

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE
OCTOBER 15-19, 2007
WASHINGTON, D.C.**

Session Title: Improving the business climate in Post-Conflict countries

Date and Time: October 16, 2007, 4:00pm – 5:15pm

Type of Session: Breakout

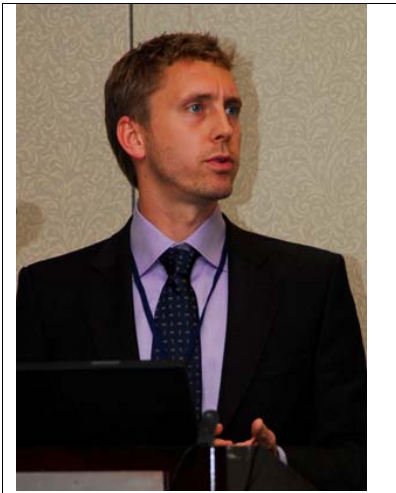
Speaker(s): Rob Krech, IFC

Moderator: Wade Channell

Overview of Session:

Robert Krech spoke of the IFC's initiatives aimed at improving the business climate in Post-Conflict Countries (PCC). His presentation focused on the importance of paying attention to the investment environment early in a post-conflict environment. He discussed the IFC/FIAS approach to PCC and lessons learned from the work IFC/FIAS has done in PCC countries since 1989, and highlighted the example of IFC/FIAS work in Liberia. He made the case for investment reform in PCC; he enumerated preconditions for successful investment reform in PCCs; and he placed great emphasis on the importance of diagnostic, highlighting the importance of mapping the stakeholders in the reform process. The balance of his presentation was given to the Liberia example and lessons that have been learned from it.

Speaker's Remarks:



Rob Krech addresses workshop attendees. Photo by Paul Goodman.

Mr. Krech organized his presentation along the following lines: a) why investment climate reforms are important in PCCs; b) what makes PCCs different; c) context; d) pre-conditions for FIAS assistance; e) understanding the stakeholders; f) approach and intensity; and g) the Liberia example.

Investment reform in PCCs is important because of the obvious great need and the increased potential for change that by definition exists in PCCs. It is also important because of the critical need to shift from a war economy to a peace economy and because long term employment ultimately depends on rapidly establishing a conducive environment for the private sector to thrive. A top priority for FIAS in this regard is investment promotion.

IFC/FIAS will not work in every post conflict country. There are some preconditions including basic safety and security, a clear government counterpart, progress in humanitarian relief provision, a private sector able to conduct its activities, and broad donor engagement.

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Diagnostic work is key, and IFC has a tripartite approach to assessing whether a country is ready for IFC assistance. This includes a) Technical diagnostic, b) Assessment of opportunities, and c) Review of political willingness to engage in reforms.

To improve the chances of successful interventions it is important to conduct a mapping exercise of stakeholders. FIAS diagnostic of stakeholders identifies two unconventional types of stakeholders: a) Diaspora and b) Factional leaders (potential “spoilers” of the peace process); in addition to conventional stakeholders including government, donors, the private sector and civil society.

FIAS gives a great deal of consideration to approach and intensity of its support to reforms in the business environment in PCCs. It considers what the priorities should be and how to sequence assistance. There are no easy answers to these questions, no “plug-and-play” solutions. FIAS seeks to shape the reconstruction agenda, and they look for links with other programs that will give quick wins.

Krech presented the FIAS experience in Liberia’s post-war reconstruction. In conducting a “mini diagnostic” FIAS found two major problems: 1) informality was a key barrier to growth and jobs creation and 2) a discriminatory legal framework raised the risks to investors. FIAS work in Liberia can be understood by two identifiable phases. In Phase 1, FIAS conducted an informality survey, supported passage of an investment law, built investment generation capacity, and, perhaps most importantly, helped establish public-private dialogue on needs and programs designed to address those needs.

Phase 2 has started and focuses on business registration and a communications strategy. Other areas of focus during Phase 2 will include customs and trade assistance, support to a national investment council (or committee) and investor outreach, continuation of public-private dialogue and continuing analysis of the issue of informality. Throughout this process Krech believes the main issues have to do with information asymmetry and risk and collateralization.

Key Points Discussed During Question & Answer Segment:

Key points of the Q&A part of this session include the following:

Q. How does FIAS select the post-conflict countries in which it will work and how does it sequence its work in PCCs?

A. FIAS uses its diagnostic “triangle” to make these decisions, including 1) assessing the opportunity, 2) gauging political willingness, and 3) technical diagnostics

Q. Informality, which Krech seemed to suggest FIAS was trying to eliminate or reduce, is sometimes a major engine of growth rather than a barrier to growth. What makes for informality and how avoid dampening its positive effects?

A. Indeed, the objective is to attempt to bring informal enterprises into the more formal system to facilitate credit and other improvements to operation.

Q. How does FIAS work with non government institutions given that multilateral organizations normally had to work with government counterparts by statute?

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A. The formal client for FIAS is, indeed, the government, but FIAS is able to straddle the public-private lines.

Comment: Paradoxically in PCCs, rushing to pass laws can undermine the legitimacy and independence of law-making institutions. How does FIAS avoid this? There can be an urge to get laws passed through presidential or executive decrees in order to move quickly, but this can weaken the legislative process.