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# Improving the Investment Climate in Post-Conflict Countries

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# Outline

- Why investment climate reform in post-conflict countries?
- What is different in post-conflict countries?
  - The context and problems
  - The pre-conditions
  - The diagnostic work
  - The stakeholders
  - The approach and intensity
- Example: Liberia
- Questions

## Why Investment Climate Reform in Post-Conflict Countries?

- There is both the greatest need and the greatest potential for change
- There is a need to shift from a war economy to a peace time economy
- Long term structural employment depends on the private sector

# Context and Problems

## Post-Conflict Economy Features

- Recent violence and possibility of a return to violence
- Displaced population
- Destroyed infrastructure
- Fragmented markets, with large portion of illegal and informal activities, and a residual war economy
- Transitional government for maybe up to first three years in post-war arrangement that is fragile, risk adverse, and uncommitted to reforms  
Low government capacity to manage public finances, deliver services, provide security
- Key industries often monopolized by well connected private and/or "public" companies with little operational skills and desire to invest
- High levels of corruption, often through predatory behavior of the public administration, curtailing donor willingness to provide budget support

## Impact on Private Sector

- Instability/safety scares away investors
- Labor supply/consumers not settled, focused on survival, mostly low skilled
- Damaged roads, ports, power, communication limit movement of people/ goods
- Informal activity a misallocation of resources and untaxed; illegal activity maybe a cause of conflict
- Insurance and credit difficult to obtain/expensive
- Missing incentives and political will for government reform action
- Low trust in government administration
- Weak fiscal stability and large initial capital investments deter most except large or 'cowboy' investors, or long-term expatriate businesses
- High levels of corruption results in low investments, low productivity, and very high prices to consumers

## Pre-Conditions

- Basic safety/ security
- A government counterpart
- Humanitarian relief provision well under way
- Private businesses able to conduct their activities
- Broad donor interest in engagement in the country

# Diagnostic Work is Different

- Conflict Analysis
- Political economy of the conflict and the peace
- Technical analysis

## Stakeholders are Different

- Government
- Donors
- Private sector
- Civil society
- Diaspora
- Factional leaders and 'spoilers' of the peace

## Approach and Intensity

- Seek to shape the reconstruction agenda
- Look for links with other programs:
  - Existing PSD reform programs where work programs can be shared with other agencies.
  - Fiscal and PFM reforms (e.g. tax/ customs, contracts, concessions awarding, commercial legal framework)
  - Anti-corruption programs, for example aimed at cleaner business, CSR, or EITI initiatives
- 'Quick-wins' and long-term reforms

# Liberia

## Mini-Diagnostic (February 2006)

- Informality is a severe constraint on growth and job creation
- Legal framework is discriminatory and not consistent with best practice
- Uncoordinated, excessive inspections
- High cost of operating a business due to excessive customs procedures and uneven playing field caused by discretion in the tax system
- Agro-business sector suffers from low capacity and inadequate laws
- Lack of effective public-private partnership for policy change

# Liberia

## Phase I Program (September 2006 - June 2007)

- **Informality Survey:** Research and analyse causes of informality
- **Investment Law:** Technical legal review and drafting of new investment code and incentives regime
- **Investment Generation Capacity:** Consultant drafted an institutional strategy and capacity building program for the National Investment Commission (NIC)
- **Public Private Dialogue:** Define framework, mandates and consultation on objectives and outcomes

# Liberia

## Phase II Program (July 2007 - June 2009)

- Business registration and start-up
- Customs and Trade
- NIC Support and Investor Outreach
- Public Private Dialogue process
- Communications strategy