Tome and Principe, Saudi Arabia and Senegal.

29. More often than not, the implementation of FIAS recommendations require resources and sustained support, for which other institutions are well suited through their technical assistance programs. At the design stage of an advisory project, efforts are made to identify such implementation avenues. Indeed, increasingly and with the consent of clients, FIAS recommendations are being included in technical assistance programs of the Bank, IMF, ADB, USAID and DFID. This approach taps into the comparative advantages of the aid community to the benefits of governments.

30. To increase the chances for impact of FIAS work in a country, a set of procedures are followed to assess the context within which the assistance may be provided, and to judge the level of commitment on the part of the client. For example, a letter of request and the provision of project co-financing are required from the client. FIAS staff assesses the context of the proposed project through close contacts with colleagues at the WBG, as well as frequent visits to the country. In addition, the partnering with institutions capable of providing technical assistance offers the government an avenue to implement FIAS recommendations.

31. Using its newly established system for monitoring the impact of its advisory program on the FDI environment of client countries, FIAS has found that a relatively high proportion of its recommendations are being implemented. Sixty-four percent of recommendations made in close to one hundred projects completed in FY01 and FY02 have been implemented either fully or partially. Another 34 percent have been accepted, waiting to be implemented, and only two percent were rejected [see Figure 4]. The percentages are expected to increase in the next two years, as some of the recommendations, by their nature, require time to implement. For more details, please refer to the “FIAS Project Implementation Monitoring – FY01-02.”

Figure 4
The Impact of FIAS Projects by Category
 (FY2001 and FY2002)



Income Level and Regional Distribution

32. The 36 countries and three sub-regions for which FIAS completed advisory projects span the globe. Seventy percent of all projects were completed in Sub-Saharan Africa, Asia and the Pacific, and Europe and Central Asia, in almost equal distribution, and the remaining 30 percent in Latin America and the Middle East. In FY03, low and lower-middle income economies account for 88 percent of the countries FIAS worked in, and 84 percent total projects [see Table 4]. This reflects FIAS's conscious effort at focusing the overall majority of its resources on such economies.

Table 4
Regional and Income Level Distribution of FIAS Advisory Work in FY03
 (number of countries or regions/number of projects)

<i>Income Group*</i>	<i>Africa</i>	<i>Asia</i>	<i>Pacific</i>	<i>Europe & Central Asia</i>	<i>Latin America & Caribbean</i>	<i>Middle East</i>	<i>Total</i>	<i>Percentage Share**</i>
Low-income	9/11	5/6		2/2	1/2		17/21	44/43
Lower middle Income	1/1	1/1	1/2	6/6	4/4	4/6	17/20	44/41
Upper middle Income		1/1	1/1	1/3		1/1	4/6	10/12
High-income						1/2	1/2	3/4
TOTAL	10/12	7/8	2/3	9/11	5/6	6/9	39/49	100/100

* Income Group based on the World Bank's classification with 2000 GNI per capita as the main criterion.

** Total may not add up due to rounding.

Sub-Saharan Africa

33. FIAS has continued its active program of assisting Sub-Saharan African governments' efforts to liberalize their investment regimes and improve their attractiveness for FDI. Many countries in this region have by now made basic investment law reforms, and FIAS advice has moved toward the next generation of products, such as incentive structures, simplifying maze-like and counterproductive administrative systems, and creating investment agencies that focus on promotion rather than regulation.

34. FIAS conducted 12 advisory projects in Sub-Saharan Africa during the past fiscal year. The number of project completions and a relatively robust pipeline of ongoing and planned projects indicate both the strong interest of these countries in attracting FDI and the continued high demand for our services in this region. FIAS undertook projects in a range of product areas including administrative barriers studies (Burkina Faso and Eritrea) and administrative and regulatory cost surveys (Cape Verde, Ghana, Guinea Bissau, Uganda, Senegal, and Zambia), reviews of investment-related laws (Sierra Leone), taxation and incentives policy and implementation (Guinea Bissau, Sao Tome and Principe, Senegal, Tunisia, and the East Africa Community – Kenya, Tanzania and Uganda). In addition, FIAS assisted Eritrea by conducting a survey of prospective international investors as inputs for investment promotion strategies.

**FIAS in Senegal –
A Sustained Effort at Improving the FDI Environment**

During the past 17 years FIAS has worked on investment climate reform in a number of African countries through its practical approach and strong partnership with client countries and the private sector unit of the Bank's Africa Region. This contributed to significant improvements to the investment environment in client countries as well as to the Bank Group ESW and investment operations in the Region.

The Sub-Saharan African country that exemplifies this work, with possibly the deepest impact, is Senegal, where FIAS has conducted ten advisory projects over the past 14 years.

Impact on the country: based on FIAS recommendations Senegal has created APIX, its investment promotion agency, to help investors realize their investment projects and overcome obstacles. The country has also introduced a number of significant reforms and improved its investment policy. A new impetus to the reform agenda was given by FIAS's latest reports on Tax Incentives (2000) and Admin. Barriers Update (2002). The President created an Investor Council (CPI) and four Working Groups tasked with making proposals on four investment climate dimensions: *Tax, Administrative Barriers, Infrastructure, and Other Incentives*. The removal of administrative barriers has thus officially become one of the four pillars of the reform agenda of the Government. APIX and the Working Groups use the FIAS reports as a reference.

Implementation through the Bank program: To ensure that the policy dialogue paves the way for reforms and related capacity building, FIAS worked closely with other units of the Bank Group, including the Africa Region, MIGA and IFC. Impact on ESW has been significant: large parts of reports, such as the Integrated Framework reports, have extensively tapped the FIAS studies. On the operational side, two Bank projects (investment and adjustment) under preparation in Senegal have benefited from FIAS work. These projects account for over 25% of the base case-lending program of the FY03-05 CAS.

This tripartite approach, whereby a government uses the services of FIAS to identify impediments to the FDI environment and formulate recommendations to address them, followed by the utilization of the Bank program to implement many of the recommendations, has served government clients well. While a leader in this respect, Senegal is not a unique case. The approach is being replicated in other countries in Africa, such as Burkina Faso, Cape Verde, Ethiopia, Guinea-Bissau and Tanzania, as well as in other parts of the world.

Asia and the Pacific

35. FIAS continued to provide advisory assistance at both regional and national level in Asia and the Pacific, principally from the Asia Pacific Regional Office, located in Sydney, which allows responsive service to clients' requests. In FY03, assistance was provided to a wide range of client countries: from some of the smallest and most remote, such as Palau, Maldives and Bhutan, to the more populous (Bangladesh) and physically large (Mongolia). In Bhutan, FIAS undertook its fifth project in three years, each of which has assisted the Government with successive steps to develop and implement a foreign investment regime for the first time in the country. In Bangladesh, FIAS assisted the Board of Investment with the development of a strategic plan, covering its promotion and policy advocacy activities. The short-term action plan adopted included a restructuring of the institution, which is now underway. Another activity in South Asia was a second High Level Roundtable on FDI, held this year in Male, Maldives.

36. In East Asia and the Pacific, FIAS assisted the Government of Mongolia with the staging of an Investors Forum, held as a key part of a “Year of Investment”. FIAS inputs included investor service training for the staff of FIFTA, the national investment promotion agency [IPA], and assistance with the preparation of a new investment policy statement. For East Timor, FIAS reviewed its investment law and, along with the World Bank, contributed to the development of its private sector development strategy. Training of investment promotion agency staff was also provided in the Pacific, where FIAS, in association with the Forum Secretariat, ran a course on data collection and management for staff from IPAs in the region.

FIAS Collaboration with the Pacific Islands Forum Secretariat

FIAS has a long-standing working relationship with Pacific Islands Forum Secretariat. This has enabled FIAS’s advisory program in the Pacific, which operates out of FIAS’s Sydney Office, to support the efforts of the World Bank-member Forum Island Countries (FICs) in improving their investment policy environment.

The development and improvement of FIC investment policies, promotion capabilities and facilitation services demand financial and technical resources that are usually beyond the means of any one of the FICs. However, that constraint has been overcome through FIAS’s partnership with the Secretariat. It has enabled the effective delivery of repeated and structured support services by means of investment policy advisory work and capacity building programs. Due to these interventions, the key outcome attained has been the strengthening of support for private sector development at both the regional and national levels. The success of the Secretariat in implementing the outcomes from the annual Heads of Investment Promotion Agency Meetings, over the period from 1998 to 2002, is in large part attributed to this support.

Europe and Central Asia

37. FIAS continued to be highly active in Europe and Central Asia. It has carried out reviews of investment legislation, investment incentives, and removal of administrative barriers to investment. FIAS has been particularly active in Southeastern Europe, Russia, the Baltics, and the Caucasus region. Having carried out 14 studies of administrative barriers to investment in Europe and Central Asia, FIAS has prepared self-assessment tools for monitoring and evaluating the resulting reforms, as well as setting up the initial stages of new administrative barriers studies. These self-assessment tools were piloted in Bosnia, Croatia, Latvia, FYR Macedonia, and Romania. FIAS also hosted a seminar on the removal of administrative barriers to investment in Sarajevo in February where the South East European clients were able to share their experiences. FIAS is preparing a review of its experience on administrative barriers in the region and will discuss the resulting paper in a seminar with its government clients.

Latin America and the Caribbean

38. In the region of Latin America and the Caribbean, FIAS provided a broad range of advisory assistance. With the continued slowdown of FDI flows to the region as well as political and economic instability in several countries, most governments in the region have placed renewed emphasis on attracting foreign direct investment. New governments

in countries such as Peru or Suriname have decided to create investment promotion agencies. FIAS provided support in helping establish these agencies and orient them strategically with a focus on effectively improving the investment climate in these countries. Additionally, FIAS assisted countries through flexible, smaller engagements in the form of desk reviews of draft legislation or by providing best practice materials, as in the case of Colombia, to address the question of how to organize investment and export promotion.

39. In Central America, the emerging CAFTA free trade negotiations have raised the importance of improving the competitiveness of the industries in these economies, including their ability to attract FDI. In Nicaragua, FIAS assisted the new government's efforts through work on assessing administrative barriers to investment as part of the country's competitiveness strategy. In Honduras and Nicaragua, FIAS provided advisory assistance in the area of FDI and competition policy, assisting both countries in preparatory efforts to establish competition agencies.

Middle East and North Africa

40. Many of the region's governments have recognized that their countries have been left behind in the economic globalization process, and are now keen on catching up. This has resulted in several initiatives and activities geared toward making their economies more open and attractive to foreign investors, and FIAS is assisting many of its regional clients in this process. In Tunisia, FIAS advised the Government on its tax and incentives regime in cooperation with the World Bank's MENA region, and in Algeria, a traditional diagnostic of the investment climate was conducted.

41. Gulf states, such as Saudi Arabia and Kuwait, are actively developing a more liberal legal environment, creating a corresponding institutional framework to promote investments. FIAS assisted the Governments of Saudi Arabia and Kuwait to identify and streamline administrative barriers to investment. In Turkey, following a diagnostic study and a review of administrative barriers conducted pre-FY03, FIAS advised the government on strategies to remove administrative barriers to investment, and to promote the entry of FDI to improve the integration of its economy into the global marketplace.

Applied Research Activities

42. FIAS engages in applied research to support and complement its advisory program and disseminate knowledge acquired through its operations. In FY03, FIAS launched a new research project based on its administrative barriers product and further developed its research on investment promotion agencies [IPAs] and linkages between FDI and domestic firms.

43. In the course of its work on removing administrative barriers, FIAS has been collecting an increasing amount of data on administrative and regulatory costs [ARCs] to

establish and operate a business. To take advantage of this unique firm-level data, FIAS has harmonized its survey instrument and existing data for comparison purposes. The ensuing database is being expanded with the addition of data every time FIAS conducts an ARC survey for a review of administrative barriers in a country. A research project has been launched to analyze the relationships between firms, country characteristics and administrative costs.

44. Finalization of the research project on the effectiveness of investment promotion agencies led to the publication of “Does a Country Need a Promotion Agency to Attract Foreign Direct Investment?” in the *World Bank Policy Research Working Paper Series* and a session organized in the PSD Forum in April 2003. The study will also be published as part of the FIAS Occasional Paper Series. Subsequently, FIAS in collaboration with MIGA, has started the third and final phase of this research effort, with the development of eight case studies of investment promotion agencies around the world.

45. The research project on linkages between multinationals and domestic suppliers examined these linkages and their eventual spillovers both analytically and empirically. Three separated research papers were produced. The results of this research have already been incorporated in FIAS advisory activities in Latvia and Malaysia for projects on FDI Linkages and Spillovers.

46. FIAS also published six papers within the World Bank Group or with external publishers, listed with bibliographic details in Annex III. Four papers were published by FIAS staff in the World Bank Group publications on the following topics:

- effectiveness of investment promotion agencies in attracting FDI;
- information diffusion;
- the use of tax incentives in attracting FDI; and
- linkage and spillovers between FDI and domestic firms.

47. Two papers were published externally on the following topics:

- administrative barriers to investment in the Russian Federation; and
- information diffusion in international markets

Conferences and Other Activities

48. To help disseminate knowledge relevant to the FDI environment among its government clients and the public at large, FIAS sponsors a small number of conferences each year, and presents papers or speaks in conferences sponsored by others. Annex III provides a list of the conferences at which FIAS made presentations.

49. In FY03, FIAS sponsored two conferences:

- *South Asia:* Following the success of the first South Asia FDI Roundtable, held in Dhaka in April 2002, a second Roundtable, on the topic of “In the National Interest? Balancing FDI Benefit and Regulation” was held in Male, Maldives in April 2003. The underlying theme of the Roundtable was the issue of administrative barriers – essentially the effectiveness of the implementation and administration of policy. Background papers were prepared on administrative barriers in three key areas (taxation administration, customs, and foreign exchange), supported by case studies describing experiences within and outside the South Asia region. Senior private sector representatives from multinationals and senior civil servants from each of the South Asian countries discussed the issues involved.
- *South Eastern Europe:* FIAS organized a “South Eastern Europe Regional Conference on Self Assessment and Removal of Administrative Barriers to Investment” in Sarajevo, Bosnia-Herzegovina on February 26-27, 2003. Government and private sector participants from each of the countries discussed FIAS cross-country comparisons for S. E. Europe, based on the 2002 Administrative and Regulatory Costs Surveys (ARCS) undertaken in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia. The first part of the conference was devoted primarily to a series of presentations by FIAS, each of the country delegations, the World Bank, and OECD regarding removing administrative barriers to investment in S. E. Europe. The rest of the conference covered discussions on the agency templates, business survey, the use of dialogues between the government and business community and action plans, the Draft Manual on Self-Assessment of Administrative Barriers to Investment, and the necessary follow-up actions. Additionally, participants requested the opportunity to meet again to compare progress and disseminate examples of best practice.

50. In addition to the two conferences mentioned above, FIAS sponsored a number of workshops and seminars, including the following activities:

- FIAS organized a workshop on "Using Tax Incentives for Attracting Investment: The Eternal Debate." Set against the backdrop and global interest in using fiscal incentives to attract FDI and the disappointing results of such policies, the workshop provided an opportunity for an open debate with leading experts on the subject.
- As part of the Bank's PSD Forum, held in April 2003, FIAS organized a session called, “Are Promotion Agencies Effective at Attracting Foreign Direct Investment?” This session, which included representatives from an investment promotion agency and academia, debated the effectiveness of investment promotion in attracting foreign direct investment. Two schools of thought contended: one favoring investment promotion, while the other being more cautious.

- With colleagues of the Bank and IFC, FIAS conducted a workshop titled “Self-Assessment Tools for Removal of Administrative Barriers to Investment.” The workshop reviewed FIAS's experience with the conduct of this product and agreed on the "next steps" to improve its effectiveness. This included the development of the "self-assessment" approach and opportunities to leverage resources from the World Bank Group and other donors to help our clients build their capacity to implement FIAS's recommendations.
- FIAS led a two half-day training workshop for interested colleagues from the World Bank Group about FIAS projects to identify and remove administrative barriers to investment. The focus of the workshop was on the FIAS outputs, and how they could be used to improve the investment climate in client countries through more effective partnerships between FIAS and other units of the Bank Group.

51. FIAS staff prepared papers and presented them at ten conferences and seminars sponsored by governments and the aid community.

Collaborating with the WBG and Other Institutions

52. The collaborative arrangement between the Bank and FIAS has strengthened over the last year in light of the increase in Bank activities on investment climate, including the investment climate assessments and Doing Business, a project that traces the administrative costs of doing business in over one hundred countries. FIAS's unique position within the World Bank Group [WBG] allows it to draw on the WBG's broad knowledge and substantial resources, and to cooperate with various departments on advisory and research projects. In addition, the WBG offers an excellent avenue for assisting governments in implementing FIAS recommendations. In turn, FIAS's work complements that of the WBG, with FIAS findings and recommendations at times being incorporated in private sector development plans in country programs, for their implementation.

The Doing Business Project

The *Doing Business* project provides quality analysis of the cost of doing business by identifying specific regulations that enhance or constrain business investment, productivity and growth. Topics that are currently covered in the project are starting a business, hiring and firing workers, enforcing a contract, getting access to finance, closing a business and the informal economy. The project plans to include business licensing, corporate governance, property registries and taxation in 2004. Policy makers, the aid community, investors and researchers may find the results of projects useful to them. Findings will be published through an annual report, an online database of indicators, country reports, and articles in academic journals.

FIAS's pioneering work on administrative barriers contributed to the idea of the project and inspired it intellectually. Close working relationships have been established between the FIAS program and the project. For example, findings of FIAS administrative barriers work feed into the data and analysis of the *Doing Business* project. With its coverage of 130 countries, the project provides FIAS with a strong platform for comparing a FIAS client country with others.

Sub-Saharan Africa

53. The Ghana Administrative Barriers Update project was part of a collaborative effort between FIAS, the World Bank, and the Commonwealth Secretariat's Economic and Legal Advisory Services (ELAS) Division. The World Bank provided funding for the Administrative and Regulatory Costs Surveys and the results of the surveys will be utilized as an input to the Bank's regional diagnostic of the investment climate. The Commonwealth Secretariat worked in parallel with the FIAS Administrative Barriers Study to update its 1996 review of the legal framework for business in Ghana, producing a report entitled "A Diagnostic Survey of Laws Affecting Private Sector Development in Ghana: A Selective Analysis." FIAS and the ELAS team conducted a joint fieldwork mission and a joint workshop for the presentation and discussion of the reports.

54. FIAS worked closely with the World Bank's Africa Private Sector Development (PSD) department to develop a questionnaire for a joint Administrative and Regulatory Cost Survey and Investment Climate Survey (required for Africa PSD department's preparation of an Investment Climate Assessment) in Zambia. FIAS also contributed a chapter on the investment climate for the Bank's Country Economic Memorandum (CEM) for Zambia.

55. Other collaborations with the WBG include the following:

- Financial support from the Bank for the FIAS update of the Administrative Barriers study in Senegal and Cape Verde.
- Substantial support from the Bank in project development and client relationship for projects on administrative barriers in Burkina Faso and Cape Verde, and for a follow-up project on taxation in Sao Tome & Principe.

Asia and the Pacific

56. A number of projects completed in the Asia and the Pacific region during FY03 involved close collaboration with the Bank and other donor agencies. In association with the Bank, FIAS received assistance and co-financing for the Investors Forum in Mongolia. FIAS also provided input to a World Bank regional project to prepare *Doing Business Indicators* in the Pacific that started in June 2003.⁴

57. To enhance our service in the region, FIAS had substantive collaboration with the Asian Development Bank (ADB) in several projects:

- co-financing and joint missions in providing assistance to Indonesia's National Investment Team;
- undertaking a Pacific regional project to address administrative barriers to investment as part of a regional initiative; and
- reviewing and evaluating the regional technical assistance fund (RETA) provided by the ADB, which was used from November 1997 to September 2002 to help fund 15 FIAS advisory projects in the Pacific region.

58. Furthermore, FIAS closely cooperated with the Forum Secretariat for organizing the Heads of Investment Promotion Agency Meeting (HIPAM) 2002 and the data collection course for Pacific IPA staff.

The Regional Technical Assistance Fund – A Partnership with the Asian Development Bank

In 1997, the Asian Development Bank [ADB] established the Regional Technical Assistance Fund [RETA] to co-finance FIAS advisory projects for Pacific Islands' countries. The ADB thought of fulfilling parts of its private sector development objectives in the Pacific by making use of FIAS established mechanism for delivering advisory services. Instead of duplication, a partnership was established.

The RETA was used to help implement FIAS's Pacific assistance program between November 1997 and September 2002. When they established RETA, both the ADB and FIAS envisaged that it would be used to help fund approximately ten advisory projects. In total, 15 projects were completed with the support of RETA. Of these, 11 were regional in coverage (one was related to a specific institution, which has a regional role) and four were country specific.

The availability of the RETA gave FIAS greater flexibility and scope to provide assistance on a region-wide basis, and be more responsive to clients needs. Many of the projects came as initiatives from the Pacific Islands Forum. Our relationship with, and support of, the Pacific Islands Forum Secretariat, has been particularly beneficial for FIAS's Pacific program.⁵ FIAS has been able to provide the Secretariat with timely and effective support in its efforts at improving the region's investment policy environment, and at strengthening its support for private sector development at both the national and regional levels.

⁴ The Bank has completed these for 130 countries. The website provides results and details on methodology (see <http://rru.worldbank.org/doingbusiness/>).

⁵ A note on the Forum Secretariat's relationship with FIAS was presented to the 2002 FIAS Donor's Meeting. See Kumar J, *The Forum Secretariat's Experiences with FIAS advisory work*, Pacific Islands Forum Secretariat, Fiji, 10 October 2002.

Europe and Central Asia

59. FIAS collaborated with the WBG's Small and Medium Enterprises (SME) department in piloting a survey of business intermediaries (law firms, accounting/audit firms, consulting firms, etc.) in their experiences with administrative barriers to investment in four countries in South Eastern Europe.

60. For the investment law review in Azerbaijan, FIAS worked closely with the World Bank and the IFC in preparing the review and in discussing the Draft Law with the Government in Baku.

Latin America and the Caribbean

61. FIAS projects in the region were closely integrated with the WBG's efforts:

- the work on administrative barriers in Nicaragua was co-financed and supported through a World Bank competitiveness loan. The administrative reform recommendations as well as the results of the project on FDI and Competition Policy are now an integral part of the World Bank-supported National Competitiveness Program.
- the review of the draft competition law in Honduras was also supported by the World Bank and is now integrated into the country's Competitiveness Program.

62. FIAS's work in the region also involved co-funding from the Inter-American Development Bank (IDB) in providing advisory assistance to the Government of Suriname on the creation of an investment promotion agency and corresponding legal framework.

Middle East and North Africa

63. FIAS's projects in this region were likewise closely integrated with the WBG's efforts. The diagnostic and administrative barriers studies in Kuwait and the administrative barriers study in Saudi Arabia were within the scope of the World Bank's technical assistance cooperation program with the governments of these two countries. FIAS worked closely with the Bank in providing quality control and supervision for the studies. Also in collaboration with the World Bank Country Unit, FIAS reviewed a draft of the investment law for Jordan, and offered its comments on a series of specific questions raised by the Government on investment policy.

MIGA and FIAS – A Partnership

MIGA's Investment Marketing Services (IMS) Department provides tailored advice and capacity-building assistance to investment promotion intermediaries and online investment information services to facilitate investor outreach and communication. IMS's services are complementary to, and downstream from FIAS's. While FIAS focuses on policy and legal framework for investment, and on investment promotion strategy and institutional set up, IMS works closely with promotion institutions to develop their capacity as well as to help them formulate and implement their promotion programs.

To maximize the benefits to governments of the complementarity of FIAS/IMS services, FIAS and IMS coordinate closely their work programs in a variety of ways. For example, they develop joint, multi-project advisory programs with governments, undertake joint missions to client countries, and refer governments to one another. In support of this close collaboration, a communication system was put into place to allow the exchange of detailed information on their respective work program on a routine basis. They also have published a joint brochure.

IV. COSTS AND FUNDING

Costs

64. The total costs of the FY03 program amounted to US\$7.5 million, or 3.5 percent below the budgeted \$7.8 million. Expenditures were 19 percent higher than last year's. A number of factors explain the increase, including a higher utilization of consultants; the expansion of FIAS's research and knowledge management effort; a large increase in completed administrative barriers projects, the cost of which is higher than in the past with the conduct of the administrative and regulatory costs surveys; and the resumption of travel by staff and consultants to normal level after the events of September 11, 2001. Table 5 shows total costs broken down by main categories, with more details on page 1 of Annex IV

Table 5
FIAS Administrative Expenses by Major Expense Category /a
 (US\$ thousands)

		<u>FY01</u> <u>restated</u>		<u>FY02</u>		<u>FY03/e</u>
Staff Cost		2,890		3,267		3,526
Consultant and Temporary		1,344		1,304		1,532
Total Personnel Costs		4,234		4,571		5,058
Staff Travel		450		480		740
Consultant Travel		647		395		700
Total Operational Travel		1,097		875		1,440
Office Occupancy		170		177		233
Office Equipment		98		28		12
Other Operating Costs /b		142		188		191
Other Costs /c		390		476		575
Total Operating Costs		800		869		1,011
Total Admin. Expenses /d		6,131		6,315		7,508

/a Accrual adjustments included in the various line items.

/b Includes: Group training follow-up costs associated with regional conferences, service and support fee, personnel support, and trust fund administration fee.

/c Includes: Representation, hospitality, contractual services, communications, internal computing costs, language and presentation services, staff training, miscellaneous, supplies and other, depreciation charges, and overhead.

/d Totals may not add up due to rounding.

/e Preliminary

Funding

65. Budget support from IFC and IBRD continued at a constant level in real terms, and maintained a ratio of approximately two to one of the IFC and IBRD contributions. In FY03, IFC's \$2,019,000 and IBRD's \$1,072,000 contributions amounted to 41 percent of the total program expenditures. More details on the funding are presented on page 2 of Annex IV.

66. Direct donors support, that is, targeted donations, amounted to \$659,200 and covered nine percent of the total FIAS costs, the same fraction of the costs for FY02. This support reflects the interest of bilateral donors to target additional resources to FIAS for selected regions. Switzerland has continued its support for FIAS's work in Africa and the Balkans. Australia and New Zealand have provided major direct support for our work in the Pacific Islands and in parts of Asia, which operates out of the FIAS Asia/Pacific Regional Office located in Sydney, Australia.

67. Reimbursements from clients totalled \$1,770,400 or 24 percent of total costs, slightly under the 25 percent target. Reimbursements from clients are considered a proxy for their commitment to the advisory projects. Even though working with clients to help them raise the co-financing may require a significant amount of time on the part of both the clients and the FIAS staff, and may cause delays in initiating project work, FIAS strives to reach the 25 percent target.

68. The draw down from the FIAS Trust Fund, which is the residual source of financing, amounted to \$1,918,100, and represented 26 percent of total costs, compared with \$966,800 or 15 percent of total costs for FY02. The balance remaining in the FIAS Trust Fund at the end of FY03 is \$6,077,100, a decrease from \$6,307,500, the balance at the end of FY02.

FIAS Advisory Projects Completed in FY2003 (49)

Sub-Saharan Africa (12)

- 1) Africa Regional - Diagnostic/Investment Promotion

Assisted the SADC Secretariat in developing an instrument for soliciting the views of policy makers and bureaucrats in member countries on FDI-related policies and implementation.

- 2) Burkina Faso - Administrative Barriers

Conducted an administrative and regulatory survey through a team of local consultants.

- 3) Cape Verde - Administrative Barriers

Pursued previous advisory work on "Investment Promotion Strategy" and "Tax and Incentives" with an Administrative Barriers review. Following submission of the report, an Action Plan has been developed by local stakeholders, with assistance from FIAS, the Africa PSD Region and the local counterpart team.

- 4) Eritrea - Diagnostic/Investment Promotion

Conducted a survey of potential international and diaspora investors to help the Government develop a better understanding of investors' perceptions of the country as a location for investment.

- 5) Ghana - Administrative Barriers

Conducted a survey of existing investors to assess the administrative and regulatory costs of doing business in Ghana.

- 6) Ghana - Administrative Barriers

Prepared an update of the 1995 Investor Roadmap to identify the existing administrative barriers and underlying policy issues affecting investment in Ghana and to make recommendations for reform.

7) Guinea-Bissau - Administrative Barriers

Assessed the reforms implemented or underway and assisted the Government in developing a new Action Plan and a set of realistic indicators to monitor progress over time.

8) Sao Tome and Principe - Investment Incentives (Implementation)

Provided additional assistance to the Government following a previously conducted FIAS study of the "Tax System and Incentive Regimes," by reviewing the proposed tax code against the recommendations of the FIAS study.

9) Senegal - Administrative Barriers

Updated the initial Administrative Barriers study it conducted earlier. Following the submission of the report, a FIAS team went back to Senegal to discuss the findings with its counterpart and stakeholders in a seminar organized by the APIX, which gave a new impetus to the reform process.

10) Senegal - Investment Incentives (Implementation)

Assisted the Government in implementing the recommendations made by FIAS in a previous tax report.

11) Sierra Leone - Policy: Investment Law

Reviewed the legal principles, content, and clarity of the draft Investment Law and drew on the international best practice in making recommendations for a new draft.

12) Zambia - Diagnostic

Participated in selected meetings of a Country Economic Memorandum (CEM) mission (taking place simultaneously with the FIAS Administrative Barriers Study mission), and provided inputs for sections of the CEM chapter dealing with investment climate and business environment issues related to growth and poverty alleviation.

Asia and the Pacific (11)

1) Bangladesh - Investment Promotion Strategy

Assisted the BOI to develop its first investment promotion strategy, principally by way of conducting a strategic planning workshop for the management and senior staff.

2) Bhutan - Investment Policy

Operationalized Bhutan's first investment policy decree by assisting with the preparation of drafts of rules, regulations, procedures, and criteria.

3) East Timor - Investment Policy

Participated in a World Bank mission to review the environment for private sector investment and reviewed progress on the development of the commercial legal environment and implementation of a Bank Technical Assistance project to assist in the development of an appropriate commercial legal environment.

4) East Timor - Policy: Investment Law

Conducted a desk review of a draft Investment Law.

5) Indonesia - Investment Promotion: Institution

Provided advice on the establishment of the proposed National Investment Team in association with the Asian Development Bank.

6) Malaysia - Linkages

Evaluated the spillover effects from multinational companies to local suppliers over the past decade. A presentation was made to government officials and the main findings were integrated into the assessment of their global strategy for maximizing the positive impact of FDI .

7) Maldives - Investment Policy and Promotion: Institution

Reviewed the existing investment law and implementation guidelines, also commenting on the current institutional arrangements for investment promotion.

8) Mongolia - Investment Policy and Promotion: Institution

Provided elementary investment promotion training for staff from the national IPA and helped with the preparation of a new Investment Policy Statement.

9) Pacific Regional - Investment Promotion: Institution

Conducted the last in a series of training programs for staff from Pacific IPAs. This course dealt with data collection and management.

10) Pacific Regional - Investment Promotion: Institution

Prepared and presented papers on investor fraud and private public partnerships, as well as providing general support to the Forum Secretariat for this regional meeting.

11) Palau - Policy: Investment Law

Undertook a desk review of the draft implementing regulations for the FDI Bill.

Europe & Central Asia (11)

1) Europe Regional - Administrative Barriers

Conducted pilot survey of consulting firms, law firms, accounting/audit firms, etc. regarding the experiences of their clients with administrative procedures to investment (time/cost requirements, types of problems, etc.).

2) Albania - Administrative Barriers

Assisted the Government in conducting a regulatory and administrative cost survey among existing firms, investigated issues concerning the business community (including customs, tax administration, land, and licensing), and provided policy and technical advice on needed improvements. Also provided additional assistance to turn the recommendations into an implementation action plan.

3) Armenia - Policy: Investment Law

Provided a desk review of the existing and proposed investment law, based on best practices and previous advice provided by FIAS and sent a legal consultant to discuss the commentary with stakeholders and provide additional assistance to the Government lawyers.

4) Azerbaijan - Policy: Investment Law

Reviewed a new Draft Law on Investment Activity and provided a set of guidelines for drafting an investment law in line with international best practices.

5) Bosnia and Herzegovina - Administrative Barriers (Implementation)

Followed up earlier study of administrative barriers to investment, in cooperation with the Bank's Business Environment Adjustment Credit; focused on strengthening the dialogue between the public and private sectors and developed a monitoring system to assess the impact of reforms made on the basis of the administrative barriers recommendations.

6) Bulgaria - Administrative Barriers

Updated the earlier Administrative Barriers Study, including a comprehensive business survey of administrative and regulatory costs, and a set of "templates" filled by government agencies regarding six of the most problematic procedures as identified by the business survey.

7) Latvia - Administrative Barriers

Updated an earlier administrative barriers study and piloted a "self-assessment" of administrative barriers to investment, including a business survey of administrative and regulatory costs and templates filled by government agencies regarding the key administrative procedures for starting a new business and for operating a business.

8) Latvia - Linkages

Provided policy recommendations to develop the country's knowledge intensive sectors over the next decade, with an emphasis on the role of FDI and technology transfers.

9) Latvia - Linkages

Contributed to a larger World Bank Labor Market Study by assessing training policies provided at the firm level and their contribution to technology development within the country.

10) Macedonia, FYR - Administrative Barriers

Conducted a study of administrative barriers to investment, including a business survey of administrative and regulatory costs and templates filled by government officials regarding procedures necessary to start and operate a business.

11) Romania - Administrative Barriers (Implementation)

Assisted the Government in evaluating the implementation of the Action Plan to Remove Administrative Barriers enacted by the Government based on the findings and recommendations of the previous FIAS study. The evaluation included a company survey to collect private sector feedback and a round of interviews with relevant

government agencies. Findings of the evaluation contributed to the revision of the Action Plan for the next stage of implementation.

Latin America and the Caribbean (6)

- 1) Colombia - Investment Promotion Strategy

Assisted Colombia's investment promotion agency, COINVERTIR, on the international experience in structural arrangements between export and investment promotion.

- 2) Honduras - Policy: Competition Policy

Reviewed the latest draft legislation to assist the government in designing a best practice policy framework on competition policy.

- 3) Nicaragua - Administrative Barriers

Evaluated existing information on administrative barriers and suggested a design of a comprehensive administrative reform program to eliminate barriers to entry.

- 4) Nicaragua - Policy: Competition Policy

Assessed the constraints to competition and its impact on the competitiveness of Nicaragua's economy and its ability to attract investment by recommending a design of an appropriate legal and institutional framework.

- 5) Peru - Investment Promotion Strategy

Conducted a study to develop a strategic framework for promoting FDI in Peru, based on an assessment of the strengths and weaknesses of the country's FDI environment.

- 6) Suriname - Investment Promotion Strategy

Reviewed the government's initiative to create a new investment law and promotion agency with a focus at adjusting the country's FDI strategy.

Middle East and North Africa (9)

1) Algeria - Diagnostic

Co-sponsored with the MENA region of the Bank a survey of potential foreign investors in three European countries (France, Italy, and Spain). The survey data complemented the information which the World Bank already had on constraints to PSD and investment in Algeria.

2) Algeria - Diagnostic

Conducted a diagnostic study to identify the main policy and regulatory constraints affecting the investment climate and recommend specific changes.

3) Jordan - Policy: Investment Law

Conducted a desk review of a draft Investment Law.

4) Kuwait - Diagnostic

Assisted in drafting a bylaw for a new act on FDI that had been signed earlier and provided additional recommendations on automating fiscal incentives and information on screening and licensing.

5) Kuwait - Administrative Barriers

Assessed the country's administrative impediments to investment, highlighted how such barriers negatively impact on the investment environment, and provided recommendations for change.

6) Saudi Arabia - Administrative Barriers (Implementation)

Composed a brief paper which examined the role of FDI as a tool to address the cyclical nature of the oil-dependent Saudi economy and the increasing unemployment problem and conducted a presentation at the Saudi Vision 2020 Conference on global best practices in implementing investment climate reforms and possible next steps for Saudi Arabia.

7) Tunisia - Investment Incentives

Assessed the tax system and the incentive regimes, in close coordination with the Bank's MENA region.

8) Turkey - Policy: Investment Law

Provided assistance in revising the Draft Law on Foreign Investment and the Draft Law on setting up an Investment Promotion Agency.

9) Turkey - Investment Promotion: Institutions

Developed a strategic and institutional framework suitable to the current situation in Turkey to promote FDI inflows and improve the FDI environment in the country.

FIAS Products

FIAS assistance in recent years has focused on seven general product groups. They are:

1. **Diagnostics**: Broad reviews of various aspects of the investment environment are conducted. These cover policies, laws and regulations, procedures, and investment promotion strategies and institutions. Diagnostic studies often constitute the first FIAS advisory project in a country, and provide a general strategy for policy reform to improve the investment climate.
2. **Policy, Laws and Regulations**: Reviews of the rules of the game are done for the purpose of recommending ways to enhance the FDI environment in a country. The issues addressed include entry and exit restrictions and screening procedures, currency convertibility, access to land, investment protection under national laws and international conventions, competition policy, and policy toward enhancing corporate social responsibility.
3. **Administrative Barriers**: Bureaucratic barriers snarl and slow both investment and subsequent production. FIAS documents such barriers and pinpoints problems to help governments identify and eliminate counterproductive procedures, and streamline the necessary regulations that remain.
4. **Investment Taxation and Incentives**: Analysis of the taxation regime faced by investors for the purpose of establishing an equitable taxation system and cost-effective incentives, with consideration to tax administration.
5. **Investment Promotion**: FIAS assists in the design of efficient institutions to both attract FDI and help manage FDI policy, adapting models that have proven effective elsewhere. Assistance also is given to such institutions in their formulation of promotion strategies on national, regional, or sectoral levels, that identify competitive advantages and target specific opportunities.
6. **Building Linkages**: Both to increase the benefits of FDI to the domestic economy and to enhance the FDI environment in a country, assistance is given to governments in enhancing the business environment to foster linkages between foreign-owned and domestic companies.
7. **Foreign Direct Investment Data Systems**: FIAS assists governments in the design of non-intrusive systems for collecting and disseminating FDI data, including measuring the impact of investments on such key variables as job creation and export growth.

Publications, Conferences and Other Activities

Internal Publications:

- Jacques Morisset, "Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries," *World Bank Policy Research Working Paper Series*, No. 3028, April 2003.
- Jacques Morisset, Alejandro Izquierdo, and Marcelo Olarreaga: "Information Diffusion in International Markets," *World Bank Policy Research Working Paper Series*, No. 3032, May 2003.
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Staffing and Budget by Expense Category FY2001-2003*
(US\$'000)

	Budget			
	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2003</u>
<u>AUTHORIZED POSITIONS</u>				
1. HIGHER LEVEL	18.0	20	20	20
2. SUPPORT	8.0	10	10	10
<u>STAFFYEARS</u>				
1. HIGHER LEVEL /d	16.0	17.8	17.0	17.8
2. SUPPORT (ACS and RA)	7.6	8.5	8.0	8.6
3. CONSULTANT - Short Term	-	-	-	-
4. CONSULTANT - Long Term	-	-	-	-
<u>DISCRETIONARY COSTS</u>				
SALARIES	1,906.2	2,217.1	2,135.8	2,400.7
TEMPORARY	9.9	25.6	23.3	29.2
OVERTIME	6.8	4.0	25.9	2.4
TRAVEL - STAFF	450.5	479.5	741.4	740.1
TRAVEL - CONSULTANT /a	646.9	394.6	640.1	699.6
REPRESENTATION	5.9	7.2	17.1	9.3
HOSPITALITY	6.3	7.5	1.1	3.3
CONSULTANT FEES /a	1,333.7	1,278.7	1,884.6	1,502.4
CONTRACTUAL SERVICES	11.7	81.1	190.5	192.1
COMMUNICATIONS	15.8	39.6	38.2	29.0
INTERNAL COMPUTING COSTS	51.6	49.4	43.3	50.7
LANGUAGE AND PRESENTATION SERVICES	38.3	47.9	45.1	29.9
STAFF TRAINING	6.6	22.9	43.5	14.6
GROUP TRAINING FOR CLIENTS	6.4	31.4	61.8	22.1
MISCELLANEOUS	90.8	58.2	4.1	14.5
SUB-TOTAL	<u>4,587.6</u>	<u>4,744.9</u>	<u>5,895.9</u>	<u>5,739.8</u>
<u>OTHER COSTS</u>				
OFFICE OCCUPANCY	170.4	176.7	234.8	232.9
OFFICE MACHINES/SOFTWARE	98.2	28.3	35.9	12.3
SUPPLIES AND OTHER	11.5	47.3	12.2	32.3
DEPRECIATION CHARGES	-	-	6.2	-
TOTAL DISCRETIONARY & OTHER COSTS	4,867.7	4,997.3	6,184.9	6,017.4
BENEFITS	976.8	1,046.1	1,141.7	1,123.2
OVERHEADS	151.5	115.2	260.3	199.2
TOTAL (INCL. BEN. & OVERHEADS)	<u>5,996.1</u>	<u>6,158.6</u>	<u>7,587.0</u>	<u>7,339.9</u>
SERVICE & SUPPORT FEE	93.7	83.2	127.7	133.0
PERSONNEL SUPPORT	0.5	-	-	-
SUPERVISION COSTS	-	-	-	-
TRUST FUND ADMINISTRATION FEE	41.0	73.0	69.8	35.4
REIMBURSEMENTS (Clients & USAIDTF)	-	-	-	-
<u>TOTAL PROGRAM COSTS **</u>	<u>6,131.2</u>	<u>6,314.9</u>	<u>7,784.5</u>	<u>7,508.2</u>

/a Including estimates directly to be paid by clients or donors.

/d Total higher level staffyears includes one budget staff, and beginning in FY02, it also includes one staffyear equivalent for the front office.

** Totals may not add due to rounding.

09/03/2003

SOURCES AND USES OF FUNDS
(Current \$'000)

	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>
Total Uses of Funds	6,131.2	6,315.0	7,508.0
Sources of Funds			
A. Contributions of Bank Group			
IFC	1,903.0	1,960.5	2,019.0
IBRD	953.0	1,040.0	1,072.0
Subtotal	<u>2,856.0</u>	<u>3,000.5</u>	<u>3,091.0</u>
B. Reimbursements from Clients /a	1,506.0	1,675.8 /d	1,770.4 /d
C. Cross Support	202.0	73.8	69.3
D. Direct Donor Support			
UNDP		(1.0)	
Bilateral			
- USAID			
- CIDA			
- Switzerland (Africa) /a	236.3	53.9	35.0
- Switzerland (Balkans) /b	90.8	79.4	129.4
- Australia/New Zealand Trust Fund	221.8	465.8	494.8 /c
Subtotal	<u>549</u>	<u>598.1</u>	<u>659.2</u>
Net drawn from the Trust Fund	1,018.3	966.8	1,918.1
Total Sources of Funds	6,131.2	6,315.0	7,508.0

FIAS TRUST FUND ANALYSIS

Trust Fund Beginning Balance	5,005.4	5,645.3	6,307.5
Less: Net Draw Down	(1,018.3)	(966.8)	(1,918.1)
Plus: Interest Earned (excl. TF Admin. costs)	197.2	457.0	319.1
Plus: Interest Earned by FIAS/APRO TF (US\$ est)	NA	33.8	29.9
Plus: Other Income	0.2		
Plus: Contributions to the Trust Fund	<u>1,460.8</u>	<u>1,138.1</u>	<u>1,338.7</u>
Trust Fund Ending Balance	5,645.3	6,307.5	6,077.1

/a Amounts shown represent drawings from the fund. For this program, FIAS received \$749,973 from Switzerland.
Available balance at end-FY2003 is \$334,800.

/b Amounts shown represent drawings from the fund. For this program, FIAS received \$650,000 from Switzerland.
Available balance at end-FY2003 is \$350,400.

/c Excluding \$430,735 (A\$650,000) received in FY2003 slated for FY2004.

/d Including off-budget support in the amount of \$581,900 for FY2002, \$408,390 for FY2003.

NA = Not available

Note: Totals may not add due to rounding.

09/04/2003

**Contributions to the FIAS Trust Fund
(Current \$'000)**

	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>
Canada	* 195.9		
Belgium			
Denmark			
Finland			
France			
Ireland	50.0	50.0	129.8
Italy		266.5	
Japan			
Luxembourg	270.9		
Netherlands	190.9	264.8	276.0
Norway			250.0
Portugal			
Spain	150.0		
Sweden	187.5	390.8	
Switzerland	250.0		500.0
United Kingdom	165.6	166.0	182.9
Additional expected			
TOTAL	<u>1,460.8</u>	<u>1,138.1</u>	<u>1,338.7</u>

a Agreed

r Received

p Projection

* US\$ equivalent estimated

** The projected contributions to the FIAS trust fund are entered as zero, as fund raising activities for that year have not been initiated.

DATA AS OF: 09/03/2003