

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

Session Title: USAID & FIAS: Opportunities for Collaboration

Date and Time: October 17, 2007, 10:45am – 12:30pm

Type of Session: Plenary

Speaker(s): Tom Davenport, FIAS, Senior Manager

Moderator: Jeffrey Levine & Steve Hadley

Overview of Session:

Tom Davenport of FIAS (World Bank Group’s Foreign Investment Advisory Service) and Rodney Bent of MCC (Millennium Challenge Corporation) spoke to the ways that USAID can collaborate with each of their institutions.

FIAS, which focuses on investment climate reforms including helping countries improve performance against the Doing Business indicators, has been working successfully with USAID in the Balkans and elsewhere. They would like to expand that collaboration—focusing on Doing Business reforms and working in post-conflict “frontier” countries. FIAS has found that they can achieve almost as much success in frontier markets as they do in non-frontier, making them good potential partners for USAID in riskier markets.

Speaker’s Remarks: Tom Davenport



This year, FIAS is focused largely on helping countries improve performance against doing business indicators, and then to pick up on the broader investment climate.

FIAS is the oldest technical assistance program in the Bank Group, and the only one in the Bank Group that is truly Bank Group. It was founded 20 years ago. FIAS leverages off the Bank Group very much. They have 84 staff in 8 locations; and 219 projects in 82 countries (last 3 years).

Their basic business model is to look for some client contribution: 50/50 is the basic rule. They bring in core contributions from IFC, Bank, and some donors and they ask the governments to match that. Last year, they did 80 projects, with an average size of \$250,000. Going forward, they intend to increase the size of projects and decrease the number.

Overall, FIAS has a positive relationship with USAID. They work sometimes in the form of joint projects, commingled funds, or USAID funding FIAS to do

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

the work. Or, they do a parallel project. In the last 4 years, there have been 8 joint projects w/commingled funds. A lot of support to FIAS has been through the Doing Business (DB) work.

Two basic business lines: (1) regulatory simplification, which picks up on almost all DB indicators. Their work in this area has been going on for the last 15 years, but they have recently organized their program around DB.

(2) Investment generation is a traditional FIAS product. More recently, they are focused on investment promotion, because of MIGA & their technical assistance program. FIAS is looking to support competitiveness of countries.

Frontier markets and conflict-affected countries: Now, 70% of FIAS work is in frontier markets – especially around large country programs with partners.

FIAS has offices in Dakar, Vienna, Delhi, Dhaka, Beijing, and Sydney. They have joint ventures in: Johannesburg, Sydney, Cairo, Lima, Moscow, Belgrade, Cairo, and Beijing.

Issue areas include:

- Regulatory simplification – some of this is around the guillotine process.
- Business taxation (how do you lower the cost of administering taxes to business, especially small and medium enterprises (SMEs), and increase taxation-increase formality);
- Trade logistics – picks up on DB indicators – looks at logistics of getting package from factory gate to ship for export – what are the steps / administrative bottlenecks? Typically 60% of delays are associated with these bottlenecks. Like taxes, it is an area where we need to collaborate with bank colleagues.
- Secured transactions – how do you create collateral for movable assets.
- Doing Business Reform Unit (They have established this new unit in their group, In team with Simeon's group)
- Investment generation – investment policy & promotion – industry competitiveness – looking at competitiveness through an industry lens. Also under that rubric is economic zones – they have a couple people w/strong expertise in zones. In conflict affected countries, these can make a lot of sense.

Some examples of FIAS work:

- Croatia: Regulatory Guillotine – “Hitrorez” (Swift-cut) program – has been very successful. They started off doing an inventory of business regulations. Now they are going through a process of elimination: they eliminated 750 regulations, and rationalized others. They did it on the backs of their e-government campaign. This was not necessarily about cutting red tape in itself, but making Croatia e-ready for EU accession.
- Secured Lending in China – If you are a business outside the urban area, you had nothing in terms of assets to pledge to get financing; land titles are tough especially in rural areas. You could not pledge inventories, receivables or your car...nothing. In January of this

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

year, the Chinese passed the new property law which embraced all FIAS recommendations. There is something like \$2 trillion of unused capital in China. FIAS is helping to reverse this.

- Kenya: Simplifying business licenses: progress to date – 315 licenses eliminated.
- Panama Pacifico Special Economic Zone (SEZ) – helped to privatize the old air force base. For FIAS, this is a model for how these transactions can work effectively.

What FIAS is learning from M&E:

- They track their recommendations on a rolling 3-year basis. They go back after one year and ask how many have been implemented. They are getting a little better every year. If they are doing well, they get $\frac{3}{4}$ of their recommendations implemented. It takes 12-36 months to implement their reforms.
- They have almost as much success in frontier markets as they do in non-frontier. This means that they can go into risky markets to achieve their results.

With USAID, some of their early successful collaboration was in the Balkans. USAID is the other big player on the investment climate regime. At a minimum, we should be sharing joint messaging on how to sequence reforms to the government. It is important to remember that when USAID works with FIAS, they really are working with the Bank Group.

FIAS is good to work with, because they are working on DB, too. FIAS is relatively quick to work with. They can move quickly into implementation – they do not have an arduous approval process: it takes 2-3 months to move on things – perhaps even faster.

Thoughts looking ahead: DoingBusiness, Post-Conflict, Other new products?

FIAS would like to leverage USAID's footprint and their field presence. Partnership is not just about the money – it is about sharing experiences and discussing how to refine products. Perhaps we might also consider staff exchanges.

REFORM - what FIAS has learned:

- Reforms happen with new government, crisis and/or new information
- It is about working on the “will” and “skill” of governments
- Competition, regional or international, boosts enthusiasm for reforms
- We can achieve results in frontier and conflict-affected countries
- Success comes from finding/building an empowered, elite counterpart team to steer the reform process across ministries

Key Points Discussed During Question & Answer Segment:

Q: What is the relationship with ICF? (Investment Climate Facility for Africa)

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

A-TD: We work with them at many levels: administrative level (we are the trust fund administrators); and we have board representation. They are also funding a number of FIAS programs. In the last 2 weeks, they have agreed to fund \$2-3 million of FIAS activities. They are implementers, funding and overseeing those programs. In Bangladesh, there is another investment facility – FIAS is managing a \$55 million investment facility, doing a deep dive into FIAS products – acting as a fund manager for DFID and IFC.

Q: DB indicators do not track that well with past movers and shakers in developing countries...how to respond to this?

A-TD: First thought: he would like to see the data, but...there is likely some truth to that. You fix what you can control as a government, for example, administrative regulations are something you can control, so why not optimize? In things like trade, fixing these issues is fundamental. Top performers have higher growth rates than low performers. China is a big exception. It does lead to a useful issue and a big challenge for investment climates. We need to get M&E right to demonstrate that there is a correlation. The association between activities and growth is not yet clear.

Moderator: It is good to look at changes in countries over time; my guess is that it would show a stronger correlation. You can then probably isolate the specific effects of these changes.

Q: It is interesting that you have had good success in conflict countries. Are there some countries where you set the bar pretty high, and they did respond well?

A-TD: The big shift in the Burkinas and others is this desire to hit DB targets, and perform well against them. Many recommendations are straightforward, perhaps less complex than what we would recommend in Poland or Croatia. The other issue is that we have a lot of leverage in these conflict countries (not the same in a place like Poland). In Kenya, this became an election issue, which made people come to see this as a key measure of their success.

Q: Road maps' effectiveness was correlated to whether there was an on-the-ground project to support it; otherwise, governments cannot easily do anything about the roadmap. Given that FIAS does good road maps, and USAID has projects on the ground, how can we better work together to combine our strengths to hit these reforms?

A-TD: Agree completely with comment about roadmaps. As far as future collaboration – list of key contacts is available at the event.

M: Everyone in the room should know who to look to here in Washington: Wade Channel, Nick Klissas, Charlie Schwartz, Corey O'Hara, Jeffrey Levine,

FIAS is growing, so it will be important for us to collaborate.