

IFC Work on Country Investment Climates

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Why Such Work is Important to IFC

- IFC Role, as a Multilateral
- IFC's Original Articles of Agreement:
“Article I: Purpose – The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, ...[IFC shall] seek to stimulate, **and to help create conditions conducive to**, the flow of private capital, domestic and foreign...”



Why Such Work is Important to IFC - 2

And it is not solely due to IFC's role:

Evaluation results have shown that **IFC investments perform best, and are most profitable, in countries where the business environment has improved**

(in particular where the improvement is from a low base)



IFC's Substantive Work on Country Investment Climate

- **All starts from work on (and experience from) individual investment operations**
- **Practical experience in what works, and at a global level, is the basis for the special contribution IFC can make relative to other multilaterals**

Project Specific Work

- For a project under consideration: work on specific investment climate reforms to permit feasibility
- Work done when “things go bad”, e.g. Thai Petrochemical Industry (TPI): Precedents set in getting the bankruptcy system to work

Stand-Alone Work

- **Work done on specific legal, tax, and regulatory changes needed to make investments in certain areas possible:**
 - **Leasing:** many countries over the last two decades; recently Russia, Ukraine, Mongolia, ...
 - **Securitization:** South Africa
 - **Insurance:** Honduras, Lebanon, Madagascar
 - **Warehouse Receipts (agriculture):** Mexico
 - **Student Loans:** Vietnam
 - **Trading of derivatives:** Thailand

Stand-Alone Work - 2

- Such IFC work is generally supported through government donors (Trust Funds)
- Often leads to follow-up IFC investments
- Country specific work also extensive through a series of Project Development Facilities (Africa, Balkans, South Asia, Mekong region, South Pacific, China):
 - Provide small business assistance, as well as support to changes in government policies affecting small business

Other Such Activities

- The Private Enterprise Partnership (in Russia, Ukraine, much of FSU) has helped on drafts of over 100 pieces of legislation on privatization, simplifying business registration, taxation, and rationalization of business regulation
- The Small and Medium Enterprises Department has developed specific country “maps” of business environment issues facing small and medium business. Posted at:
http://www.ifc.org/sme/html/sme_barriers.html

Other Such Activities - 2

- **Foreign Investment Advisory Service (FIAS), a joint IFC/IBRD service, does specific consulting assignments, at request of government, on aspects of the climate for foreign investment**
 - Has worked in over 120 countries
- **IFC–led “Private Sector Fora” in a number of countries (Vietnam, Cambodia, several in Africa):**
 - Committees of local private groups, with government, to address specific policy issues hurting business
 - Linked to meetings of government aid donors
- **And much more: e.g. organization of seminars, press interviews, presentations to conferences, and meetings with the authorities**



Internal IFC Assessment Work

- **Investment Impediments Database:**
 - Joint database, created in collaboration with 32 other public institutions (such as the EBRD, OPIC, other government entities) on the business environment problems encountered in specific investments in a country
 - Examples of deal breakers in one country:
 - Regulatory vacuum on credit guarantee funds
 - Foreign currency debt service reserve account could not be opened
 - Non-transparent rules on convertibility
 - Database used for internal purposes; confidential at this time

IFC Business Environment Survey

- Confidential survey of IFC staff who have worked on specific countries
- Problem of small sample of people for individual countries. Should view as a pilot test. Undertaken in Summer, 2001.
- Obtained usable data on 45 countries
- 21 questions; ratings on scale of 1 to 4



Top Rated Countries

- Adequacy of Company Law: South Africa
- Adequacy of Pledge Law: South Africa
- Adequacy of Bankruptcy Law: Lebanon
- Open to free competition from imports: Sri Lanka
- Quick and transparent bureaucratic decision making process: El Salvador
- Robust legal and regulatory structure for financial institutions: South Africa
- Effective enforcement of laws and regulations for financial institutions: Poland

Areas of Relative Weakness

Note these are not ratings *across* countries, but rather the two areas which scored lowest for the individual country

Examples

- Argentina:
 - Macro environment
 - Quick & transparent bureaucratic decision making
- Korea: (note country quite highly rated overall)
 - Quick & transparent bureaucratic decision making
 - Open to free competition from imports

IFC Reorganization Should Facilitate Investment Climate Work

- **Recent reorganization created Global Financial Markets Department, in addition to General Manufacturing Department: will allow greater specialization by expertise**
- **Financial market operations now account for 40% of IFC new lending**
- **In Global Financial Markets, have created groups with focused expertise in housing finance and microfinance, and advisory groups on banking, securities markets, and corporate governance**



Link to IFC Profitability

- **As noted at start, role of IFC includes work on improving country investment climates**
- **But also central to IFC profitability**
- **IFC's competitive advantage derives from what we can do as a global multilateral, operating in the interest of our country owners, which others cannot do as well**
- **Support to investment climate reform is one**
- **Due to potential conflicts of interest, purely private entities are often not in a position to play such a role**

Link to IFC Profitability - 2

- As basic business school strategy teaches, you can only be profitable by focusing on your areas of competitive advantage
- Hence a focus on what IFC can do to support improvement in the investment climate, and investments to follow-up on this, should be profitable

Link to IFC Profitability - 3

- **Example: IFC work on reforming the legal, tax, and regulatory environment to make leasing feasible**
 - **Work underway since the 1980's in various countries**
 - **Have found that the initial follow-up IFC investments to help set up the first of second leasing company in the country have been quite profitable**
 - **But once others follow, the profitability to IFC of such investments have not been special**



Link to IFC Profitability - 4

Hence, work on improving the investment climate is in fact central to IFC's long-term profitability, even though there are up-front costs to carry out such work