



FOREIGN INVESTMENT ADVISORY SERVICE PROGRAM

ANNUAL REPORT FOR FY2002

September 2002

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

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I. OVERVIEW

1. In fiscal year 2002 [FY02], FIAS delivered its advisory program to government clients and completed 49 advisory projects. In addition, FIAS built up its staff, strengthened its product line, engaged in applied research, developed its knowledge management in a multi-faceted way, and launched a new impact monitoring system. Tables 1 and 2 give a summary of FIAS's operations and funding.

2. Actual expenditures amounted to US\$6.3 million, or \$1.8 million below the FY02 budget. A smaller than planned expansion of staff, and lower overhead and travel costs account for most of the difference.

Table 1
Overview of FIAS Inputs and Outputs

	FY00 <u>actual</u>	FY01 <u>restated</u>	FY02 <u>planned</u>	FY02 <u>Actual*</u>
Staff years (GE and above)	14.5	16.0	20	17.8
Program costs (millions)	\$6.6	\$6.1	\$8.1	\$6.3
Larger advisory projects	35	35		35
Smaller advisory projects	15	13		14
Multi-country conferences and other activities	1	1		3
Research publications	3	3		9

* Preliminary

3. The budget was funded mainly by IFC (31%) and the Bank (16%). Clients provided 26.5% of the total. Bilateral and multilateral donors provided the rest of the funding, either directly, as in the support from the Australian and New Zealand governments for the Asia and Pacific program, or through the FIAS Trust Fund. Contributions to the trust fund totalled \$1,138,100. The trust fund balance at the end of FY02 amounted to \$6,307,000, up from \$5,645,000 at the end of FY01.

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

	<u>FY 01</u>	<u>FY02</u>
Budget support:		
IFC	\$1,903	\$1,961
World Bank	953	1,040
Reimbursement from clients	1,506	1,676
Cross support	202	74
Direct donor support	549	598
Drawings from FIAS Trust Fund	<u>1,018</u>	<u>967</u>
TOTAL*	\$6,131	\$6,315

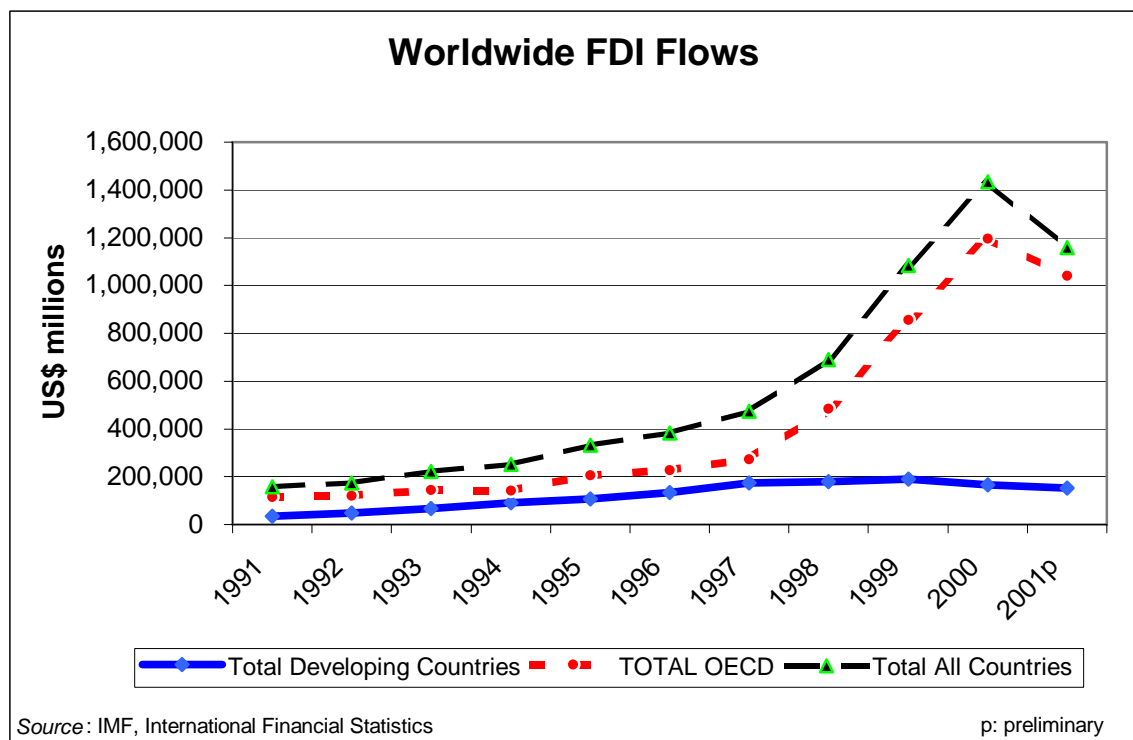
* Total may not add up due to rounding.

II. FDI FLOWS AND THE IMPORTANCE OF INVESTMENT CLIMATE

FDI Flows

4. After a surge during the second half of the 1990s, worldwide foreign direct investment (FDI) flows declined for the first time in ten years [Figure 1], mainly due to a slowdown of world economic growth and to a decrease in cross-border mergers and acquisitions. The drop was concentrated in developed countries, yet developing countries also saw their FDI inflows reduced.¹

Figure 1



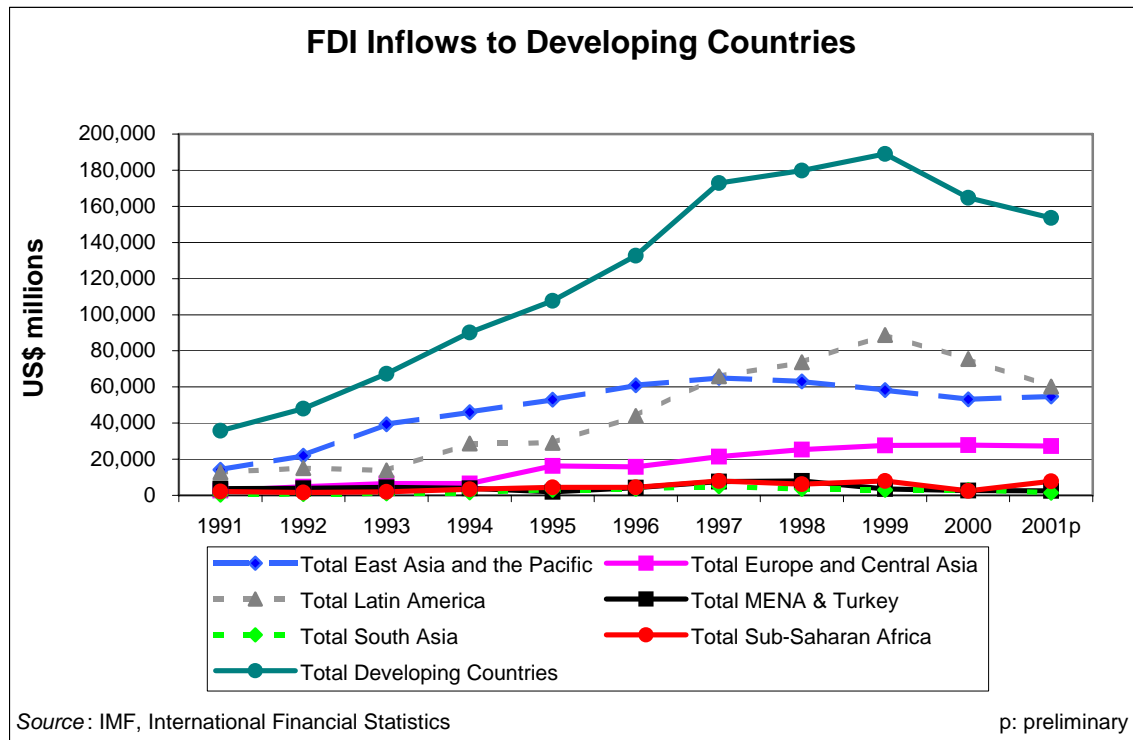
5. FDI flows to developing countries rose dramatically during most of the 1990s, from US\$36 billion in 1991 to US\$190 billion in 1999, before decreasing to US\$154 billion in 2001 [Figure 2]. East Asia and Latin America take the lion share of the FDI flows, with the latter experiencing a sharp decline after 1999, while those to East Europe and Central Asia have shown a steady growth. South Asia, Africa and the Middle East attract a modest amount of FDI, well below their potential.

6. In 2001, the slowdown in FDI flows to developing countries reflects the playing out of factors that had previously kept such flows buoyant. Although privatization

¹ UNCTAD, *World Investment Report 2002: TNCs and Export Competitiveness*, 2002.

activities in developing countries remained vibrant, large-scale privatization projects in Latin America – a driving force of FDI in the region over the past few years – appear to have waned.² Moreover, the momentum of structural reform in many markets appears to be under pressure due to recent economic slowdowns, weakness in the global technology and telecommunications sector, and perhaps a greater hesitancy on the part of governments to bear the short-term costs of reform in order to secure longer-term benefits.³

Figure 2



The Importance of the Investment Climate

7. This recent decline in FDI inflows to developing countries and in the apparent willingness of developing country governments to introduce structural reforms is worrisome, and can present a serious obstacle to effective poverty alleviation, especially during periods of global economic slowdown. A sound investment climate is needed to ensure the productive use of scarce investment resources. Domestic investment is important, but in most countries it is insufficient. Foreign investment not only adds to the pool of financial resources but also brings knowledge of production techniques, managerial skills and access to export markets. FDI has also the potential to reduce adverse shocks to the poor resulting from financial instability, improve corporate

² WB, Global Development Finance 2001, p. 38.

³ IIF, *Capital Flows to Emerging Market Economies*, April 22, 2002, p. 6.

governance, strengthen environmental and labor standards, and generate taxes that may support the development of a safety net for the poor, all of which have positive effects on the quality of growth and the efforts being made to alleviate poverty.⁴ Hence, of key interest to policymakers are the factors that enhance a country's investment climate, i.e., its ability to attract more efficient domestic and foreign investment.

8. An ongoing recent joint initiative between FIAS and the Investment Climate Unit -- both units belong to the Private Sector Advisory Services Department -- seeks to identify the main factors that influence the quality of the investment climate, and thus FDI flows. This effort combines existing quantitative indicators and surveys from 22 different sources through the use of simple statistical techniques. The project has generated a compact set of investment climate indicators that cover a wide range of countries and a broad range of influences on investment. These indicators complement those of different business groups, non-profit organizations, and official agencies.

9. Clearly, the quantity and quality of investment flowing into any developing country depend upon the returns that investors expect and the uncertainties surrounding those returns. The indicators show that five broad and interrelated components shape these expectations.

- *Macro policy* or country-level issues concerning economic and political stability and national policy toward foreign trade and investment.
- *Institutions* that foster a political environment committed to protecting both physical and intellectual property rights. This also includes institutions that promote investment supported by confidence in courts and the legal structure, by the level of regulation and their predictability and enforceability, along with sensible environmental protection, government effectiveness and attitude to business.
- *Infrastructure*, including the quantity and quality of available physical and financial infrastructure such as power, transport, telecommunications and banking and finance, and the efficiency with which public services are delivered.
- *Human and Technological Development*, including education, technological development, and policies and institutions to raise productivity.
- *Competition*, including barriers to entry and exit. Greater competition does not just increase productivity levels through the reallocation of resources, but can also increase productivity growth through the enhancement of technology spillovers, improved inputs, and learning effects.

10. An interesting aspect of the research is the difference that has been found between factors that influence foreign and domestic investment. Preliminary analysis of the indicators shows that openness of the economy and a more competitive environment are strongly influential for FDI but less so for domestic – private and public – investment. This result confirms that foreign investors are more likely to locate in countries with a more open policy environment. As countries continue to liberalize and become more integrated in the world economy, increased competition spurs productivity improvements

⁴ See Foreign Direct Investment and Poverty Reduction (2000), by Michael Klein, Carl Aaron and Bitá Hadjimichael.

and necessitates some adjustments on the part of local firms, due to new competitive pressure. That competitive pressure explains why higher openness may have an initial mixed impact on domestic investment. The positive effect on the domestic economy is expected with the technology and management spillovers created by FDI.

11. Weak human factors, such as illiteracy, are particularly important deterrents for FDI. Foreign investors consistently rank an educated and skilled workforce as an important factor affecting investment decisions. FDI's more advanced technologies and the higher cost of expatriate personnel explain foreign investors' requirements for skilled local staff.

12. In contrast to the above, greater access to domestic bank credit bolsters total investment but not foreign investment. Foreign investors bring in external sources of funding in most developing countries. FDI acts as a complementary source of funding when domestic credit is low or unavailable, rather than compete for it.

13. Two conclusions can be drawn from the above. The first conclusion is that FDI, a typically internationally more competitive investment compared to domestic investment, requires a higher quality investment environment: more open and more competitive, therefore less distorted, as well as better educated and more skilled human resources. So, to attract FDI, governments need to make their investment climate, and thus their economy, even more efficient than if their aim was to stimulate only domestic investment. FDI raises the bar for the quality of the investment climate. The second conclusion, also related to the first, is that, in a higher quality investment environment, domestic firms are expected to be more efficient and productive. They will need to be so to survive in a more competitive environment and to be in a better position to benefit from spillovers from foreign firms operating in the host economy. Such an economy is better placed to internalize the benefits of FDI, to raise productivity and to contribute to growth and poverty alleviation.

14. In other words, governments' enhancement of the quality of their investment environment would not only raise the quantity, but also the quality of investments, and thus the chances for their society to better benefit from such investments. This comes at a time when some authorities seem to hesitate to make the difficult decisions for reform, due to their short-term costs.

III. FY02 PROGRAM OUTPUT

Advisory Program

15. Forty-nine advisory projects were completed in FY02, 45 of which were conducted for government clients in 37 countries. Four of the projects had a regional scope, raising substantially the number of countries benefiting from FIAS advice. Annex I provides a list of the advisory projects. Three countries, Afghanistan, Azerbaijan, and The Netherlands Antilles, were added to the list of countries in which FIAS worked, bringing the total to 125.

Distribution by Advisory Product

16. FIAS's advisory projects completed in FY02 covered five product groups [see Table 3]. FIAS lists its advisory products under seven groups: Diagnostics; Policy, law and regulations; Administrative barriers; Investment promotion [strategy and institution]; Investment taxation and incentives; Building linkages; and FDI data systems. For a description of the groupings, please refer to Annex II. Two new products in the policy group, FDI and Competition Policy, and Corporate Social Responsibility, were pilot tested during the fiscal year.

17. *Diagnostics*: Typically, a government requests FIAS to conduct a diagnostic study as the first FIAS advisory project in a country or when a government deems that it needs to take stock of its FDI environment. Ten diagnostic studies were completed in FY02: three for first time client countries, one of which was Afghanistan, and the remainder for countries that wanted to reassess their FDI environment. One of the studies looked into the feasibility of establishing a growth triangle between Malawi, Mozambique, and Zambia.

18. *Policy, laws and regulations*: As in FY01, the largest number of projects fell under this product group, reflecting the importance of the advisory assistance for policy and legal framework in client countries in the overall efforts at enhancing the FDI environment. They were mainly conducted in Asia/Pacific and Africa, with eight and six projects, respectively. Of the 20 projects in this category, 14 focused fully or partially on investment laws.

19. *Administrative barriers*: To address issues investors had with numerous and cumbersome investment procedures, a total of ten administrative barriers projects were completed in FY02. East Europe and Central Asia saw five, three of which were to implement the recommendations made in previous studies, showing that a number of countries in the region were progressing in their efforts at streamlining their investment procedures. Three projects were conducted in Africa, and seem to indicate the beginning of a trend for follow up work to monitor past progress and recommend improvements.

Table 3
Topics Covered in FIAS Advisory Work Completed

	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
Diagnostic	9	3	9	10
Policy, laws and regulations	13	17	16	20
Administrative barriers	8	9	11	10
Promotion:				
Institutions	8	11	7	3
Strategy	7	6	4	3
Investment incentives	3	5	8	5
Backward linkages	0	1	0	0
FDI data systems	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL*	53	52	55	51

* Some projects cover more than one topic.

20. *Investment promotion:* Six projects were completed, three each on investment promotion strategy and on investment promotion institution. Assistance in this area complements FIAS's work at enhancing the FDI environment in a country, often linking it to investment promotion efforts. For example, at the request of the Provincial Government of Shaanxi Province, China, FIAS recommended an investment promotion strategy. Embedded in it were suggestions at enhancing its FDI environment.

21. *Taxation and incentives:* Five projects on taxation and incentives were completed, two in each of Africa and Asia/Pacific, and one in East Europe. Both in Cape Verde and Sao Tome and Principe, a general review of corporate income taxation was conducted as part of the positioning of the two countries to attract more FDI. In the other three countries, FIAS assistance was more focused or more technical. For example, a duty suspension scheme was recommended and implemented in Fiji.

Small Projects and Implementation Projects

22. At times, governments seek FIAS assistance on issues that require a quick turnaround time and only a small amount of resources. FIAS "small project" category allows the processing, approval and conduct of a project in a short period of time, ranging from two days to two weeks. Fourteen such projects were completed in FY02. Eleven of the fourteen were reviews of draft laws, for which governments were likely to need FIAS's comments in a hurry so as not to delay the process leading to the adoption of the piece of legislation. Draft of investment laws were thus reviewed for Albania, Bolivia, Indonesia, Kuwait, Mauritania, Palau, Panama, and Samoa, and for two regional

organizations: the East Africa Commission and the Southern Africa Development Community. A draft of a law on incentives was reviewed for the Philippines.

23. “Implementation projects” are conducted to help government clients implement FIAS recommendations, thus raising the likelihood of impact of FIAS advisory work [see box on Mauritania]. Typically, they assist clients to put into place the human, financial and organizational resources for an effective adoption of recommendations. They invariably contribute to build capacity in government. Ten such implementation projects were completed in FY02. In Albania, the Democratic Republic of Congo, Samoa and Tonga, FIAS assisted with the implementation of its recommendations on investment laws. In addition, FIAS assisted Latvia and Russia in adopting its recommendations for the removal of administrative barriers; Fiji and Romania, for taxation and incentives systems; and Nigeria, for reorganizing its investment promotion agency.

Mauritania: A Sequenced Assistance

Since 1993, FIAS has assisted the Government of Mauritania in its efforts to improve the investment climate in the country. In coordination with the World Bank and other donors, the assistance has been incremental, starting with a general diagnostic in 1993, followed by five more specific projects aimed at addressing various obstacles initially identified by the authorities and FIAS. Assistance to the government was provided on the investment law, taxation and fiscal incentives, and administrative barriers. These projects led to recommendations and action plans that were prepared in collaboration with the Government.

During 2001, the Government initiated two reform programs with the objective of integrating FIAS’s main recommendations and promoting more investment to the country. The first focused on drafting a new Investment Law, which included most of international best practices. The draft simplified considerably the previous legal framework, offering simple rules and instruments to private investors --both local and foreign, such as dispute mechanisms and protection. The second reform consisted in revamping of the general tax system faced by private investors. The corporate income tax rate was reduced to 25% and most incentive regimes were eliminated in a dramatic effort to rationalize the system and reduce opportunities for malpractices and corruption.

The new Investment Law was adopted in November 2001 and the new tax system was implemented in January 2002.

Income-Level and Regional Distribution

24. In FY02, the 37 countries and four sub-regions, for which FIAS completed advisory projects, span the world and are concentrated among low and lower middle income countries [see Table 4]. At the regional level, the majority of the projects were conducted for Africa [14] and Asia/Pacific [13].

Table 4
Regional and Income Level Distribution of FIAS Advisory Work in FY02
(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	4/6		2/2			15/19	36/39
Lower middle Income	2/3	2/2	4/4	6/7	3/3	2/2	19/21	46/43
Upper middle Income			1/1		2/3	2/3	5/7	12/14
High-income					1/1	1/1	2/2	5/4
TOTAL	11/14	6/8	5/5	8/9	6/7	5/6	41/49	99/100

* 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.

25. FIAS focuses its resources in support of countries of lower income in their efforts at benefiting from FDI. Eighty-two percent of FIAS client countries were low and lower middle income countries, and received eighty-two percent of the advisory projects. With the four completed regional projects – three in Africa and one in the Pacific – FIAS's reach to poorer countries is even more extensive.

26. While FIAS assistance in Africa continued to focus on traditional products such as administrative barriers (Cape Verde, Guinea Bissau, Nigeria) and reviews of investment laws (SADC, EAC, Mauritania, D.R. Congo), implementation of action plans and the impact of FDI on the host economy are two areas that have been getting more attention. For example, FIAS examined the impact of competition policy on foreign investment for Tanzania, and the effects associated with the recent massive FDI inflows in the oil sector for Equatorial Guinea. The objective of these two projects was to identify actions that governments in these two countries can implement so that they can maximize the expected benefits from FDI.

27. In East Asia, attention has returned to improving basic policies such as the laws covering entry conditions for FDI and the provision of incentives, to win back the costs associated with previously too generous schemes [Cambodia, China, Indonesia, and the Philippines]. What is notable is an increased interest in FDI reform in South Asia, as shown during the roundtable on FDI held in Dhaka [see Section on Conferences and Other Activities], project activities in Afghanistan and Bhutan, and the pipeline of projects in this sub-region. In the Pacific, there is an increasing awareness of the need for effective implementation of policy reform, including the harmonization of simplified procedures with policy changes [Fiji, Palau, Samoa and Tonga].

FIAS Assistance to Fiji in the Design and Implementation of a Duty Suspension Scheme for Exporters

FIAS has conducted seven projects in Fiji since 1993, designed to improve the overall investment environment within the country. This has included assistance in the framing of an investment policy statement over 1995/96, which culminated in the issuance of a new statement in the last quarter of 1996, and the development of a new Foreign Investment Act in 1997.

During 1997, the Government identified its failure to revise or indeed issue a coherent incentive policy as a significant gap in its investment policy. Accordingly, the Government invited FIAS to support the Ministry of Finance with a substantive review of the investment incentives policy, with the aim of formulating a more appropriate and rational policy. FIAS recommendations were for Fiji to move to an incentive scheme that is, and is perceived to be, equitable, efficient, simple and performance-based. The recommendations were echoed by the Minister of Finance in his 1998 budget speech.

In early 1999 the Ministry of Finance asked FIAS for assistance in implementing the recommendations. During 1999-2000, FIAS assisted the Ministry to outline the necessary legislation and institutional changes, and to take them through a series of interdepartmental committees, Cabinet sub-committees and, finally, Cabinet. In line with FIAS suggestions, successive Cabinets of the Government decided to reform the tax and tariff system, including investment incentives. The 2000 budget reflected all recommendations.

One of the adopted recommendations included the establishment of a Duty Suspension Scheme (DSS), or "Inward Processing Relief" Scheme. This is to replace a number of schemes whereby exporters gain access to duty free imports. These schemes were discretionary, expectation based in nature and largely unmonitored. The outcome sought in adopting the DSS was to enhance the attractiveness of the investment environment for exporters, by providing timely access to production inputs at world market prices, i.e. free of duties.

FIAS was asked to provide further assistance in the design, development and implementation of the DSS. The scheme, designed and developed through a public-private partnership, was implemented in August 2002, with its administration delegated to a newly established *Exporters Club*. The *Exporters Club* is privately run and self-financing, and lies outside the direct responsibility of the Government.

While the scheme is in its early stage of operations, we understand that both the Government and the private sector are happy with the outcome.

28. In Europe and Central Asia, while FIAS assistance covered entry level diagnostics [Azerbaijan and Yugoslavia] and policy/legal framework [Albania and Romania], much of it went to removing administrative barriers to investment [Georgia, Kazakhstan, Latvia and multiple oblasts in Russia]. Of note are the piloting of "self-assessment" tools to the removal of administrative barriers. In the aftermath of its study of administrative barriers in five regions of Russia (2001), FIAS received requests from each of the five regions for follow-up assistance for implementation. In addition, numerous requests came from other regions to initiate similar studies and assess their administrative barriers. In light of the scope of the project, FIAS and its partners in Russia (Ministry of Anti-Monopoly, the State Statistical Agency, the Russian Academy of Sciences, DFID, USAID, and EBRD) agreed to develop a standard methodology for such assessments that could be carried out by local expertise.

FIAS Program for Southeast Europe

FIAS had been quite active in S. E. Europe even before the formation of the “Stability Pact” and its subsidiary Investment Compact. FIAS had carried out a variety of diagnostic studies, reviews of investment legislation, analyses of investment incentives, and related projects during the 1990s in Romania, Bulgaria, Bosnia, Croatia, Macedonia, and Slovenia. With the agreement of the respective client governments, all FIAS reports about countries in the region were shared within the Investment Compact, and were used to help identify need and establish priorities for future work.

Since 2000, FIAS has now become active across the whole region, including Albania and Serbia, in addition to the countries listed above. FIAS is currently working with all the countries in the region on removal of administrative barriers to investment, using a self-assessment approach, with a business survey of administrative and regulatory costs and templates to gather relevant data from government agencies, as well as assistance in developing a constructive dialog between the government and business community. FIAS surveys and templates form the basis of a monitoring system that will allow the governments to assess the impact of their reforms, and to identify which reforms are working as intended and which ones are failing to deliver the intended results. It can also be used to compare across countries, and to identify examples of “best practice” in removal of administrative barriers that can be shared within the region.

In addition to its involvement in administrative barriers, FIAS has advised the governments in the region on various aspects of their FDI environment. Examples of FIAS impact include the FDI laws in Bosnia and Serbia, reform of many aspects of the Company Law in Macedonia affecting foreign investors, several aspects of land reform in Slovenia affecting all investors, and streamlining of investment incentives in Bulgaria and Romania.

29. In Latin America and the Caribbean, the focus of FIAS assistance was on improving the policy/legal framework, including three diagnostic studies for the Dominican Republic, Guyana [as part of the HIPC initiative] and the Netherlands Antilles, and two reviews of investment laws for Bolivia and Panama. Also in Panama, FIAS assisted in the design of a policy and legal framework for a special economic zone, converted from a former airbase. An administrative barriers study was completed in Venezuela.

30. Many governments in the Middle East have recognized that their economy has not been fully part of the globalization process and are now keen on catching up, and have put into place several initiatives geared toward making their economy more open and attractive to foreign investors. FIAS assisted Turkey, West Bank and Gaza, Yemen and, through the World Bank, Kuwait and Saudi Arabia in formulating a more liberal policy and legal environment, and creating a corresponding institutional framework.

Assistance to Turkey – A Programmatic Approach

Turkey should be a magnet for FDI given its large market size, skilled domestic labor, competitive local firms as suppliers to multinationals and location between Europe, the Middle East and Central Asia. However, despite these features, Turkey has not been able to attract the expected FDI inflows. Turkey's FDI levels have stagnated during the last 15 years while total FDI worldwide increased by a factor of 12.

Within this perspective, the Government of Turkey requested FIAS to conduct a Diagnostic Review of the FDI Environment. The diagnostic study, conducted in late 2000, generated a program to improve the investment environment. Based on the findings of this study and at the request of the Government, FIAS continued its program of assistance in Turkey with studies on Administrative Barriers to Investment (September 2001), Legal Framework for FDI (early 2002), and Institutional Strategy for FDI Promotion (2002 ongoing).

Based on the Diagnostic and Administrative Barriers to Investment studies, a Government Decree set up the program with an action plan and institutional structure for implementing FIAS recommendations. The structure involves both the public and private sectors. This partnership is one of the significant outcomes of FIAS involvement. The established structure consists of nine technical committees focusing on specific subjects reporting to a coordination committee. The overall structure reports to the cabinet. After the institutionalization of this program, the last two FIAS studies conducted in 2002 have been integrated into the programs of the technical committees.

This institutional setup is currently working on implementing the action plan. One example of this work is the company registration process. The respective technical committee is planning to reduce the number of steps required to register a company to seven from nineteen and the number of forms to a single unified form from 68 different forms (as compared to one step and one form in Hungary and eight steps and twelve forms in Brazil). Another example of this cooperation is the new FDI Law (under Parliament review) drafted with FIAS guidance and agreed to by the relevant technical committee.

During each step of its program, FIAS's cooperation with the World Bank, IFC, and IMF resulted in the integration of its recommendations into larger structural programs under implementation. An illustration of this cooperation includes the incorporation of FIAS recommendations on corporate taxation system into the IMF/World Bank programs in Turkey.

Applied Research

31. To support and complement its advisory work and to disseminate knowledge acquired through its advisory program, FIAS engages in applied research. In FY02, FIAS launched two research projects on investment promotion agencies [IPA] and on building linkages between FDI and domestic firms:

- Although most countries have now established IPAs, little is known on what the agencies are really doing. In collaboration with MIGA, FIAS conducted a survey of about 100 agencies around the world to collect this information. FIAS is currently analyzing this data to depict trends and to assess IPAs' effectiveness in attracting FDI.
- In collaboration with the World Bank's Development Research Group, FIAS conducted a research project to study the relationships between FDI and their

linkages with domestic firms, from both analytical and empirical points of views. Four research papers were prepared, including case studies of Malaysia, Lithuania and Romania, and two seminars were organized within the World Bank Group. As a result, a pilot advisory project is expected to be launched in the course of FY03.

32. FIAS published several papers within the World Bank Group and with external publishers. Annex III contains a complete list and bibliographic details of these publications.

33. Six papers were published by FIAS staff in World Bank Group publications on the following topics: administrative costs in developing countries; impediments to firm competitiveness in the Middle East; private enterprise surveys of the business environment; skills upgrading in East Asia; and constraints on private sector development. In addition, a fifth paper on the global results of the World Business Environment Survey, a survey of about 10,000 firms in over 80 countries, was completed and will be published in the first part of FY03.

34. Three papers were published externally on the following topics: the importance of policy framework to attract FDI in Africa; tax policy and fiscal incentives; and the increasing gap between domestic and world prices of commodity markets.

Conferences and Other Activities

35. 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 participates in conferences sponsored by others. Annex III provides a complete list of FIAS conferences and other activities.

36. In FY02, FIAS sponsored three conferences:

- In the Middle East, FIAS held an Expert Group Meeting on *Competition Laws and Policies* to examine the impact of competition policies, laws and institutions on the development of the private sector and on the attractiveness of an economy to FDI. The conference was co-sponsored with the United Nations Economic and Social Commission for Western Asia (UN-ESCWA), the United Nations Conference on Trade and Development (UNCTAD), the Friedrich Naumann Foundation, the Abu Dhabi Chamber of Commerce and Industry, and the Emirates Society for Consumer Protection. It was held from the 28th to the 30th of January, 2002 in Abu Dhabi, and was attended by a large number of private sector and government representatives from the region. Following the conference, several countries in the region, including Jordan, Lebanon and Yemen, expressed interest in more detailed follow-up assistance in this area.
- This first regional South Asia High Level Roundtable on Foreign Direct Investment was held in Dhaka on April 9 - 10, 2002, convened by FIAS, with

support from UK DFID and the ADB, and in association with the Government of Bangladesh. The Roundtable brought together 45 invited participants, including senior policy makers from seven South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka), senior executives from major global corporations, representatives of international agencies and investment experts. The theme was “*Competing for FDI: How can South Asia be more successful?*” The Roundtable concluded that there is an international perception that South Asia lacks “credible commitment” and a “sense of urgency” in undertaking the reforms and administrative changes necessary to attract its proportionate share of global FDI. As a result, FIAS has initiated or is now developing projects in six of the seven participating countries. Participants’ interest in a follow-up Roundtable was strong and this is currently under consideration.

- In Latin America, FIAS co-sponsored a conference titled “*Responsible Globalization in the Caribbean Basin: Engaging Government, Business and Civil Society,*” held in Santo Domingo on September 5-6, 2001. The conference covered issues on corporate social responsibility, e.g., environmental protection, labor and gender. It also discussed the policy and legal framework to address them, and the role of a public-private partnership to deal with them. The Caribbean Latin America Action (CLAA) and the Oficina para la Promocion de la Inversion Extranjera (OPI), the investment promotion agency of the Dominican Republic, also co-sponsored the conference. The conference was opened by President Mejia of the Dominican Republic and included a balanced representation of governments, private sector and civil society to explore opportunities for strengthened collaboration especially in the apparel, agro-processing, and tourism industries.

37. In addition to the three FIAS-sponsored conferences mentioned above, FIAS staff were invited to present papers or make presentations in conferences, seminars and other fora on a variety of topics, ranging from the general enabling environment for the private sector, FDI policy and legal framework, investment promotion, administrative barriers and special economic zones. Close to 20 such interventions were made in FY02, in events sponsored by various organizations, including the OECD, a number of United Nations agencies, the World Bank Group, APEC, the Southeast Europe Stability Pact and the Government of Russia.

Collaboration within the World Bank Group and Other Institutions

38. FIAS’s unique position within the World Bank Group [WBG] allows it to draw on the WBG’s wide 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 [PSD] plans in country programs.

39. There is a close collaboration between FIAS and the WBG in Africa. For example, the FDI and Competition Policy project in Tanzania was carried out with assistance from the PSD and Development Economics [DEC] departments. A joint WB-FIAS workshop was organized in Senegal, while the review of Mauritania's Investment Code was done in consultation with the Bank. The Joint IFC/WB Oil and Gas Department contributed its sectoral expertise for the Equatorial Guinea Diagnostic project. Joint collaboration and co-financing also took place in the projects in Cape Verde, DR Congo, and Guinea Bissau.
40. In Europe and Central Asia, FIAS enjoyed an excellent collaboration with other units of the WBG, including the SME Department. The Bank provided organizational and financial assistance in administering and supporting administrative and regulatory costs surveys across the region, including in Albania, Bulgaria, Georgia, Macedonia and Serbia. FIAS coordinated its administrative and regulatory cost surveys in several regions of Russia with a related Bank-supported effort to use complementary business surveys to monitor the impact of reforms. In Bosnia-Herzegovina, on the basis of a FIAS administrative barrier study, the Bank developed a Business Environment Adjustment Credit using a FIAS monitoring system, and the Southeast Europe Enterprise Development unit, in cooperation with FIAS, is developing a constructive dialog between the government and business community.
41. In the Asia-Pacific region, FIAS participated in WB missions to Afghanistan and Bhutan to contribute to the development of a private sector strategy and to Cambodia to review the progress on reform of the Investment Law. The IFC Office in Beijing was instrumental in FIAS's preparations for and execution of the Shaanxi Investment Promotion Strategy project. Additionally, since the introduction of the Pacific Regional Heads of Investment Promotion Agencies Meeting (HIPAM) in 1997, FIAS has continued its support of the Forum Secretariat to set the agenda and provide technical backup to the annual meeting.
42. In Latin America, FIAS contributed to an IFC advisory project in assisting in the development of the policy, legal and institutional framework for converting a former airbase in Panama into an economic free zone. The Bank provided co-financing for the Guyana Diagnostic project in conjunction with the preparation for HIPC debt relief.
43. In Turkey, the FIAS advisory program was closely linked to Bank, IFC and IMF programs. Many of FIAS recommendations fed into the structural programs are under implementation. At the same time, some of the work that FIAS did, such as the review of the legal framework for FDI, stemmed from the structural programs. In the Middle East, FIAS cooperated with the World Bank on projects in Kuwait, Saudi Arabia and Yemen.
44. MIGA has continued to be a close and valuable collaborator in carrying out various joint or coordinated projects. For example, FIAS collaborated with MIGA for the Equatorial Guinea Diagnostic study and Bolivia Law Review projects. MIGA played a significant role in the conduct of the survey of investment promotion agencies, as the first phase of the IPA research project.

45. Other external agencies are also important partners in carrying out FIAS work because of their extensive resources and knowledge. As part of a four-agency initiative, FIAS continued to coordinate its advisory assistance in pre-selected least-developed countries with MIGA, UNCTAD and UNIDO. FIAS implemented its IPA project in Nigeria with the assistance of USAID. In Albania, the Soros Foundation financed the business survey of administrative and regulatory costs. The Corporacion Andina de Fomento (CAF) not only provided co-financing for the Administrative Barriers in Venezuela, but was also a valuable collaborator during the project.

IV. UPDATE ON THE RENEWAL OF THE FIAS PROGRAM

46. In FY01, FIAS management and staff initiated a multi-year renewal effort of the FIAS Program. Various aspects of the renewal were discussed with, and obtained the support of, FIAS donors. The purpose of the renewal is to position FIAS to better serve its clients and to play a more active role within the circle of advisory assistance for FDI. The renewal effort is multi-faceted. FIAS staff are to be strengthened and moderately expanded. The product line is to be reviewed and strengthened, both in terms of its content and delivery, and new products to be developed to better respond to the evolving needs of our clients. An applied research agenda is to be developed and implemented in support of FIAS's advisory operations, with a systematic knowledge generation and dissemination program. Finally, an impact monitoring program is to be put into place.

47. *Staffing:* In FY02, as part of FIAS expanding and rebalancing its staff on the basis of its priorities and needs, two staff members left the program and five new ones were recruited at level GF and above [those who do advisory projects]. This added close to two man-years to the staffing of FIAS compared to FY01.

48. *Products:* In FY01, taxation and fiscal incentives, backward linkages and diagnostic studies were among the product that underwent review. In FY02, FIAS focused on strengthening its expertise on backward linkages [see Applied Research, above] and on reviewing and enhancing its administrative barriers product. We developed a self-assessment tool, including a toolkit tailored to the needs of the Pacific Islands, and made it routine to conduct an administrative and regulatory cost survey of investment procedures when we do an administrative barriers study. We piloted the self-assessment approach in six countries in East Europe, and plan to apply it to Africa, Asia and possibly other regions in FY03. We were pleased to see that those six countries took advantage of the self-assessment to develop their capacity and ownership of the work. When expanding to other countries and regions, there will be a need to strike a right balance between the degree of self-assessment and institutional capacity of our clients. We plan to hold a conference in FY03 to review our self-assessment approach, and publish a user manual.

49. As planned, FIAS developed and tested two new products: FDI and competition policy, and corporate social responsibility. FDI and competition policy was piloted in Tanzania, where FIAS reviewed business entry, exit and operation issues at the policy and institutional levels in general and for selected sectors. Aspects of corporate social responsibility were pilot tested in Equatorial Guinea and Azerbaijan, regarding the effect of substantial FDI flows and revenues caused by the exploitation of oil and gas. In FY03, pilot testing will continue for these two products, and for a redesigned product on linkages between FDI and the domestic economy.

50. *Knowledge Management:* To capture some of its knowledge and expertise built over the last fifteen years, and to enhance the quality and efficiency of its work, FIAS has embarked on a substantial effort at knowledge management. To support our advisory work, applied research and provide a basis for comparability among countries, four

databases were created. Two of them provide quantitative measurements of administrative and regulatory costs: one containing data covering over 40 countries gleaned mainly from FIAS past reports, supplemented with other sources, such as the Bank's DEC Department's data for about five countries; and the other being built up over time with the results of the surveys attached to the administrative barriers studies, already covering fifteen countries. The third, contains examples of best practices on various aspects of the FDI environment, such as customs and the legal framework. The fourth, covers 450 investment climate indicators for 86 countries.

51. To share FIAS's knowledge on FDI issues with a wider audience within and outside the World Bank Group, FIAS is preparing a series of four-page notes. These notes may cover best practices, raise issues, describe case studies or summarize findings on various FDI topics. The preparation of a number of such notes was initiated in FY02 and we expect to have eight to ten published by the end of FY03. In addition, to share FIAS knowledge within the WBG and to learn more from its Bank colleagues, FIAS has sponsored or co-sponsored several seminars. The seminar topics ranged from tax incentives, FDI spillovers to the domestic economy, streamlining of administrative barriers, and investment promotion institutions.

52. The website (<http://www.fias.net>) continues to be regularly updated with news and more resources, and its design fine tuned. As a result of this pro-active effort, the website has seen close to a 50% increase in the number of visits and a nine-fold increase in number of hits from 1999 to 2001. Quarterly e-newsletters are sent out regularly to clients, partner organizations, donors, investment promotion agencies, Bank colleagues and others. New sections were recently added, such as the Project Impact Link, which gives examples of our clients' experience working with FIAS. The newly created Donor Page lists FIAS donors and their activities with FIAS [with individual links for each donor], and contains the FIAS impact monitoring system [see below] and information on the donors meetings and FIAS annual reports. Parts of this Donors Page are accessible to donors only. In FY02, the FIAS website continued to be a channel for numerous inquiries on FDI issues or for materials and publications. The website has direct links with those of MIGA, Development Gateway and PSAS Rapid Response.

53. *Impact Monitoring:* The monitoring system seeks to learn more about the impact of FIAS advisory service on the investment climate of client countries, and about its internal operations. The full system has been put into place for projects completed in FY01 and beyond. Elements of the monitoring system included the project brief, a decision-making document for management, which describes among other things, the objectives of the project, its design and methodology, its budget and its deliverables; the project completion report, which reviews the conduct and outcome of the project soon after its completion; and the project impact monitoring table, which tracks over three years the extent to which FIAS recommendations have been followed.

V. COSTS AND FUNDING

Costs

54. The total costs of the FY02 program amounted to US\$6.3 million, well below the budgeted \$8.1 million. A number of factors explain the differences with the budget. Management decided not to reach the full complement of 20 staff at this time. Staff and consultants travel costs were below the budget, partly because of the events of September 2001. Finally, provisions for overheads costs were higher than actual costs. The cost of the FY02 program was slightly above that of last year's, or \$6.1 million. While the size of the advisory program was comparable – 48 for FY01 and 49 for FY02 -- substantial staff and financial resources went into the implementation of the renewal of the FIAS program. 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>FY00</u>	<u>FY01</u> <u>restated</u>	<u>FY02/e</u>
Staff Cost	2,618	2,890	3,267
Consultant and Temporary	1,684	1,344	1,304
Total Personnel Costs	4,302	4,234	4,571
Staff Travel	800	450	480
Consultant Travel	434	647	395
Total Operational Travel	1,234	1,097	875
Office Occupancy	254	170	177
Office Equipment	10	98	28
Other Operating Costs /b	191	142	188
Other Costs /c	628	390	476
Total Operating Costs	1,083	800	869
Total Admin. Expenses /e	6,619	6,131	6,315

/a Accrual adjustments included in the various line items.

/b Includes: Group Training-follow-up costs associated with regional conferences; Service & 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 Overheads.

/d Totals may not add, due to rounding.

/e Preliminary

Funding

55. Budget support from IFC and the IBRD continued at a constant level in real terms, and maintained the ratio of approximately two to one of the IFC and IBRD contributions. In FY02, IFC's \$1,961,000 and IBRD's \$1,040,000 amounted to 47.5 percent of the total costs. More details on the funding are presented on page 2 of Annex IV.

56. Direct donors support, that is targeted donations, amounted to \$598,000 and covered nine percent of the total FIAS costs, as compared to \$549,000 or also nine percent for FY01. While this type of support dwindled from the late 1980s and early 1990s, when the UNDP and USAID supported FIAS advisory work, mainly in Asia and Africa, the interest on the part of some bilateral donors to target additional support to selected regions leads us to believe that such a support in the coming two to three years will be maintained. Switzerland has continued its support for our 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, conducted from our Asia/Pacific Regional Office located in Sydney, Australia.

57. Reimbursements from clients totaled \$1,676,000 or 26.5 percent of total costs, slightly higher than the 25 percent mark of FY01. In the past, the target for clients contributions was set at twenty percent of total costs. In the last three years FIAS has been striving to increase the ratio to 25 percent, while trying to minimize, at times, the significant amount of staff time that it often takes to secure client contributions.

58. The draw down from the FIAS Trust Fund, which is the residual source of financing, amounted to \$967,000, and represented 15 percent of total costs, compared with \$1,018,000 or 17 percent of total costs for FY01. For both FY02 and FY01, these percentages were lower than the previous two years, due to higher level of client reimbursements and direct donor support, and due to savings on costs.

59. The balance remaining in the FIAS Trust Fund at the end of FY02 is \$6,307,000, an increase from that at the end of FY01, or \$5,645,000. Compared to FY01, despite a lower contribution to the FIAS Trust Fund, the higher level of the FY02 balance is explained by a lower draw down from the trust fund, a higher beginning balance, and a higher posting of investment income.

FIAS Advisory Projects Completed in FY2002 (49)

FIAS Projects in Sub-Saharan Africa (14)

- Three regional projects were completed: **East African Community Secretariat** – review of a draft regional investment law; **SADC Secretariat** – review of the investment guidelines for the SADC region; and **Zambia/Malawi/Mozambique-Growth Triangle** – feasibility study for the establishment of the growth triangle.
- Two projects were completed in **Cape Verde**: review of the tax system and fiscal incentives offered to private investors; and implementation of a survey of regulatory costs.
- Two projects were completed in the **Democratic Republic of Congo**: diagnostic study and establishment of a strategy for attracting FDI; and assistance in the implementation of a draft investment law.
- In **Equatorial Guinea**, reviewed the investment climate in both oil and non-oil sectors and discussed FDI diversification.
- Study of administrative barriers to investment in **Guinea Bissau**.
- Review of the draft Investment Code in **Mauritania**.
- Two projects were completed in **Nigeria**: study of administrative barriers to investment; and implementation of recommendations in strengthening the NIPC.
- Study of the tax system and fiscal incentives as a follow-up to a previous project on the general investment climate in **Sao Tome and Principe**.
- In **Tanzania**, assessed the relationship between competition policy and foreign direct investment to reduce barriers to entry, improve competition in key strategic sectors, and adopt a more appropriate legal and institutional framework.

FIAS Projects in Asia and the Pacific (13)

- Advice on the investment climate to contribute to the development of a longer term roadmap for World Bank assistance to the private sector, in a post-conflict environment, in **Afghanistan**.
- Three projects were completed in **Bhutan**: assisted the Government in drafting an Investment Policy Statement; drafted guidelines to an investment law; and assessed FDI prospects for the proposed private sector development priorities in the context of the existing regulatory environment and proposed foreign investment law.
- Review of proposed amendments to the Investment Law in **Cambodia**.
- In **China**, assisted the Government in drafting an investment promotion strategy for Shaanxi Province.
- Assistance in the implementation of the Duty Suspension Scheme in **Fiji**.
- Review of a draft of the proposed new investment law in **Indonesia**.

- A regional project was completed in developing and implementing a training course on strategic planning and a paper on the subject was presented and discussed.
- Review of the draft of a FDI Bill in **Palau**.
- Review of the draft investment incentives legislation for the Board of Investment in the **Philippines**.
- In Samoa, assisted in the implementation of the FDI Act and the establishment of appropriate procedures for registration and monitoring of FDI.
- In **Tonga**, assisted the Government to turn drafting guidelines into draft legislative Bills, and facilitated the process of the Bills going through the Legislative Assembly.

FIAS Projects in Europe and Central Asia (9)

- Implementation assistance on the legal framework for investment promotion in **Albania**.
- Assessment of the investment climate from policy, legal, regulatory and institutional perspectives, including the conduct of an investment climate and regulatory costs survey, in **Azerbaijan**.
- Study of administrative barriers to investment at the request of the Economic Adviser to the President and the Presidential Commission on Investment in **Georgia**.
- Study of transactions cost and cumulative delay, due to administrative barriers, in **Kazakhstan**.
- Implementation assistance for removal of administrative barriers to investment in **Latvia**.
- Implementation assistance for the reform of investment incentives in **Romania**.
- Two projects were completed in the **Russian Federation**: implementation assistance for the removal of administrative barriers to investment; and development of a methodology to conduct follow-up administrative barriers studies.
- Assessment of the country's legal, regulatory, and institutional environment for FDI in **Yugoslavia**.

FIAS Projects in Latin America and the Caribbean (7)

- Review of a new draft law on investment, proposing a tax stability mechanism for new investments in **Bolivia**.
- In the **Dominican Republic**, advised the Government on enhancing its ability to attract foreign direct investment.

- In **Guyana**, provided a 'snapshot' of the overall investment climate with particular focus on three dimensions: the tax and incentive system, the FDI legislation, and the investment promotion strategy and institutional framework.
- In the **Netherlands Antilles**, reviewed the overall investment climate in order to develop recommendations to help increase the investment attractiveness of the five Antilles islands.
- Two projects were completed in **Panama**: review of a draft law for the establishment of a one-stop shop service for investors; and provision of policy advice and quality control on consultant inputs to the IFC in establishing a policy and legal framework for converting a former airbase into a Special Economic Zone.
- In **Venezuela**, identified administrative barriers to advise on how to streamline investment procedures.

FIAS Projects in the Middle East and North Africa (6)

- Review of draft law on FDI in preparation for the establishment of an investment promotion agency in **Kuwait**.
- Two projects were completed in **Saudi Arabia**: review of draft law on FDI in preparation for the establishment of an investment promotion agency; and analysis of investment procedures to establish and operate private investment projects for the purpose of removing administrative barriers, as well as assistance in strengthening recently established one-stop shop services.
- Review of the FDI environment in the **West Bank and Gaza Strip**.
- In **Turkey**, assisted in developing a new draft FDI law by providing a set of drafting guidelines, and an outline of the complementary reforms necessary to improve the overall legal framework for investment.
- In the **Republic of Yemen**, reviewed consultant inputs for a World Bank project examining the role of the General Investment Authority in attracting FDI.

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.

FIAS Conferences Completed in FY2002

Middle East

An Expert Group Meeting on “Competition Laws and Policies” in collaboration with the United Nations Economic and Social Commission for Western Asia (UN-ESCWA), the United Nations Conference on Trade and Development (UNCTAD), the Friedrich Naumann Foundation, the Abu Dhabi Chamber of Commerce and Industry and the Emirates Society for Consumer Protection. The conference was held in Abu Dhabi, UAE from January 28 to 30, 2002.

South Asia

This first regional South Asia High Level Roundtable on Foreign Direct Investment, entitled “Competing for FDI: How Can South Asia be More Successful?” was held in Dhaka on April 9 - 10, 2002. It was convened by FIAS, with support from UK DFID and the ADB, and in association with the Government of Bangladesh.

Latin America

A conference entitled “Responsible Globalization in the Caribbean Basin: Engaging Government, Business and Civil Society”, which was organized in collaboration with the Caribbean Latin America Action (CLAA) and the Oficina para la Promocion de la Inversion Extranjera (OPI), the investment promotion agency of the Dominican Republic, and was held in Santo Domingo, Dominican Republic on September 5 to 6, 2001.

Other Activities Completed in FY 2002

Internal Publications

Five contributions to **World Bank publications:**

- Jacques Morisset and Olivier Lumenganeso, “Administrative Costs in Developing Countries,” World Bank Policy Research Working Paper Series, May 2002.
- Andrew Stone, “Tools and Practices 19: Private Enterprise Surveys of the Business Environment” in Deepa Narayan, Ed., *Empowerment and Poverty Reduction: A Sourcebook* (Washington: The World Bank, 2002) pp. 345-353.
- Andrew Stone, “Institutional and Policy Impediments to Firm Competitiveness in the Middle East: Some Empirical Findings” chapter in Samiha Fawzy, Ed., *Globalization and Firm Competitiveness in the Middle East and North Africa*

Region Mediterranean Development Forum 3 (Washington: The World Bank, 2002).

- Geeta Batra and Hong Tan, “Skills Upgrading in East Asia” in Ijaz Nabi and Manjula Luthria, Eds., *Building Competitive Firm: Incentives and Capabilities* (Washington DC, World Bank, 2002).
- Geeta Batra, Daniel Kauffman, and Andrew Stone, “Voices of Firms 2000: Investment Climate and Governance Findings from the World Business Environment Survey” (Washington, DC: World Bank, 2002).

A contribution to **IFC publication** by Geeta Batra and Andrew Stone in collaboration with Daniel Kaufmann, “The Firms Speak: What the World Business Environment Survey Tells Us About Constraints on Private Sector Development,” in Gary S. Fields and Guy Pfeffermann, eds., *Pathways Out of Poverty-Private Firms and Economic Mobility in Developing Countries* (Washington, DC: International Finance Corporation, 2001).

External Publications

Jacques Morisset, “Foreign Direct Investment in Africa: Policies Also Matter”, in *New Horizons for FDI*, OECD: OECD Global Forum, 2002.

Jacques Morisset and Neda Pirnia, “Tax Policy and Fiscal Incentives”, in B. Bora, *Research Issues on FDI*, London: Routledge, 2002.

Jacques Morisset, “UnfairTrade: The Increasing Gap between Domestic and World Prices on Commodity Markets”, *New Academic Review*, June 2002.

Other Conferences and Seminars

“FDI and Business Environment Trends and Actions”, *The Annual Meeting of the Latin American Foreign Zones Association* in Colon, Panama in August 2001.

“Administrative Barriers to FDI in Tourism: The Role of IPAs and NTAs in Addressing Them”, *OECD/Black Sea Economic Council* in Istanbul, Turkey, September 2001.

“How to Strengthen the Trade and Investment Promotion Linkage”, *ITC Executive Forum* in Montreux, Switzerland, September 2001.

“Improving Investment Promotion in Western China”, *OECD/MOFTEC Conference on Investment Promotion in Western China* in Xi'an, China, October 2001.

“Removal of Administrative Barriers to Investment”, *Annual Meeting of the Southeast Europe Stability Pact* in Bucharest in Romania, October 2001.

“Foreign Direct Investment in Africa: Policies Also Matter” at the *OECD Global Forum on International Investment* in Mexico, November 2001.

“FDI and Skills Upgrading in Developing Countries”, *OECD Conference on FDI and Skills Upgrading* in Paris, France, December 2001.

“The Changing Face of International Investments”, *New Opportunities for Turkey: A Diagnosis of the FDI Environment* in Istanbul, Turkey, December 2001.

“Investment Promotion: Towards Best Practices”, *2002 World Association of Investment Promotion Agencies (WAIPA) Annual Meeting* in Geneva, Switzerland, January 2002.

“Administrative Barriers: Dangerous, but Necessary” and “Do 'One-Stop Shops' Work?”, *APEC conference* in Lima, Peru, February, 2002.

“Removal of Administrative Barriers to Investment”, *Annual Meeting of the Russian Ministry of Anti-Monopoly Policy and Support for Entrepreneurship* in Moscow, Russia, February 2002.

“The Role of Sub-national Governments in Investment Promotion”, *National Investment Planning Seminar*, Investment Promotion Authority in Lae, PNG, 22-23 May 2002.

“Export Processing Zones: Some Basic Facts”, The Government of Zambia, The Economic Association of Zambia and the Donor Community (including the World Bank) Consultative Workshop on *Deepening Economic Diversification in Zambia – Towards Transformation of the Copperbelt* in Kitwe, Zambia, June 2002.

“FDI and Investment Climate Reforms in Developing Countries” and “FIAS' Role and Services”, World Bank Seminar on '*Legal Aspects of Investment Services: A World Bank Group perspective*' in Washington, DC, June 2002.

“Foundations of Sustainable Development in the Zambia, Malawi and Mozambique Growth Triangle”, *UNDP Tripartite Conference* in Tete, Mozambique, June 2002.

Staffing and Budget by Expense Category FY2000-2002
(US\$'000)

	<u>FY2000</u>	<u>FY2001</u>	<u>Budget FY2002</u>	<u>Actual FY2002</u>
AUTHORIZED POSITIONS				
1. HIGHER LEVEL	18.0	18.0	20	20
2. SUPPORT	8.0	8.0	10	10
STAFFYEARS				
1. HIGHER LEVEL /b	14.5	16.0	20.0	17.8
2. SUPPORT (ACS and RA)	7.1	7.6	9.6	8.5
3. CONSULTANT - Short Term	1.0	-	-	-
4. CONSULTANT - Long Term	1.0	-	-	-
DISCRETIONARY COSTS				
SALARIES	1,758.0	1,906.2	2,308.8	2,217.1
TEMPORARY	89.6	9.9	27.1	25.6
OVERTIME	4.1	6.8	30.1	4.0
TRAVEL - STAFF	799.8	450.5	795.7	479.5
TRAVEL - CONSULTANT /a	434.1	646.9	668.0	394.6
REPRESENTATION	11.5	5.9	19.2	7.2
HOSPITALITY	2.4	6.3	1.1	7.5
CONSULTANT FEES /a	1,594.3	1,333.7	1,464.8	1,278.7
CONTRACTUAL SERVICES	242.7	11.7	180.0	81.1
COMMUNICATIONS	46.5	15.8	101.3	39.6
INTERNAL COMPUTING COSTS	39.0	51.6	42.0	49.4
LANGUAGE AND PRESENTATION SERVICES	36.6	38.3	62.4	47.9
STAFF TRAINING	47.4	6.6	50.0	22.9
GROUP TRAINING FOR CLIENTS	21.6	6.4	60.0	31.4
MISCELLANEOUS	16.7	90.8	9.0	58.2
SUB-TOTAL	<u>5,144.5</u>	<u>4,587.6</u>	<u>5,819.4</u>	<u>4,744.9</u>
OTHER COSTS				
OFFICE OCCUPANCY	254.2	170.4	176.7	176.7
OFFICE MACHINES/SOFTWARE	10.4	98.2	66.2	28.3
SUPPLIES AND OTHER	19.3	11.5	3.9	47.3
DEPRECIATION CHARGES	-	-	6.0	-
TOTAL DISCRETIONARY & OTHER COSTS	5,428.3	4,867.7	6,072.3	4,997.3
BENEFITS	855.6	976.8	1,106.3	1,046.1
OVERHEADS	165.9	151.5	580.5	115.2
TOTAL (INCL. BEN. & OVERHEADS)	<u>6,449.8</u>	<u>5,996.1</u>	<u>7,759.1</u>	<u>6,158.6</u>
SERVICE & SUPPORT FEE	142.5	93.7	317.4	83.2
PERSONNEL SUPPORT	-	0.5	-	-
SUPERVISION COSTS	-	-	-	-
TRUST FUND ADMINISTRATION FEE	26.7	41.0	67.8	73.0
REIMBURSEMENTS (Clients & USAIDTF)	-	-	-	-
TOTAL PROGRAM COSTS **	<u>6,619.0</u>	<u>6,131.2</u>	<u>8,144.3</u>	<u>6,314.9</u>

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

/b 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.

09/19/2002

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

	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>
Total Uses of Funds	6,619	6,131	6,315
Sources of Funds			
A. Contributions of Bank Group			
IFC	1,848	1,903	1,961
IBRD	913	953	1,040
Subtotal	<u>2,761</u>	<u>2,856</u>	<u>3,001</u>
B. Reimbursements from Clients	1,371	1,506	1,676 /e
C. Cross Support		202	74
D. Direct Donor Support			
UNDP	184		(1)
Bilateral			
- USAID			
- CIDA			
- Switzerland (Africa) /a	30	236	54
- Switzerland (Balkans) /b		91	79
- Australia/New Zealand Trust Fund	231	222 /c	466 /d
Subtotal	<u>445</u>	<u>549</u>	<u>598</u>
Net drawn from the Trust Fund	2,042	1,018	967
Total Sources of Funds	6,619	6,131	6,315

FIAS TRUST FUND ANALYSIS

Trust Fund Beginning Balance	6,132	5,005	5,645
Less: Net Draw Down	(2,042)	(1,018)	(967)
Plus: Interest Earned (excl. TF Admin. costs)	219	197	457 /f
Plus: Interest Earned by FIAS/APRO TF (US\$ est)	NA	NA	33.8
Plus: Other Income		0.21	
Plus: Contributions to the Trust Fund	<u>697</u>	<u>1,461</u>	<u>1,138</u>
Trust Fund Ending Balance	5,005	5,645	6,307

/a Amounts shown represent drawings from the fund. For this program, FIAS received \$500,000 from Switzerland.

/b Amounts shown represent drawings from the fund. For this program, FIAS received \$250,000 from Switzerland.

/c Excluding \$337,880 (A\$650,000) received in FY2001 slated for FY2002.

/d Excluding \$358,600 (A\$650,000) received in FY2002 slated for FY2003.

/e Including off-budget support in the amount of \$581,900.

/f Preliminary.

NA = Not available

Note: Totals may not add due to rounding.

09/19/2002

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

	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>
Canada	417	195.9	
Belgium			
Denmark			
Finland			
France			
Ireland	50	50.0	50.0
Italy			266.5
Japan			
Luxembourg		270.9	
Netherlands	(6)	190.9	264.8
Norway			
Portugal			
Spain	100	150.0	
Sweden		187.5	390.8
Switzerland		250.0	
United Kingdom	136	165.6	166.0
Additional expected			
TOTAL	<u>697</u>	<u>1,460.8</u>	<u>1,138.1</u>

DATA AS OF: 09/15/02