

The Foreign Investment Advisory Service Program

helps developing and
transition country governments design initiatives to attract foreign direct
investment.



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 117 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 foreign direct investment (FDI).

FIAS works only at the request of governments, on topics identified by the government and agreed to by both parties. This ensures the relevance of the assistance and lays the basis for active partnership. The Service 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 governments 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 and the International Center for Settlement of Investment Disputes) in designing coordinated assistance packages for client countries.

Furthermore, the placing of the FIAS Program and the Business Environment Group as one unit allows a wider perspective on how to assess and respond to investment constraints in the business environment. Experience suggests that much can be done to remove barriers, disincentives, and distortions that may discourage investment or divert it from efficient uses. Creating a stable, neutral, and efficient environment for business can bring in new investment and improve the productivity of existing investments. Higher levels of investment and productivity are key to stimulating growth in developing countries and raising standards of living.

Advisory Services

FIAS offers a comprehensive range of services to help governments 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 are:

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 such areas 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 Service has developed is its "Roadmap" analysis of bureaucratic barriers that snarl and slow both investment and subsequent production. These detailed flowcharts pinpointing problems have helped governments identify and eliminate counterproductive procedures, and streamline the necessary regulations that remain.

Investment Incentives

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



Investment Promotion

Investment promotion can influence investor decisions and affect the amount and kind of investments a country receives. Effective agencies are needed to attract FDI and help shape investment policy. FIAS helps 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 governments design programs that foster supply and other relationships between foreign-owned and domestic companies.

Foreign Direct Investment Data Systems

Governments require accurate data about investment flows—for their own use, and to provide information to the marketplace. FIAS can help governments design non-intrusive systems for collecting data on

direct investment, including measuring the impact of investments on such key variables as job creation and export growth.

Working with FIAS

An advisory project begins with a high-level request from a 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 non-bureaucratic style.

The advice that FIAS gives is confidential to its government clients, who are under no compulsion to accept that advice. This 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. The Service 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 successes many of its client countries have achieved in attracting more foreign investment.

IFC and the World Bank contribute roughly 40 percent of the funding needed

to cover FIAS's annual costs. The rest comes through donations from more than a dozen bi- and multilateral sources, and fees paid by the governments for which FIAS works.

Regional Reports

Sub-Saharan Africa

With more than a dozen projects in the past fiscal year, FIAS has been extremely busy in Africa. Our assistance has been divided into three categories: (1) countries emerging from political and/or economic instability that want to strengthen their investment climate and attract foreign direct investment (Guinea Bissau, DR Congo); (2) countries which have demonstrated reasonable success over the years in attracting FDI and want to increase the amount of FDI inflows and maximize the impact of FDI in their economies (Nigeria, Senegal, Mozambique); and (3) at the regional level where FIAS has supported the efforts of regional bodies to enhance cross-country synergies (UEMOA, EAC, COMESA).

While FIAS continues to assist countries in identifying the main obstacles in their business environment, the focus of our projects, at the governments' request, has increasingly been on action plans and

implementation. Projects such as streamlining administrative barriers so that investors have to spend less time and money in cumbersome procedures, and making effective use of taxes and fiscal incentives, have been on the top of the agenda of policymakers in Africa. Reforming investment laws and investment promotion agencies have also been elements of the strategies followed by many African countries.

FIAS plans to focus on a few new areas. Increasingly governments have shown concerns in their competition policies and the negative impact that formal as well as informal barriers in this area may have on foreign investment. Another concern has been how to promote corporate responsibility in areas such as the environment and labor standards. Dissemination of international best practices and a constructive dialogue with the authorities should lead to progress in these two areas.

Asia and the Pacific

Advisory assistance to governments or government sponsored bodies is provided at a number of different levels: regional fora (such as the Pacific Forum, ASEAN, APEC, and the Greater Mekong Subregion); national governments (most recently

Bhutan, Cambodia, Mongolia, Samoa, and Tonga); groupings of sub-national governments (for example, Southern Philippines and Eastern Indonesia); and individual sub-national governments (for example, the State of Andhra Pradesh in India and Shaanxi Province in China).

Recent projects have included components focusing on the creation of and revisions to investment legislation and regulation (with particular emphasis on simplification and transparency, for example, in Bhutan and Mongolia); investment incentives (helping governments to move away from expectation-based to performance-based fiscal assistance to firms, for example, in Cambodia and Tonga); identification of entry and operating impediments for foreign investors (often occurring as administrative barriers, for example, Eastern Indonesia and Southern Philippines); and the development of strategies and organizational structures for investment promotion in (more often than not with a strong focus on investor servicing, most recently, in China and the State of Andhra Pradesh).

Europe and Central Asia

FIAS continues to be very active in Europe and Central Asia, carrying out reviews of investment legislation, investment

incentives, investment promotion agencies, and removal of administrative barriers to investment. We have been particularly active in the Baltics, Southeastern Europe, Russia, and the Caucasus region. Having carried out ten studies of administrative barriers to investment in the region, we are now preparing self-assessment tools for monitoring and evaluation of the resulting reforms, as well as for the initial stages of new administrative barriers studies.

Client governments which are engaged in administrative and regulatory reform can now compare their progress over time, and between countries, using standard surveys of the business community about the costs and time requirements they experience during standard investment procedures and operating procedures such 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 in developing a constructive dialogue between the government and investors, prioritizing the reform agenda, developing workable reform strategies, assessing the impact of their reforms on the business environment, discovering which reforms are working well and which ones are not working so well, and making the

necessary adjustments to assure each country's overall reform program is having the desired impact in both in terms of investment levels and positive spillover benefits of FDI throughout the economy.

Latin America and the Caribbean

In Latin America and the Caribbean, FIAS advisory work needs to address a broad spectrum of assistance demands, ranging from the large economies of the southern cone to small Caribbean islands and relatively less developed economies, especially in Central America. Each of these groupings is concentrating on different types of investment, matching its comparative advantage and attractiveness. Demands for concrete advisory assistance from FIAS therefore differ significantly, ranging from broad policy work to enhance a country's overall attractiveness to targeted interventions to address specific policy issues such as tax incentives or administrative procedures.

One area of interest in the region which is likely to grow is the role of FDI as a tool for responsible globalization. Many of the countries have experienced criticisms and concerns with respect to the environmental and social impact of FDI projects. Governments are increasingly concerned about how they could develop an appropriate framework to make use of the growing "corporate

responsibility" agenda among multinational investors in order to maximize the benefits and minimize any possible detrimental impact associated with private investment activities.

Middle East and North Africa

Over the last decade, the countries of the Middle East generally failed to participate in the global boom of FDI flows. 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 a spurt of 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. Most of the Gulf states are actively developing a more liberal legal environment, combined with the creation of a corresponding institutional framework. Others, such as Egypt, Lebanon and Turkey are seeking FIAS advice on concrete measures for facilitating the entry of FDI to improve the integration of their economies into the global marketplace.

