



The Foreign Investment Advisory Service Program

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The Foreign Investment Advisory Service Program (FIAS) helps the governments in developing countries improve the foreign direct investment (FDI) environment of their countries. FIAS advises on laws, policies, incentives, institutions, and strategies. It helps countries increase the amount of investment they receive and the benefits this investment produces.

Since its founding in 1985, FIAS has assisted more than 120 countries—many of them on a continuing basis over the years. Its broad experience has helped it identify the essential attributes of a sound investment environment. Its staff tailors this knowledge to the circumstances of client countries to help them reach their potential for attracting FDI.

FIAS works only at the request of the client government, on topics identified and agreed to by both parties. This approach ensures the relevance of the assistance and lays the basis for active partnership. FIAS offers much more than one-way advice and written reports: through interactive workshops and roundtable meetings that often include business executives and other stakeholders, it helps clients chart technically and politically practical paths to change.

FIAS has the unique strength of being a joint service of two of the world's largest multilateral development institutions: the International Finance Corporation and the World Bank. FIAS staff can—and do—call on the expertise of the entire Bank Group (which also includes the Multilateral Investment Guarantee Agency, or MIGA, and the International Center for Settlement of Investment Disputes) in designing coordinated assistance packages for client countries.

Advisory Services

FIAS offers a comprehensive range of services to help the client government attract FDI. Terms of reference for each assistance project are tailored to meet the client's specific needs at the time. Some common topics for assistance follow.

Diagnostics

FIAS undertakes diagnostic studies to identify a country's main policy impediments to productive foreign direct investment. The issues typically identified include prohibitions on foreign investment in many sectors or locations; restrictions on the share of foreign ownership in the equity of domestic companies; difficult administrative approval processes; restrictions on repatriation of dividends and capital; taxes; the character and functioning of legal systems; and problems foreign firms have in gaining access to land and bringing in technical and managerial staff.

Legal and Regulatory Environment

In any country, the rules of the game are critical to attracting worthwhile investments. FIAS can review a country's legal and regulatory environment and recommend measures in areas such as screening procedures, restrictions on the percentage of shares owned by foreigners, currency convertibility, access to land, and investment protection under national laws and international conventions.

Administrative Barriers

One important tool the FIAS has developed is its "Roadmap" analysis of bureaucratic barriers that snarl and slow both investment and subsequent production. These detailed flowcharts pinpoint problems that will enable the governments to identify and eliminate counterproductive procedures and streamline the necessary regulations that remain.

Investment Incentives

In a competitive world, countries often grant benefits to entice investors. FIAS can analyze incentives to ensure they are competitive and cost effective.

Investment Promotion

Effective investment promotion can influence investor decisions and affect the amount and kind of investments a country receives. Efficient agencies are needed to attract FDI and help manage investment policy. FIAS helps client countries design promotion institutions, adapting models that have proven effective elsewhere. It also helps these agencies formulate promotion strategies that identify competitive advantages and target specific opportunities. Strategies can be conceived on national, regional, or sectoral levels.

Building Linkages

The benefits of FDI are often enhanced by increasing business links with local companies. FIAS can help clients design programs that foster supply and other relationships between foreign-owned and domestic companies.

Foreign Direct Investment Data Systems

Government agencies require accurate data about investment flows—for their own use and to provide information to the marketplace. FIAS can help design nonintrusive systems for collecting data on direct investment, including measuring the impact of investments on key variables such as job creation and export growth.

Working with FIAS

An advisory project begins with a high-level request from a potential client government, FIAS management's agreement to do the work, and mutual agreement on the terms of reference. Assignments typically take three to six months to complete. FIAS may communicate its recommendations in a written report or by other means, such as a workshop. Whatever the vehicle, FIAS delivers assistance in a timely, practical, and nonbureaucratic style.

The advice that FIAS gives is confidential to its government clients, who are under no compulsion to accept that advice. Confidentiality helps establish a relation of trust in which FIAS can provide a frank assessment of a country's strengths and weaknesses for attracting foreign investment. FIAS has a strong record of putting forth recommendations that client countries recognize as valuable—and act on. Reforms suggested by FIAS have contributed to the success that many of its client countries have achieved in attracting more foreign investment.

The IFC and the World Bank contribute roughly 35 to 40 percent of the funding needed to cover FIAS's annual costs. The rest comes through donations from more than a dozen bilateral and multilateral sources and from fees paid by the governments for which FIAS works.



Regional Reports

Africa

FIAS conducted 15 advisory projects in Sub-Saharan Africa during FY2002, reflecting both the strong interest of these countries in attracting FDI and continuing high demand for FIAS services in this region. While assistance continued to focus on traditional products such as administrative barriers studies (Guinea Bissau, Nigeria) and reviews of Investment Laws (Southern African Development Community, Mauritania, Democratic Republic of Congo), attention also increasingly focused on two new areas: the implementation of action plans, and the impact of FDI on the host economy.

Over the past few years, several African governments have adopted action plans aimed at streamlining the administrative procedures that existing and potential investors face when they establish and operate an establishment in the country. FIAS has been assisting them in their implementation efforts, most notably by conducting surveys of the private sector. These surveys have been useful in identifying and quantifying the main administrative barriers to investment; providing benchmarks and performance indicators of the

reforms over time, across countries, or both; and stimulating dialogue between the public sector and the business community.

The second new area of assistance has been to examine more closely the impact of FDI in some countries. At the request of the Tanzanian government, FIAS assessed the relationship between competition policy and anticompetitive practices with regard to FDI. Increased FDI flows can lead to benefits for the host economy, which are reflected through economic growth, poverty reduction, and technology transfers from multinational companies, and these benefits are generally magnified in a competitive environment. Recommendations were developed to reduce barriers to entry and to improve competition in key strategic sectors, as well as to adopt a more appropriate legal and institutional framework.

FIAS was asked to assess Equatorial Guinea's investment climate, with an emphasis on how the recent FDI inflows in the oil sector can be used to benefit the local economy, especially the labor force. Corporate responsibility and the links between the multinationals and the government as well as the local private sector were discussed in the light of recent international best practices.

Asia and the Pacific

Advisory assistance was provided at a number of different levels in Asia and the Pacific: regional forums, national governments, and subnational governments. The existence of an FIAS office in the region (located in Sydney) allows responsive service to clients' requests in a region remote from Washington. The topics addressed vary but fall within the general parameters of policy reform initiatives, the implementation of reform, and general administration of policy—and the investment promotion and institutional aspects that accompany each. Within these main areas, the administration of policy and the relationship between national and subnational promotional agencies are both assuming increased importance.

The assistance provided ranged from the detailed and specific, such as improvements in elements of the export environment—and incentives regimes—for export-oriented foreign investment companies (recently, for example, in Fiji and Samoa) to the more general, such as the organization of subregional roundtables for senior policymakers and private sector representatives on key FDI policy issues (most recently, for South Asia, in Dhaka). The scale of FIAS inputs varies from a few days spent on a



desk review of draft legislation (recently for Indonesia on a draft investment law and for the Philippines on incentives legislation) to several weeks, spread out over more than a year, for some implementation projects.

Europe and Central Asia

FIAS continues to be very active in Europe and Central Asia, carrying 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 11 studies of administrative barriers to investment in Europe and Central Asia, FIAS is now preparing 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 are currently being piloted in Bosnia, Bulgaria, Croatia, Latvia, and FYR Macedonia.

Client governments that are engaged in administrative and regulatory reform can now compare their progress over time and between countries using standard surveys of the business community. The surveys cover the costs and time requirements businesses experience during standard investment procedures as well as costs and time spent on such matters as company registration, business licensing, getting access to land, construction permits, paying taxes, customs procedures, product certification, and various government inspections. FIAS continues to work closely with client governments to develop a constructive dialogue between the government 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.

Middle East

During the 1990s the countries of the Middle East generally failed to participate in the global boom of FDI flows. Many of the region's governments recognize 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. Gulf states, such as Saudi Arabia and Kuwait, are actively developing a more liberal legal environment, combined with the creation of a corresponding institutional framework. Other countries, such as Turkey, are seeking FIAS advice on concrete measures and institutional structures for facilitating the entry of FDI to improve the integration of their economies into the global marketplace and establishing public and private sector dialogue.



Latin America and the Caribbean

FIAS continues to meet a broad spectrum of assistance demand, driven by the different needs of larger South American economies as well as the smaller, export-oriented economies of Central America and the Caribbean. The new government in the Dominican Republic approached FIAS to assist in a review of its FDI strategy to avoid the loss of FDI

operations to neighboring countries. FIAS also assisted the government of Panama, in collaboration with IFC and MIGA, to structure a new free zone around a previous U.S. military base. Venezuela, despite its political instability, recognized the danger that convoluted administrative procedures pose to its competitive position, and FIAS assisted with an administrative barriers study. In addition, FIAS assisted countries involved in drafting new legislation

related to private investment. FIAS assistance was quick and flexible and provided timely recommendations for improving this planned legislation.

An interesting feature of FIAS's work in the region is a growing recognition by most governments there that they need to strengthen their international competitiveness in order to establish a vibrant private sector as a cornerstone of their economic development strategies. An increasing number of countries have expressed interest in sophisticated and forward-looking assistance: FIAS is currently in discussions with the government of El Salvador for assistance tailored to strengthening the private sector's corporate social responsibility initiatives in order to improve the social and environmental conditions in the country. In Nicaragua, FIAS is likely to provide assistance on improving the country's competition policy framework to enhance the competitiveness of Nicaraguan investments in the global economy and to facilitate the diffusion of international best practices in the domestic economy.