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INVESTING IN PRIVATE SECTOR GROWTH, JOBS, AND INCLUSION INVESTING IN PRIVATE SECTOR GROWTH, JOBS, AND INCLUSION:

FIAS Strategy *for* FY17–21

Facility for Investment Climate Advisory Services

JUNE 2016

WORLD BANK GROUP

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ABOUT FIAS

The FIAS partnership was established in 1985 to provide advice to governments on reforms needed to improve their investment climates. Today the FIAS program is cofinanced by the World Bank Group and nearly 20 development partners.

The Facility for Investment Climate Advisory Services (FIAS) operates at the intersection of government and private enterprise to ensure that business environments—as reflected by laws, regulations, and other elements—enable private sector growth and are not unnecessarily burdensome. FIAS aims to develop dynamic and resilient economies that promote economic inclusion through investment, innovation, job-creation, and higher productivity. Efforts to increase the competitiveness of developing country economies support their increased participation in international markets, produce better jobs, and contribute to the World Bank Group's overarching Twin Goals of eliminating extreme poverty and boosting shared prosperity.

The FIAS program is administered and managed by the Trade & Competitiveness Global Practice, a joint IFC-World Bank unit of the World Bank Group. Through FIAS, T&C implements advisory services in developing countries that foster open, productive, and competitive markets and unlock sustainable private investments in sectors that contribute to growth and poverty reduction.

For FY17-21, T&C anticipates operating the FIAS program with an annual budget of about $40 million, co-financed by the Bank Group and its development partners. All FIAS interventions are implemented by the World Bank Group and its partners. For more information, visit www.worldbank.org/trade and www.worldbank.org/competitiveness.

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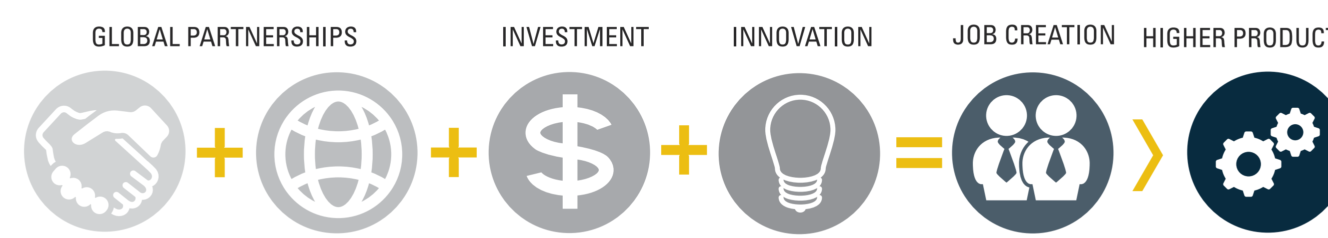

Abbreviations and Acronyms

BoP	base of the economic pyramid
BRIICS	Brazil, Russia, India, Indonesia, China, and South Africa
CCS	compliance cost savings
CIIP	Competitive Industries and Innovation Program
CIC	Investment Climate Department
COMESA	Common Market for Eastern and Southern Africa
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ECOWAS	Economic Community of West African States
EFI	Equitable Growth, Finance & Institutions Global Practice Group
EPZ	export-processing zone
F&M	Finance & Markets Global Practice
FCS	states in fragile and conflict-affected situations
FDI	foreign direct investment
FIAS	Facility for Investment Climate Advisory Services
FY	fiscal year
GDP	gross domestic product
GEF	Global Environment Facility
G2B	government-to-business
GP	Global Practice
GVCs	global value chains
IBRD	International Bank for Reconstruction and Development
ICBL	Investment Climate Business Line
ICT	information and communication technologies
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean Region
LDC	least-developed countries
MDTF	Multi-Donor Trust Fund
M&E	monitoring and evaluation
MENA	Middle East North Africa Region
MIGA	Multilateral Investment Guarantee Agency
NEM	non-equity modes of investment
NFZ	Nouadhibou Free Zone
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OHADA	Organization for the Harmonization of Business Law in Africa
PEA	political economy analysis
PMR	product market regulation
PPD	public-private dialogue
ProPEL	Productivity Policy Evaluation Lab
SAR	South Asia Region
SDGs	Sustainable Development Goals
SEZ	special economic zone
SME	small and medium enterprise
T&C	Trade & Competitiveness Global Practice
TFSP	Trade Facilitation Support Program
WBG	World Bank Group
WTO	World Trade Organization

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DURING THE FIRST FOUR YEARS OF THE FY12–16 STRATEGY CYCLE, FIAS HELPED BRING ABOUT ...

265 REFORMS in 75 Client Countries

with a particular emphasis on member countries of the International Development Association (IDA), Sub-Saharan Africa, and fragile states. This exceeds the five-year target of 250 reforms.

$1.36 BILLION

IN PRIVATE INVESTMENT WAS GENERATED FOR THE CYCLE WITH FIAS SUPPORT

well above the target of $1 billion.

THE FIAS STRATEGY CYCLE GOAL WAS TO HELP CLIENTS ACHIEVE $600 MILLION IN PRIVATE SECTOR SAVINGS

With a year to go in the cycle, actual private sector savings have reached ...

$626 MILLION

Executive Summary

In the face of evolving global and regional economic circumstances, the Facility for Investment Climate Advisory Services (FIAS), too, is evolving in the expertise and products it delivers, the issues that it takes on, and the way in which it provides services and implements solutions. For the fiscal years (FY) 2017–2021 strategy cycle, FIAS is carrying on its core mission of helping developing countries strengthen their economies while innovating in a number of new areas related to impact measurement, services, and themes.

With strong development partner support, FIAS is stepping up its mission of sustaining economic growth, increasing productivity, creating jobs, and lifting incomes in developing countries through an integrated suite of financial and advisory services. The focus remains on expanding market opportunities and enabling private initiative across the developing world, particularly for the most vulnerable people.

FIAS is building on three decades of experience helping developing client countries create and enhance the climate for investment, promoting trade, and fostering increasingly competitive industries. During the first four years of the FY12–16 strategy cycle, FIAS helped bring about 265 reforms in 75 client countries, with a particular emphasis on member countries of the International Development Association (IDA), Sub-Saharan Africa, and fragile states. This progress exceeds the five-year target of 250 reforms. Private investment generated with FIAS support reached $1.36 billion for the cycle, well above the target of $1 billion. The FIAS strategy cycle goal was to help clients achieve $600 million in private sector savings—$350 million in compliance cost savings (CCS) and $250 million in trade-related savings—as a result of investment climate projects and related reforms. With a year to go in the cycle, actual private sector savings have reached $626 million—including $193 million in CCS and $433 million in trade-related savings. Additional CCS savings are expected by the end of FY16.

The FIAS agenda for the next five years continues this progress while expanding into new fields, such as global value chains, and offering a wider array of advisory and technical services to clients. The **Trade & Competitiveness Global Practice (T&C)**, which implements FIAS-supported programs, leverages all the World Bank Group's key tools and instruments, enabling FIAS to enhance its private sector development focus. New and expanded areas of FIAS-supported activity include:

- Expansion of impact measurement to include jobs and productivity.
- Delivery of solutions to enhance firm competitiveness in international markets.

FIAS is building on three decades of experience helping developing client countries create and enhance the climate for investment, promoting trade, and fostering increasingly competitive industries.

The FIAS agenda for the next five years continues this progress while expanding into new fields, such as global value chains, and offering a wider array of advisory, technical, and financial options to clients.

The FIAS strategy is integrally tied to achieving the Bank Group's Twin Goals of eliminating extreme poverty and boosting shared prosperity.

- Mainstreaming of foundational themes, including gender, political economy, transparency, green competitiveness, and firm growth.
- Scaled-up projects that integrate World Bank and International Finance Corporation (IFC) solutions so that advisory services leverage lending and investment.
- Leveraging of public and private sector investment.

The FIAS strategy is integrally tied to achieving the Bank Group's Twin Goals of eliminating extreme poverty and boosting shared prosperity. The FIAS theory of change emphasizes the importance of fostering a robust private sector, which must bear the burden of creating 90 percent of the 600 million new jobs needed by 2030 to achieve those goals. FIAS-supported programs help clients at the intersection of government and private enterprise to ensure that laws, regulations, trade structures, and other elements of the business environment enable private sector growth and are not unnecessarily burdensome. FIAS aims to develop dynamic and resilient economies that promote economic inclusion through investment, job-creation, and higher productivity. As developing country economies gain a more competitive position to participate in international markets, new routes will open up to lift people out of extreme poverty.

FIAS works with T&C to make good on the World Bank Group's commitments to achieving the Sustainable Development Goals (SDGs), and to supporting the Financing for Development initiatives to close the global investment gap in developing countries. Indeed, there is a continuing need to support efforts by developing countries to integrate into and derive benefits from the global economy. An important part of this process, then, must involve enhancing the contribution of globalization to sustainable development. In this context, FIAS helps to leverage the investments needed to achieve the SDGs.

Striking a balance between environmental goals and the international competitiveness of countries and individual firms endures as a concern for developing country policymakers. The green economy offers an opportunity to improve both global governance and the domestic environment to ensure that economic integration contributes to a green economy in the context of sustainable development and poverty reduction.

The endeavor to meet these ambitious goals is unfolding in the midst of the greatest mass refugee and migration crisis since World War II. Policymakers are urgently looking for ways to take action to help resolve this situation. Part of the solution involves creating more conducive business environments, resulting in enhanced employment opportunities and a reduction in the pressures that contribute to conflict.

Projects supported by FIAS help lower barriers to starting a business, facilitating increased firm start-ups and competition, which in turn boosts employment. Such projects reduce firm operating costs (for example, costs associated with licenses and permits) thereby increasing firm productivity, growth, and employment. Furthermore, they support reforms to reduce investment barriers so as to attract both domestic and foreign investments into labor-intensive sectors. T&C coordinates FIAS-supported activities with national institutions to initiate skills-development programs geared toward increasing the capabilities of all workers. FIAS also encourages new and innovative economic activities that would benefit refugees and host communities alike. In the Middle East and North Africa region, for example, T&C is exploring initiatives to expand the use of special economic zones (SEZs) as part of broader development strategies.

T&C's joint IFC-World Bank structure promotes collaboration across the Bank Group, enhancing the ability to both respond to crises and work toward achieving long-term goals. Beginning in FY15, the task of implementing the FIAS program moved from the Investment Climate Department (CIC) to T&C, a global practice that brings together some 500 World Bank and IFC staff members working in more than 80 developing countries. For the FY17–21 cycle, this work is grouped into **three strategic pillars**:

- Improving business environments in client countries.
- Expanding market opportunities.
- Strengthening firm competitiveness.

Supporting these pillars are **four programmatic themes** that serve as guiding priorities across the portfolio and are embedded and mainstreamed within the FIAS pillars:

- Gender and inclusion.
- Transparency and political economy.
- Green competitiveness.
- High-growth businesses.

T&C has developed a **scorecard** to measure how its programs influence and leverage investment, create jobs, and meet a number of other geographic and thematic benchmarks. The scorecard tracks spending indicators, reforms achieved, client satisfaction, investment generated, and compliance cost savings, as well as new impact indicators for jobs and productivity. The indicators are tracked by priority areas, including the continuing focus on IDA countries, Sub-Saharan Africa, and fragile states. New and enhanced elements of the program include projects geared toward client country sector competitiveness, integration into global value chains, competitive cities projects, contestable and competitive domestic markets, sustained implementation of reform, inclusive platforms for private sector dialogue with government, and the mainstreaming of themes such as gender and green competitiveness.

To support this enhanced program, the overall donor funding target for the FY17–21 strategy cycle is $200 million (or an average of $40 million per year), representing a nearly 10.8 percent increase over the amount actually contributed by our partners for the last cycle.

FIAS-supported work has demonstrated the importance of a conducive business environment to private sector development. At the same time, it has shown that an adequate business environment alone is insufficient. Developing countries need to engage with strategies and policies geared to the sector and firm levels so that their private sectors can compete in the global marketplace. It is not enough to help businesses get started; they need an environment where proactive investment is rewarded, thereby giving businesses the staying power to innovate and compete.

THE FY17–21 CYCLE, THIS WORK IS GROUPED INTO THREE STRATEGIC PILLARS:

1 Improving business environments in client countries

2 Expanding market opportunities

3 Strengthening firm competitiveness

SUPPORTING THESE PILLARS ARE FOUR PROGRAMMATIC THEMES: THAT SERVE AS GUIDING PRIORITIES ACROSS THE PORTFOLIO

- Gender and inclusion
- Transparency and political economy
- Green competitiveness
- High-growth businesses

325 PROJECTS SO FAR IN THE FY12–16 STRATEGY CYCLE

72% of FIAS supported reforms achieved in IDA countries

66% in SSA

31% in FCS

WORKING TO BRING PRIVATE SECTOR FIRMS TOGETHER WITH CLIENT GOVERNMENTS, FIAS HAS EFFECTIVELY MET THE $3 BILLION TARGET FOR NEW INVESTMENT

90% CLIENT SATISFACTION RATING

Chapter 1

RESULTS AND LEARNING FROM THE FY12–16 STRATEGY CYCLE

The strategy and objectives for the FIAS FY12–16 operational cycle were set out in *Managing for Impact: FIAS Strategy for FY12–16*, endorsed by the World Bank Board in May 2011. Working in some 77 client countries during a period that included economic and fiscal crises and a major Bank Group reorganization, FIAS neared the end of the FY12–16 cycle on track to meet or exceed the objectives set out in the strategy. Indeed, this was confirmed by the external independent evaluation of the FIAS FY12–16 strategy and program.[1] In the case of facilitating new foreign investment in client countries, FIAS-supported programs have already exceeded the five-year target of $1 billion.

The **FIAS Midterm** and **IEG Investment Climate evaluations**, both published in November 2014, found that FIAS maintains a strong impact-oriented culture committed to delivering impressive results *(see Box 1)*. The *FIAS 2015 Annual Review* also compiles results for the cycle through FY15.

> The FIAS Midterm Evaluation called FIAS' performance **"highly commendable"** for exceeding its reform and investment generation targets, particularly in vulnerable states.

The FIAS Midterm Evaluation called FIAS' performance "highly commendable" for exceeding its reform and investment generation targets, particularly in vulnerable states. The evaluation found that the focus on private sector development ties directly to the World Bank Group's Twin Goals of eliminating extreme poverty and boosting shared prosperity. The creation of the Global Practices, including T&C, as part of the reorganization of the World Bank Group, anchors FIAS in a group with the experience, skill-set, and commitment to results essential to achieving the program's goals.[2]

The Bank Group's Independent Evaluation Group (IEG) reported on the reform work of the Investment Climate Department (CIC) dating back to fiscal 2007, including FIAS-supported work. It concluded that the work focused the right programs in the right countries, with implemented reforms aimed at reducing costs to businesses. IEG recommended expanding the goal of reducing these costs to include potential or achieved social benefits, such as inclusion and shared prosperity, resulting from reforms. Both reports recommended increasing the focus on gender and political economy and expanding and improving diagnostics and impact measurement.

CONTEXT AND RESULTS OF THE FY12–16 FIAS STRATEGY

As the FIAS FY12–16 strategy cycle began, commodity price increases were creating opportunities in resource-rich countries as investors struggling to recover from the 2008 financial crisis sought higher yields in developing countries and regions. Climate change and energy prices were driving a

[1] Ecorys. 2014. *Midterm Independent Evaluation of FIAS 2012–2016 Strategy and Program*. Final Report. https://www.wbginvestmentclimate.org/donor-partners/upload/FIAS-Midterm-Evaluation-11-Nov-2014.pdf.

[2] The term "World Bank Group" and the abbreviated "Bank Group" refer to the collective work of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The term World Bank refers only to IBRD and IDA.

re-evaluation of resource use and an emphasis on efficiency. Increasing investment encompassed both foreign direct investment (FDI) by major firms and growth of domestic small and medium enterprises (SMEs). The resulting growth, particularly in Sub-Saharan Africa, increased client motivation to institute investment climate reforms in the hope of replicating the spectacular growth seen in East Asia.

Throughout this period, FIAS focused increasingly on the implementation of projects and programs and the measurement of outcomes and impacts. Results-based management produced clear case studies and South-South lessons that expanded client demand. However, in the last year of the strategy cycle, a sharp global downturn in commodity prices was forcing resource-dependent economies to focus more attention on diversification. With FIAS support, T&C responded with advisory offerings geared toward helping economies make this transition.

Through FY15, FIAS-supported teams have helped client governments generate 265 investment climate reforms, surpassing the strategy cycle target of 250 reforms—with nearly a year remaining in the cycle. Working to bring private sector firms together with client governments, FIAS has effectively met the $3 billion target for new investment, with $1.36 billion of that total in the form of FDI in priority sectors (surpassing the $1 billion target) and $1.6 billion invested by new firms following business entry reforms (approaching the target).

One of the key benchmarks of the FIAS program is private sector cost savings achieved through reform. T&C tracks two indicators: compliance cost savings (CCS) and trade-related cost savings. CCS measures the impact of reforms on the cost of doing business for investors, entrepreneurs, and private sector firms in developing countries. Trade savings are generated by trade logistics reforms that benefit importing and exporting firms due to a reduction in user fees and charges, cargo loss and damage, capital carrying charges, and inventory costs. Estimates of private sector savings are based on a rigorous formula that measures both direct costs—the fee for licensing a new business, for example—and the indirect cost involved when cumbersome regulations impose lengthy delays before a new business is licensed to operate or before cargo can move through a port. The FY12–16 strategy set a goal of $600 million in private sector savings. With a year to go, the total had reached $626 million. FIAS-supported work generated $193 million in CCS through FY15 against a target of $350 million. Because these savings typically occur late in a project, or after its completion, significantly more compliance cost savings is expected by the end of the cycle. Trade-related savings reached $433 million through FY15, well above the target of $250 million.

Robust growth in the FIAS portfolio reflects strong and increasing client demand for investment climate reform work as the positive impacts of reform draw interest from increasing numbers of developing countries. FIAS supported 72 projects in FY12, 89 in FY13, 95 in FY14, and 69 in FY15, for a total of 325 projects. Client satisfaction ratings have averaged over 90 percent through the first four years of the cycle. The distribution of reform work, meanwhile, has met or exceeded targets: through FY15, 72 percent of FIAS reforms have been achieved in IDA countries, well ahead of 60 percent target; and 72 percent of reforms were captured by *Doing Business* reports, well above the 50 percent target. In addition, 66 percent of reforms have been achieved in Sub-Saharan Africa, a FIAS priority region, and 31 percent have come in states in fragile and conflict-affected situations (FCS). Key lessons from the FIAS-supported work during the strategy cycle are outlined below *(see Box 2)*.

Box 1: Conclusions from the FIAS Midterm and Investment Climate Evaluations

The Evaluation "sees integration of CIC and the FIAS program into the Trade & Competitiveness Global Practice from a position of strength with a well-honed product range—very impressive results pipeline—strong brand equity—deep-rooted M&E (monitoring & evaluation) impact oriented culture, with the vast majority of programs optimally placed to make a direct and significant contribution to the WBG [World Bank Group] Twin Goals."

— FIAS Midterm Evaluation

"The World Bank Group has supported a comprehensive menu of investment climate reforms. These reforms were generally supported in the right countries and generally addressed the right areas of the regulatory environment. … Intervention and country case analysis shows that, within the limits of the available measures of investment climate indicators, the Bank Group has been successful in improving investment climate in client countries, as measured by number of laws enacted, streamlining of processes and time, or simple cost savings for private firms."

— IEG Investment Climate Evaluation

Box 2: Key Lessons from the FY12–16 Strategy Cycle

Careful evaluation of the results attained so far in the FY12–16 cycle have helped the T&C team reinforce a number of key lessons which are being incorporated into the design of the new FY17–21 strategy:

- *Unpredictable and opaque administrative processes, as well as the uneven enforcement of regulations, can deter firm creation and investment, marginalize segments of the business community, and ultimately impede productivity. Developing country governments face increasing pressure to devise transparent and effective regulatory frameworks, and to be accountable for how they implement agreements, decisions, and reforms.*
- *Developing economies need support and proactive investment at the sector and firm levels to achieve sustainable growth and to maximize the potential of global value chains to foster investment, jobs, and enterprise growth.*
- *Many markets continue to underperform due to unreasonable constraints on competition in domestic markets even though they have opened to trade and improved their business environment. New or strengthened competition policies should aim at removing constraints to private sector development, fostering well-functioning markets, and enhancing productivity.*
- *Commodity prices were not going to increase indefinitely. Resource-rich developing countries that benefited from commodity price growth must make themselves more resilient to price shocks by improving their business climate and diversifying their economies.*
- *Producing change requires close attention to the political economy of each client country and the interests and influence of stakeholders.*
- *When the FY12–16 strategy began, the FIAS program lacked a model for measuring impact. Diagnostic tools developed during the cycle have proved their value and are being expanded and integrated into a 'scorecard' to measure such benefits as job creation and the spillover effects of FIAS-supported policies.*

Many markets continue to underperform due to unreasonable constraints on competition in domestic markets even though they have opened to trade and improved their business environment. New or strengthened competition policies should aim at removing constraints to private sector development, fostering well-functioning markets, and enhancing productivity.

$18.9 TRILLION

GLOBAL TRADE TOTALED $18.9 TRILLION IN 2014,

A MORE THAN FIVEFOLD INCREASE FROM 1990, WITH DEVELOPING COUNTRY TRADE ACCOUNTING FOR NEARLY HALF THE TOTAL. SOUTH-SOUTH TRADE ALONE REPRESENTS A QUARTER OF WORLD TRADE. IN ADDITION, MORE THAN HALF OF THE VALUE-ADDED IN EXPORTS FROM DEVELOPING COUNTRIES INVOLVES GLOBAL VALUE CHAINS.

Net private capital flows to developing countries increased to roughly

$1 TRILLION per yr.*

Increased South-South investment has driven net private capital flows to developing countries to roughly $1 trillion per year.

$500 BILLION

WORKER REMITTANCES WERE ESTIMATED TO HAVE REACHED $500 BILLION BY 2015.

Together, these private capital flows dwarf the total amount of annual official development assistance (ODA) of about $135 billion. However, these flows are concentrated in a small number of largely middle-income countries and sectors, whereas access to private credit in low- and lower-middle-income countries continues to remain a challenge.

Chapter 2

STRATEGIC CONTEXT FOR FY17–21

Complex Development Challenges and Choices

FIAS embarks on the next five-year strategy cycle at a time of increased global economic uncertainty. Dynamic factors include the unresolved implications of the European fiscal and monetary crisis, the deceleration of growth in China and other key emerging markets, the impact of falling commodity prices on developing regions, access-to-finance challenges stemming from rising interest rates, rapidly evolving security and conflict issues, and the uncertain impact of mega-regional trade negotiations on developing countries.

Migrants and refugees from Africa and the Middle East are arriving in neighboring regions in unprecedented numbers, a result of economic pressures and security issues. According to the *Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change*, released in Peru at the start of the 2015 Annual Meetings of the World Bank Group and the International Monetary Fund (IMF), the world is undergoing a major population shift certain to reshape economic development for decades. This shift intensifies the challenges facing institutions whose role is to foster conditions in developing countries that mitigate the forces driving emigration.

Job-creation represents the single highest priority. By 2030, the global economy will need to have 600 million more jobs than in 2005, requiring generation of between 9 million and 12 million jobs per year in key developing regions such as Sub-Saharan Africa and South Asia. The private sector is responsible for about 90 percent of jobs in the developing world. As some 20 million new working-age youths per year in Asia and Africa alone enter the work force, it will be essential to address this surge through increased job opportunities in services and manufacturing.

Global demand for food is expected to increase by 70 percent over the next 35 years, driven by rising population, increasing urbanization, and an expanding middle class—trends that are especially strong in developing countries. Agricultural production will need to increase substantially—both in absolute terms, and in terms of the efficiency of production—to meet this rising demand. The private sector will play a central role in developing innovations in technology and production in agribusiness, trade, and transport. Developing country governments must streamline trade, customs, and inspection regimes to ensure their agribusiness sectors can participate in international markets.

90%

THE PRIVATE SECTOR IS RESPONSIBLE FOR ABOUT 90 PERCENT OF JOBS IN THE DEVELOPING WORLD.

70%

GLOBAL DEMAND FOR FOOD IS EXPECTED TO INCREASE BY 70 PERCENT OVER THE NEXT 35 YEARS, DRIVEN BY RISING POPULATION, INCREASING URBANIZATION, AND AN EXPANDING MIDDLE CLASS.

Climate change poses significant risks to developing countries in terms of food production and a number of other economic sectors. Changing climate and rainfall patterns threaten to constrict food production, particularly in semi-arid regions such as the Sub-Saharan African Sahel. Climate change is also increasingly linked with the competitiveness of firms and industrial sectors. Industry is responsible for 21 percent of direct greenhouse gas emissions. Particularly in developing countries, industry will need both public and private sector support to compete in global markets and meet increasingly stringent emission requirements. Furthermore, developing countries will need assistance in meeting the benchmarks promulgated in the international climate agreement negotiated in Paris in 2015.

THE PRIVATE SECTOR AS AN ENGINE OF GROWTH

Meeting these challenges requires identifying new growth opportunities and combining the creative energies of the public and private sectors. The potential benefits stemming from trade, global value chains, new developments in information and communication technology (ICT), and increased participation by the private sector in development all argue for sustained public-private dialogue (PPD) and cooperation to achieving higher economic growth. Global trade totaled $18.9 trillion in 2014, a more than fivefold increase from 1990, with developing country trade accounting for nearly half the total. South-South trade alone represents a quarter of world trade. In addition, more than half of the value-added in exports from developing countries involves global value chains.[3]

Governments need to design targeted interventions that do not distort markets. Generating finance for development and achieving the SDGs, such as supporting female entrepreneurship, increasing the exports of developing countries, and enhancing market access for exports from least-developed countries (LDCs), will require mobilizing and leveraging external financing. The global community needs a paradigm shift to move the discussion from "billions" in official development assistance (ODA) to "trillions" in investments from all kinds of sources: public, private, national, and global—including both capital and capacity. Globally, achieving the SDGs will require the best possible use of each available dollar, whether from international institutions, philanthropy, remittances, South-South flows, other official assistance, or from foreign direct investment. To reach the needed trillions, additional flows must come from two principle sources: public domestic resources, where the most substantial development spending happens; and private sector finance and investment, the largest potential source of additional funding which FIAS-supported activities aim to stimulate. Achievement of the SDGs also depends on policies undertaken in developing countries with support from the international community.

Increased South-South investment has driven net private capital flows to developing countries to roughly $1 trillion per year. Worker remittances were estimated to have reached $500 billion by 2015. Together, these private capital flows dwarf the total amount of annual ODA of about $135 billion. However, these

> Income inequality is on the rise in many countries, and the gap between the richest and poorest countries is widening, as some of the world's poorest countries fall into a "poverty trap."

flows are concentrated in a small number of largely middle-income countries and sectors, whereas access to private credit in low- and lower-middle-income countries continues to remain a challenge. The six largest middle-income countries account for roughly the same share of global gross domestic product (GDP) as the six largest high-income countries. Nevertheless, income inequality is on the rise in many countries, and the gap between the richest and poorest countries is widening, as some of the world's poorest countries fall into a "poverty trap."[4]

While FIAS-supported programs have helped developing countries streamline the administrative processes required to start a business, governments are concerned that these reforms have not necessarily led to the expected firm creation and growth. Governments and their constituencies are demanding not only reform, but delivery on the promise of growth from reform. Failure to achieve results can have political and security implications, including incumbent governments being voted out of office and attendant rising political unrest. The increasing demand for citizen participation in decision-making, as reflected in events such as the Arab Spring, also occurs in the economic sphere. In the latter context, businesses are demanding more transparency and legal resources when disputes arise over investment agreements and other transactions.

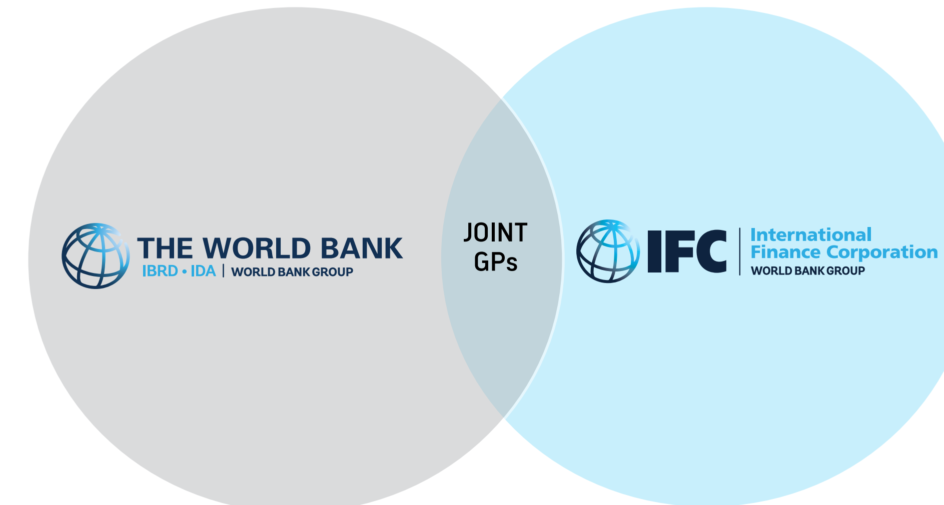
[3] World Bank Group and World Trade Organization. 2015. *The Role of Trade in Ending Poverty*. pp. 13-14. https://www.wto.org/english/res_e/booksp_e/worldbankandwto15_e.pdf.

[4] World Bank Group and International Monetary Fund. 2015. *From Billions to Trillions: Transforming Development Finance*. Report prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund and the World Bank. http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf.

FIAS WITHIN T&C: VISION, MISSION AND THEMES

T&C, which implements the FIAS program, is one of the 14 Global Practices that went into operation in July 2014 (the beginning of FY15), following a reorganization of the World Bank Group. It is one of only two Global Practices—the other being Finance & Markets (F&M)—that leverages IFC as well as World Bank staff *(see Figure 1)*. Later in FY15, in a move designed to further promote collaboration, the Bank Group clustered the Global Practices under three main groups. T&C is now part of the Equitable Growth, Finance & Institutions Global Practice Group (EFI), along with four other Global Practices: F&M; Governance; Macroeconomics & Fiscal Management; and Poverty & Equity.

Figure 1: Joint World Bank-IFC Global Practices



The Global Practice model is helping FIAS achieve development partner objectives by providing ready access to global knowledge, field-tested solutions, collaborative approaches, and innovative new ideas adapted to local context *(see Box 3)*. Clients are working to foster inclusiveness, transparency, and societal buy-in for reforms in ways that address the particulars of their own political economies. They must tap into the best available global economic knowledge, informed not only by experience in their own country and region but by successes throughout the developing world. FIAS-supported programs bring state-of-the-art analytics to help clients understand the obstacles to economic development and support the strategies with the best chance of overcoming those obstacles. Such programs also help clients find pathways to global networks by identifying competitiveness challenges that cause their firms and industries to lag behind. In addition, FIAS helps client countries develop strategies and solutions to raise their performance.

The team advancing the FIAS agenda mobilizes a considerable array of development experience across the Bank Group and regions:

- Global knowledge, with more than 500 T&C staff with expertise in trade, investment climate, sector competitiveness, and innovation and entrepreneurship.

Box 3: T&C's Vision and Mission Align with the Core Goals of FIAS Development Partners

T&C Vision: *Sustained economic growth, productivity gains, job creation, and rising incomes for developing countries to eradicate poverty and boost shared prosperity.*

T&C Mission: *T&C is the partner of choice for countries that seek to develop dynamic and resilient economies, expand market opportunities, and enable private initiative. It helps boost trade, enhance the investment climate, improve competitiveness in sectors, and foster entrepreneurship and innovation.*

- Global reach, with T&C staff located in more than 80 offices worldwide, ensuring proximity to clients, sensitivity to political economy issues, and a unique rapid-response capability.
- An integrated platform that delivers using the full array of World Bank Group instruments: advisory services and analytics; technical assistance; World Bank policy-based lending and IFC investments; global public goods; convening services; and global engagement.

In support of these broad goals and pursuant to its strategy, FIAS promotes selective country engagements through strategic investments in data and dialogue, robust cross-practice analytics, and integrated, customized solutions. T&C helps to position IFC investment activities at the firm and sector levels by supporting business climate enhancement. IFC, in turn, helps mobilize private sector investments to unleash the potential of investment climate reforms. FIAS-supported programs help shape the global economic agenda through international engagement and working with multilateral institutions, knowledge frontier and networks, and centers of excellence.

Support from FIAS and other global development partner platforms enables T&C to deliver on the FIAS agenda with expertise and financial services organized around four core themes: trade; investment climate; competitive sectors; and innovation and entrepreneurship. Other trust funds implemented by T&C complement the FIAS strategy. They include *Info*Dev, the Competitive Industries and Innovation Program, the Trade Facilitation Support Program, and the Umbrella Facility for Trade, which is under development.

INNOVATION AND EVOLUTION OF FIAS

The FY17–21 strategy cycle combines continuity with innovation and expansion. The core FIAS goal of enhancing the climate for investment, job creation, and sustainable growth in developing countries—particularly the poorest and most vulnerable—continues. A number of new areas of endeavor and program delivery will enhance the FIAS mission, while better integrating it with core activities of the Bank Group as a whole *(see Figure 2)*. FIAS is innovating in a number of new areas related to impact measurement, services, and themes:

- Impact measurement will be expanded to include jobs and productivity.

Figure 2: Evolution of FIAS

Operating principles remain consistent, with new programs, broader impact, and integrated delivery

	2008 2009 2010 2011	2012 2013 2014 2015 2016	2017 2018 2019 2020 2021
Client Facing	Economy wide	Majority Economy wide. Addition of Agribusiness and Tourism sectors	Deepening economy-wide; and expanded sector competitiveness agenda.
Approach to Client Needs	Product centric	Increasingly issue-based, programmatic approach	Integrated solutions for connectivity and open markets.
Use of Indicators and Benchmarking	Doing Business centric	Investment climate indicators and product-level assessments	Diagnostics that help clients define competitive position and options; and effective feedback loops to asses progress and reach.
Role of FIAS-Funded Activities	Solution design and implementation support	Innovation, incubation facilitator and catalyst	Global thought leadership through analytics and pilot activities; sustaining implementation results; and leveraging World Bank Group instruments and private sector.
Managing for ...	Outcomes	Development Impact	Impact on jobs and productivity to achieve twin goals.
Cross-Cutting Themes	Little Emphasis/Anecdotal Results	Cross-cutting themes: Social inclusion; economic governance and transparency; promoting competition; and green growth	Mainstream cross-cutting themes into pillars through improved results tracking.

- FIAS-supported teams will develop and deliver solutions to enhance firm competitiveness, particularly supporting the most promising sectors of a client country so that firms can compete on an equal footing with peers in international markets.
- Cross-cutting themes will be mainstreamed, ensuring that gender and inclusion, political economy and transparency, and green competitiveness and firm growth are integrated across the full range of FIAS projects and programs.

The core elements of FIAS—the work in investment climate, competitive sectors, and competition policy, and the focus on IDA, conflict-affected countries and Sub-Saharan Africa—continue into the new strategy cycle. However, there will be additional elements by which to further leverage support, including new products, partners, and services. These are described in detail in the FIAS "Pillars" section and are summarized here:

- The beneficial impact of FIAS-supported work will be scaled up through integrated World Bank Group solutions that combine lending, investment, and advisory services.
- FIAS-supported teams will leverage private investment.
- The portfolio will be expanded to include manufacturing, services, and spatial solutions—for example, competitive cities, growth poles, and zones.
- Participation in global value chains will be encouraged by building on client country comparative advantages in key sectors.

As a result of the Bank Group reorganization and the creation of the Global Practices, trade logistics work will be funded primarily through the T&C Umbrella Facility for Trade. After successful incubation in T&C, work in the fields of tax simplification, transparency, and debt resolution has been consolidated in other Global Practices.

In sum, the evolution of FIAS now includes the delivery of an expanded roster of programs through integrated global and regional teams to achieve broader impact, while maintaining consistent operating principles *(see Box 4)*.

Box 4: Three FIAS Cycles—Client Focus, Innovation, and Impact

FY08–11: *Client-facing projects were economy-wide in scale. The approach to client needs was product-centric. The use of indicators and benchmarking was centered on the* Doing Business *model. The role of FIAS-funded activities was to design solutions and support implementation. Teams managed for outcomes. Cross-cutting themes were accorded little emphasis and only anecdotal results were available as to their outcomes.*

FY12–16: *A majority of client-facing projects were done on an economy-wide basis, with the addition of projects in the agribusiness and tourism sectors. The approach to client needs increasingly emphasized issue-based, programmatic approaches. Benchmarking highlighted investment climate indicators and product-level assessments. The role of FIAS-funded activities was to promote innovation and facilitate and catalyze the incubation of ideas. Teams managed for development impact. Key cross-cutting themes were identified in the areas of social inclusion, economic governance and transparency, the promotion of competition, and green growth.*

FY17–21: *Client-facing projects synthesize economy-wide endeavors and an expanded agenda focused on the competitiveness of specific sectors in client countries. The approach to client needs seeks to integrate solutions for connectivity and open markets. Indicators and benchmarking involve diagnostics that help clients define their competitive position and options. The role of FIAS-funded activities is to sustain implementation results, leverage Bank Group instruments and private sector engagement, and establish global thought leadership. Competition policy work will address price-fixing cartels, strengthen competition laws and policies, eliminate unreasonable constraints on competition, and enhance the technical capacity of government agencies that work to ensure open and competitive markets. Teams will manage for impact with regard to jobs and productivity geared toward achieving the Bank Group's Twin Goals. Themes will be mainstreamed across the three FIAS pillars (improve the business environment, expand market opportunities, and strengthen competitiveness) and will be monitored through improved results tracking.*

THE FIAS FY17-21 STRATEGY

RESTS ON THREE PILLARS DESIGNED TO HELP THE PRIVATE SECTOR REALIZE ITS GROWTH AND DEVELOPMENT POTENTIAL WITHIN CLIENT COUNTRIES

1 **IMPROVE BUSINESS ENVIRONMENT** THAT AFFECTS DECISIONS TO OPEN AND OPERATE A BUSINESS

2 **EXPAND MARKET OPPORTUNITIES** DELIVERING SECTOR- AND MARKET-SPECIFIC SOLUTIONS TO ALLOW FIRMS TO GROW AND COMPETE IN DOMESTIC AND INTERNATIONAL TRADE

3 OPERATIONALIZING PROGRAMS TO **INCREASE FIRM-LEVEL COMPETITIVENESS** AND EFFICIENCY

THE PILLARS ARE SUPPORTED BY FOUR PROGRAMMATIC THEMES

GENDER AND INCLUSION

TRANSPARENCY, POLITICAL ECONOMY, AND SUSTSAINABILITY OF REFORMS

GREEN COMPETITIVENESS

TARGETING HIGH-GROWTH BUSINESS

Chapter 3

WHAT FIAS WILL DO

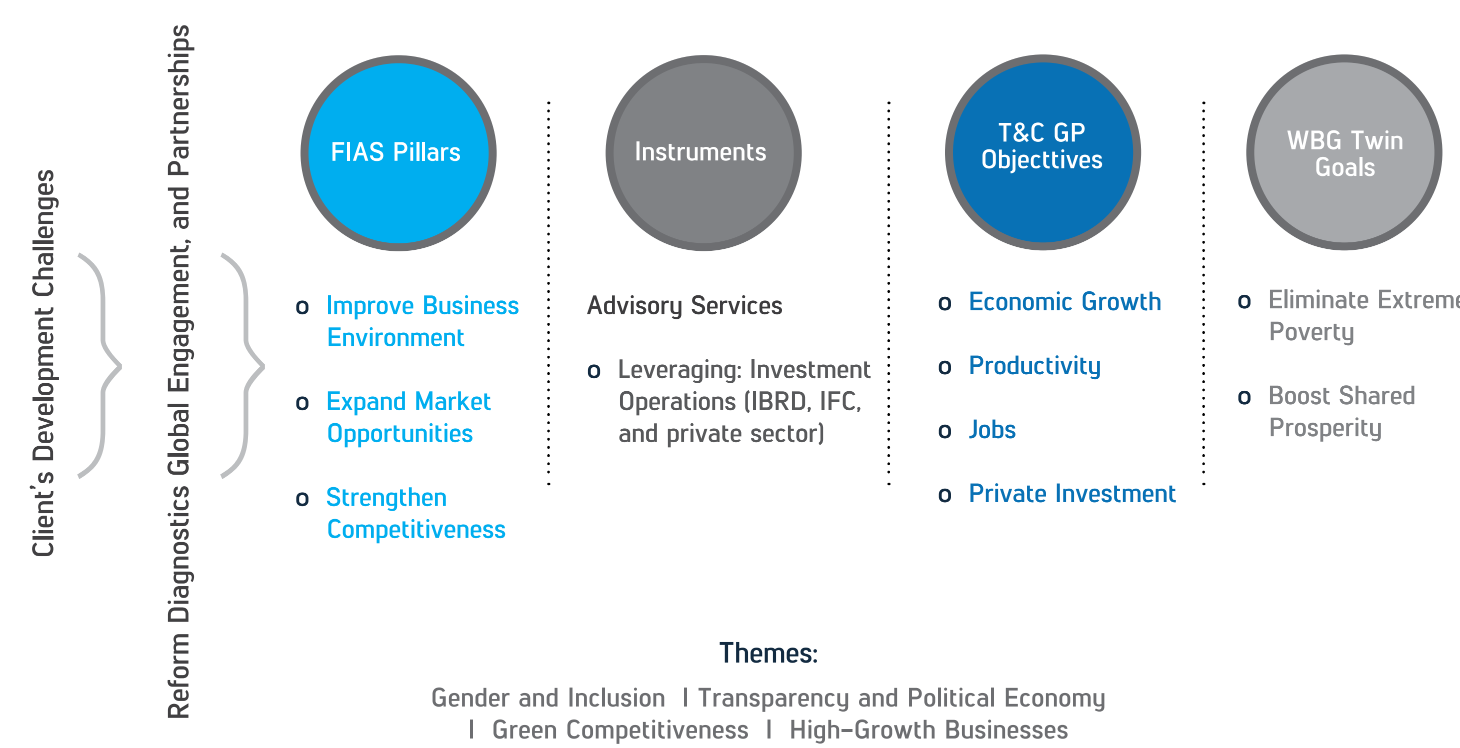
The FIAS theory of change is centered on support for a robust and responsible private sector that contributes to development solutions in many areas, encompassing inclusive growth and poverty reduction, jobs, service delivery, food security, climate change mitigation, environmental sustainability, and contributions to taxes.

The FIAS FY17–21 strategy rests on three pillars designed to help the private sector realize its growth and development potential within client countries: (1) improving the economy-wide business environment that affects decisions to open and operate a business; (2) delivering sector- and market-specific solutions to allow firms to expand and compete in domestic and international trade; and (3) operationalizing programs to increase firm-level competitiveness and efficiency.

At the outset of a project, FIAS employs strong analytical and diagnostic support to determine the right combination of interventions for each of the three pillars. Implementation support through the three pillars also drives improvements in transparency, inclusion, and sustainability toward outcomes and impacts that link FIAS-supported projects to the economic growth, productivity, and jobs agenda that are at the heart of T&C's strategy. This, in turn, ties in with the Twin Goals of eliminating extreme poverty and boosting shared prosperity *(see Figure 3)*.

Figure 3: FIAS Theory of Change

FIAS Theory of Change contributes to T&C Objectives and World Bank Group Twin Goals



FIAS IS STRENGTHENING ITS THOUGHT LEADERSHIP AND GLOBAL ENGAGEMENT, IMPROVING ITS ANALYSIS AND UNDERSTANDING OF POLITICAL ECONOMY ISSUES IN PROJECT DESIGN AND IMPLEMENTATION, UPGRADING AND BETTER INTEGRATING REFORM DIAGNOSTICS AND STRATEGIES, AND ADVANCING ITS APPLIED RESEARCH AND IMPACT EVALUATION.

REFORM DIAGNOSTICS, GLOBAL ENGAGEMENT, AND PARTNERSHIPS

The FY17–21 strategy places a stronger emphasis on analysis and global leadership with a specific platform for reform diagnostics, global engagement, and partnerships. Supported by this strengthened foundation, FIAS projects can deliver measureable outcomes and impacts within the portfolio while informing and influencing non-FIAS projects in the wider T&C portfolio. In some cases, FIAS influence and project approaches have yielded lessons relevant to projects supported by other World Bank Group Global Practices and Cross-Cutting Solution Areas. This improved integration of advisory services with World Bank technical assistance and lending enhances the value of the FIAS program, allowing for greater reach, increased scale, and expanded sector-specific work. Building on the FY12–16 strategy with its innovations in impact, industry-specific work, and competition policy, the FY17–21 strategy expands the range of impacts measured and provides better analytical tools and diagnostics, while at the same time empowering a broader range of stakeholders within client countries.

Governments seeking to foster growth and capitalize on the competitive advantage of their economies face an increasingly complex array of strategic choices in meeting their development priorities, such as determining which sectors, value chains, growth corridors, and regulatory areas should receive the most attention and resources. The decision-making process is further complicated by the rapidly shifting external economic environment. Project teams seeking to assist these policymakers face increasing challenges of their own. They can no longer simply apply best-practice models. Rather, they must apply in-depth knowledge of legal and technical issues, the range of stakeholders to be engaged, the local political economy, the relative strength of relevant private sector actors, and the inclusiveness of the change process itself.

To address these challenges, FIAS is strengthening its thought leadership and global engagement, improving its analysis and understanding of political economy issues in project design and implementation, upgrading and better integrating its reform diagnostics and strategies, and delivering advances in applied research and impact evaluation. The effort focuses on five areas described in greater detail below: **integrated diagnostics**; **political economy analysis (PEA)**; **applied research and impact evaluation**; **global engagement**; **and enhancing partnerships**. In combination with improved integration across the Bank Group, these upgrades generate knowledge spillovers across governments, the Bank Group, and development partner strategies and programs. They also ensure that diagnostic outputs, project work, and, more generally, private sector development are better reflected in Strategic Country Diagnostics and Country Partnership Frameworks.

Integrated Diagnostics

In the FY17–21 cycle, the T&C team is focused on identifying binding constraints and integrating and improving diagnostics that help address the complexity policymakers face in taking action and communicating initiatives to stakeholders and the public. Beginning in FY17, 360 Diagnostics will be provided through an online portal for investment climate data and benchmarking. This enables T&C teams to collect, consolidate, and mix data with the goal of providing dynamic and interactive analytical tools to better target, design, and measure policy interventions. The 360 Diagnostics tool helps policymakers and project designers identify, benchmark, and implement improvements in country or regional competitiveness and increase the prospects of delivering measurable impacts. Along with this tool, clients benefit from a set of expanding specialized diagnostics, including:

- Competition policy assessments: Evaluations of product market regulations and competition dynamics that restrict competition at the national and sub-national levels in key sectors of the economy, and using the data to recommend regulatory actions that encourage firm entry and rivalry. This includes measuring the impact of the lack of competition on key economic variable indicators.
- Investment reform map: Identification of relevant investment policy, institutional, and FDI promotion priorities and barriers that can be addressed through a mix of legal and institutional support.
- Sector scan and reform diagnostics: Identification of a client's comparative advantages at the sector level through economic data analysis, investor and stakeholder consultations, and technical regulatory reviews to identify avenues for growth, resource efficiency and job creation.

Political Economy Analysis

Local and regional expertise combined with global knowledge contributes to improved political economy analysis (PEA) applied prior to and during all project interventions. The new strategy makes PEA a more integral part of project design, ensuring that reform efforts reflect an understanding of the relationship between the economy and the state, including power dynamics and conflict triggers. T&C expertise in public-private dialogue feeds into PEA through stakeholder assessment and mapping, as well as through citizen engagement. This work is critical to building trust through transparency of decision making and business regulation, especially in fragile and post-conflict environments. The recently developed Reform Sustainability Checklist provides a tool covering several dimensions of political economy, both internal and external to governments. It is being further refined to incorporate issues more directly relevant to inclusiveness.

Applied Research and Impact Evaluation

The new strategy continues the expansion of FIAS-supported work on applied research and impact evaluations, incorporating additional areas of activity, partner institutions, and client countries. In the area of applied research, FIAS is expanding its links with multilateral organizations. For instance, a product market regulation (PMR) methodology has been used by the Organisation for Economic Co-operation and Development (OECD) for 16 years to collect and classify regulation as to the degree to which it promotes or restricts competition in the market place. T&C is partnering with OECD to expand the PMR database to countries beyond OECD and BRIICS countries.[5] In most lower-income countries, regulatory barriers to entrepreneurship and regulatory protection of incumbents in the service sectors constitute the largest drivers of the overall restrictiveness of PMR to competition.

Building on four years of experience, the FIAS-supported Joint Donor Impact Program has launched a new round of about 10 impact evaluations focused on: (1) skills and firm upgrading to increase productivity; (2) incentives to change firm behavior; and (3) improvement of institutions and regulations that relate to the private sector. This cooperation points to the need to streamline the Impact Program to better cover all T&C areas of work. Accordingly, the team is collaborating with the EFI chief economist to transition to an updated program of research starting in FY17. The program, known as the Productivity Policy Evaluation Lab (ProPEL), supports a research strategy focused on knowledge gaps in the areas of investment climate, competitiveness, and related private sector issues. ProPEL aims to strengthen client competency to undertake research and capture the results. The effort encompasses impact evaluations as well as inferential research to push the knowledge frontier regarding the effectiveness of policy reform, with a particular emphasis on design and implementation of policy instruments to achieve higher impact.

Global Engagement

FIAS-supported teams are global thought leaders in: diagnosing obstacles to sustainable growth; designing solutions; marshaling public and private sector partners around these solutions; assisting client countries with implementation of reform; and rigorously analyzing results and impacts. This leveraging of the Bank Group's convening power takes on additional depth in the FY17–21 cycle as FIAS elevates issues of private sector development more prominently in the global agenda. FIAS-supported thought leadership and global engagement priorities include links to the Sustainable Development Goals, Financing for Development, OECD initiatives, World Economic Forum agendas, and G20 initiatives, among others. A Tourism Impact Forum in FY16 brought together Bank Group Global Practices, private sector representatives, and academia to analyze, advocate, and voice the concerns of developing countries on global policy issues that impact their prospects for productivity-led growth and jobs. This effort, and others led by FIAS, continues the forging of strong networks with clients, academia, development partners, and the private sector. T&C is also working with the G20 on developing a Framework for Inclusive Business that will produce

[5] BRIICS stands for: Brazil, Russia, India, Indonesia, China, and South Africa.

RECENT WORK IN MYANMAR HIGHLIGHTS THE INCREASED EMPHASIS ON POLITICAL ECONOMY. THE ESTABLISHMENT OF THE MYANMAR BUSINESS FORUM TO IMPROVE PUBLIC-PRIVATE DIALOGUE FOR REFORM LED TO AN IN-DEPTH PEA IN PREPARATION FOR REFORM PROGRAMS ON INVESTMENT POLICY, AGRIBUSINESS AND TOURISM.

recommendations for governments, the private sector, and other stakeholders to enable and facilitate this special type of business activity.

Enhancing Partnerships

Strengthening global engagement, improving analytical work, and delivering enhanced and integrated diagnostics are not possible without improvements in the range and depth of FIAS partnerships. At the heart of this system are the member partners within FIAS itself. FIAS has grown and improved its delivery of impacts with the support of interactive relationships with its members and donors *(see Box 5)*. Multilateral institutions, bilateral donors, agencies, and now private foundations all value the ability to take an active role in shaping and supporting the future of FIAS. FIAS-supported projects now benefit from the leverage and links to donor and foundation country programs that these relationships provide.

In sum, FIAS works to better leverage relationships with existing members and new partners to deepen its understanding and application of various analytical tools, including political economy analysis. Improved integration of stand-alone diagnostics and indicators should enhance the quality of its FIAS-supported operations, improve its positioning for global engagement with partners both inside and outside the World Bank Group, and increase the already high levels of client satisfaction.

Box 5: FIAS Experience in Reform Diagnostics, Global Engagement, and Partnerships

Recent work in ***Myanmar*** *highlights the increased emphasis on political economy analysis. The establishment of the Myanmar Business Forum to improve public-private dialogue for reform led to an in-depth PEA in preparation for reform programs on investment policy, agribusiness and tourism. The combination of improved emphasis on local context with stakeholder engagement is paying dividends with increased political trust in project teams and a common understanding of the route to achieving an impact.*

In its joint work with the OECD, the FIAS-supported team has expanded the product market regulation (PMR) database to 16 countries in Sub-Saharan Africa, East Asia and Pacific, and Latin America and the Caribbean (with FIAS support to an additional 5 countries). PMR data has been applied to sector-specific performance and wider economic policy strategy in ***Armenia, Kenya, Namibia, Romania,*** *and* ***Tunisia****. It has also been the basis for concrete reform impact in* ***Honduras****, Kenya,* ***Mexico****, and Tunisia. In the case of Kenya, the removal of restrictive product market regulations in service sectors, such as professional services and telecommunications, would increase GDP growth by at least 0.39 percentage points, equivalent to $218 million in the first year.*

Expansion of the range of FIAS partnerships would build on experience gained in the first FIAS partnership with a private philanthropic organization, the ***Bill & Melinda Gates Foundation****. This joint effort, established in FY15, seeks to design and deliver a pilot reform program targeting the livestock sector in three countries. FIAS is engaging with emerging donors to gain from their firsthand experience with development endeavors. In the multilateral sphere, FIAS could replicate initiatives such as the OECD partnership to generate data on product market regulation for developing countries to better inform competition diagnostics and reforms.*

THE FIAS STRATEGIC PILLARS

In the FY17–21 strategy cycle, FIAS-supported work is divided into three broad categories, or **strategic pillars**, that define the goals of the FIAS program: improve the business environment; expand market opportunities; and strengthen firm competitiveness. In many cases, individual programs implemented with FIAS support help achieve multiple objectives under more than one pillar. The emphasis on the private sector is evident in all three pillars, and although the titles are new, much of the work in each of these areas builds upon the extensive real-world experience of FIAS-supported teams.

Strategic Pillar 1: Improve the Business Environment

The objective of FIAS work under Pillar 1 is to improve regulations, reduce regulatory costs and the amount of time involved in starting and licensing businesses, and ease uncertainty for businesses and investors. Government regulations play a decisive role in creating a predictable and conducive framework for businesses to form, operate, and grow. They are critical to protecting investor and consumer rights, public health, and general safety. Achieving sustainable growth at both the economy-wide and sector-specific levels requires a balance between the protective and safeguarding goal of regulation and the sometimes burdensome regulations placed on businesses. Regulatory reform can protect society and stimulate business activity by focusing not just on simplification, but on consistent, transparent, and effective delivery—while also ensuring proper protections for the public.

The hallmark of FIAS work in this area centers on good regulatory practice, encompassing efforts to streamline regulatory processes to reduce compliance costs and discretion. At the same time, FIAS is encouraging good regulatory design and delivery through impact assessments, notice and comment systems, and feedback loops for citizens and businesses. Good practice also involves an increased focus on regulatory transparency, the political economy of reforms, and the capacity of implementing agencies.

A further extension of this work focuses on risk-based regulation. Helping countries with effective enforcement and modern, risk-based regulatory mechanisms has the dual effect of reducing excessive discretion and lowering the cost to the public sector of regulatory oversight. This work has grown the most in the context of construction permits and sector-specific inspections, such as food safety and other quality systems.

Leveraging new technology and approaches is another aim of Pillar 1. FIAS has an established track record in the area of government-to-business (G2B) service delivery and integration. This work helps countries and sub-national regions develop and implement e-registries and transactional portals for regulatory service delivery that reduce discretion and increase access to information. It also leverages the leap-frogging opportunities of mobile and technology solutions to reduce information asymmetries and boost accessibility to government services.

Building on the sector focus of the FY12–16 Strategy, FIAS supports a growing range of solutions in the field of sector regulations and procedures. This line of work seeks to reduce or eliminate cumbersome licensing, registration, investment approval, and sector-specific policies. The work extends to the redesign of processes at the sector level to reduce compliance costs, undue regulatory discretion, and market distortions. Established expertise in the areas of agribusiness and tourism is now complemented with support for manufacturing and export services, such as business process services, software, and the creative industries *(see Box 6)*.

The objective of FIAS work under Pillar 1 is to improve regulations, reduce regulatory costs and the amount of time involved in starting and licensing businesses, and ease uncertainty for businesses and investors.

A recent innovation in FIAS-supported projects has involved increasing engagement with the private sector to improve reform design and implementation. This work leverages the private sector as a partner in regulatory and sector-level standards delivery, for example, through the use of self-inspections and third-party audits. This is a common practice in developed markets where the risk to brand reputation and business revenue create much higher incentives for consumer protection than publically-driven regulatory oversight. The aim is to define clearly areas for self-regulation and complementary activities for public sector oversight so as to improve overall regulatory predictability while reducing implementation costs, variability and discretion.

Box 6: Pillar 1—FIAS-Supported Business Environment Work

*An FY15 pilot program for good regulatory practice in **Morocco** is working to increase the quality and predictability of reform implementation. The program represents the next generation of FIAS-supported regulatory reform, with its dual focus on reducing compliance costs while making regulation more transparent and predictable. Limiting discretion on the part of individual regulators, officials, and inspectors helps not only to ease the burdens on firms, but also lowers public expenditures on oversight while reducing avenues for unofficial transaction costs.*

***Bosnia and Herzegovina** managed to implement critical business reforms benefiting more than 17,000 companies, entrepreneurs, and sole traders—despite severe floods, civil unrest, and political instability in 2013. Working in close collaboration with the World Bank Group, the government effort has generated an estimated $9.2 million in new investments and resulted in verified direct savings to local firms of over $6 million.*

*In **Kenya**, FIAS-supported teams have implemented online services for business licensing in the Mombasa and Nyeri counties, as well as an online system for construction permit administration in Mombasa and Nairobi. Architects and developers can submit their building plans and track the review process online through a computer or mobile phone. FIAS support is helping expand deployment of the online system to other countries, including **Iraq**, **Lesotho**, **Rwanda**, and **Uganda**.*

*FIAS-supported agribusiness-related reforms and food safety work in the Europe and Central Asia (ECA) Region exemplify the expanding portfolio of sector-related reform work. Efforts begun in **Ukraine** to streamline complex food safety regimes that provide little consumer protection and impede exports have been expanded to **Armenia**, **Azerbaijan**, the **Kyrgyz Republic**, **Moldova**, and **Uzbekistan**. The result has been millions in cost savings, new local and foreign investments, and improved links with the European market.*

*Similarly, in the tourism sector, regulatory and procedural streamlining in **Sri Lanka** is helping to grow opportunities for small and medium enterprises in areas most affected by that country's recently concluded civil war. The effort produced a more predictable and professional regulatory regime and provided support to small and medium enterprises in meeting regional and international hospitality, service, and accommodation standards.*

Helping countries and regions attract and retain investment is one of the most important ways of enabling clients to expand market opportunities.

Strategic Pillar 2: Expand Market Opportunities

Barriers to entering or reaching markets constitute some of the main constraints to inclusive private sector growth in developing countries. These barriers can come in the form of constraints to new overseas investment, dominant market power of a limited number of public and private players, or challenges for businesses to reach wholesalers and consumers. The ill-effects are not confined to specific businesses, but have a damaging impact on the ability of countries to link both vertically and horizontally across value chains. At the same time, access to inputs and end markets can be a particularly common constraint for women- and minority-owned businesses that struggle to expand into new markets and encounter regulatory regimes supported by incumbent firms or established business practices favoring entrenched interests. Firms that are protected from competition through regulatory barriers have a lower incentive to expand to new markets, innovate, and became more productive. Ultimately, these market constraints extract a measureable price in terms of productivity, foregone investment, and an associated lack of job growth.

Helping countries and regions attract and retain investment is one of the most important ways of enabling clients to expand market opportunities. FIAS has an extensive track record of addressing these challenges with the work it supports on FDI regimes dating to the program's inception in the mid-1980s. This work has expanded substantially during the most recent strategy period in both sector-specific and competition policy projects. Through investment promotion support, FIAS has exceeded the target of $1 billion in new investments for the FY12–16 cycle.

The work under Pillar 2 entails streamlining FDI entry and defining performance-based investment incentives, strengthening investment promotion and protection frameworks and strategies, and improving outreach to promote both domestic and foreign investment in key sectors.

New approaches under this pillar focus on encouraging equal market opportunities for women and minorities, in particular. For instance, FDI in extractive industries is one of the main sources of investment in resource-rich developing countries. For sustainable local development, the challenge lies in linking this type of foreign investment with locally-owned and managed businesses.

The work also entails streamlining FDI entry and defining performance-based investment incentives, strengthening investment promotion and protection frameworks and strategies, and improving outreach to promote both domestic and foreign investment in key sectors. The commitment to effective and sustainable implementation also includes a strong monitoring of investors' operational experiences to address obstacles and encourage reinvestment.

Countries with sector-specific market access restrictions require prior intervention before an investment generation project can deliver results. These engagements help expand market opportunities by curtailing sector-specific restrictions on foreign investment, including constraints to licensing, franchising, and contract manufacturing. They also help to open sector-specific markets to competition and reduce regulations that encourage or support anticompetitive businesses.

Opening markets to competition is key to creating sustainable market opportunities and encouraging efficient investment. Regulatory risks for businesses are reduced by promoting and implementing pro-competition rules in key sectors, removing discretionary and discriminatory rules that favor incumbents, deterring anticompetitive business practices, and minimizing distortive government interventions in markets. This work addresses price-fixing cartels and abuse of dominance that increase input costs for firms, reduce consumer welfare, and erect barriers to access markets or key inputs.

The work of FIAS in this area helps to dismantle undue regulatory obstacles at the national and sub-national levels to foster business entry and generate incentives for firms to improve their performance and effectively compete. Technical capacity building and PPD mechanisms are essential tools used to facilitate and sustain reforms in this area. This capacity building also extends to problem-solving training courses on antitrust and competition policies, high-level knowledge exchanges among newer competition agencies, and coaching support for stakeholders to advocate for competition reforms.

New approaches under this pillar include facilitating market linkages and inclusiveness, and improving access to supporting infrastructure and services. The aim of FIAS work is to leverage FDI and large investment projects to support market linkages, spillovers, and upgrading within local firms. The work focuses on encouraging equal market opportunities for women and minorities, in particular. For instance, FDI in extractive industries is one of the main sources of investment in resource-rich developing countries. For sustainable local development, the challenge lies in linking this type of foreign investment with locally-owned and managed businesses. The work in infrastructure and services supports the development and enhancement of special economic zones, growth poles, and strategies for competitive cities. It also employs PPD for improved vertical integration of businesses in special zones or spatial clusters *(see Box 7)*.

Box 7: Pillar 2—FIAS Projects to Expand Market Opportunities

*Active engagement with government and the private sector in Rajasthan, **India**, has led to significant new foreign direct investment in sectors as varied as solar energy, manufacturing, and services.*

IN FY14, THIS INVESTMENT-GENERATION WORK LED TO $340 MILLION IN NEW FDI

$340m

The effort began by identifying the potential for new investment in particular geographic areas and industrial sectors, and then developing an outreach strategy to bring government and private sector parties together in a common framework driven by reforms and a sustainable path to growth.

*A market access project has reduced restrictions to investment in **Myanmar,** helping to open a range of previously prohibited sectors to foreign investment—and leading to a four-fold increase in related FDI.*

*A competition policy project in **Kenya** has supported the development and implementation of pro-competition regulations and anti-cartel policies in services and agriculture. The effort addressed the role of a public sector commodity board that was drastically hindering Kenya's export competitiveness in the global market for naturally derived chemicals used in pharmaceuticals, repellents, and cosmetics.*

An assessment of four selected pro-competition actions shows that they have generated $5 million per year in consumer savings and increased income for farmers.

*In **Guinea** in FY15, FIAS support has helped to create a framework for linkages and inclusiveness between local businesses and FDI in extractive industries by expanding inclusive platforms for dialogue with government and improving integration of local SMEs into sector value chains.*

*Finally, FIAS support in **Burundi** has led to improving access to supporting infrastructure and services through a joint lending and advisory project focusing on the overlap between publicly-managed spatial development and the growth of private enterprise.*

Strategic Pillar 3: Strengthen Firm Competitiveness

More productive and competitive firms can seize opportunities in local, regional and global markets and drive economic growth. Economy-wide, market-level reforms work best when complemented with policies that help businesses invest in improved products, use climate-efficient technologies, and modernize production processes. Job opportunities will follow if labor markets can supply the necessary skills and are open to a broader slate of candidates. Effective interventions can enhance private returns, internalize social externalities, and promote firm survival and growth. Therefore, projects will entail significant new areas of work in an effort to increase the ability of businesses to improve resource efficiency, value addition, and productivity.

FIAS-supported work in climate competitive industries helps to improve manufacturing competitiveness through the establishment and implementation of private sector-oriented resource efficiency laws, regulations, standards, and financing to promote green and low-carbon growth. This can also entail support for climate-efficient machinery, systems, and standards.

Quality national infrastructure and capacity support helps firms successfully compete in national and international markets. Advisory assistance seeks to define and implement quality standards required for internal and external market growth, encompassing the technical, laboratory, institutional, hardware, and system requirements. This helps to strengthen sector standards and related regulatory and inspections systems to lower the burden of regulation for businesses, increase consumer protection, and raise firm competitiveness. This FIAS-supported effort also helps establish systems by which private sector firms can provide testing and quality control services for regulatory agencies.

FIAS support for fostering business upgrading accelerates the growth of pioneering businesses in key sectors by developing new approaches to connect them to the knowledge, markets, networks, and capital needed to advance their enterprises.

Skills development for firm competitiveness helps identify and directly enhance skills available to businesses in those sectors with the highest potential for growth and innovation. One of the primary reasons businesses fail to reach their full potential is their inability to access the full range of skills required for expansion. Results of this work include a better understanding of the private sector demand for new skills (an identified gap in the current World Bank Group offering); increased opportunities for private sector provision of training, technical education, and targeted skills; and improved links between skills programs and new employment opportunities. This support also increases the availability of information about the quality and performance of skills and training providers to address market failures in the provision of specialized higher education services.

Improvements by firms in resource efficiency, quality, business upgrading, and skills are the foundation for increased participation in global value chains (GVCs). Developing countries that can connect to GVCs produce more and better jobs, greater opportunities for domestic suppliers, increased exports, and higher productivity *(see Box 8)*. A developing country, or one of its industrial sectors or firms, need not establish an entire vertical industry, such as automobile production, from beginning to end. Rather, it can participate in just one or two links in the value chain. Thus, GVCs enable developing countries to participate in sophisticated manufacturing and services endeavors at lower up-front costs. FIAS-supported engagement encourages GVC participation by removing binding constraints to global value chain entry and upgrading, thereby building on a country's comparative advantages in key sectors to enable private sector investment.

These strategic pillars account for the majority of FIAS interventions for the FY17–21 strategy cycle. They build and expand on areas of solid FIAS expertise, leveraging experienced gained during the FY12–16 strategy, and doing so in a way that can be linked to measureable outcomes and impacts. Moreover, throughout the project cycle—from diagnostics to post-implementation—measuring results in these pillars serves to integrate and mainstream the special FIAS themes described in the next section.

FIAS support for fostering business upgrading accelerates the growth of pioneering businesses in key sectors by developing new approaches to connect them to the knowledge, markets, networks, and capital needed to advance their enterprises.

Box 8: Pillar 3—Multi-Layered FIAS Effort to Strengthen Mauritania's Seafood Sector

*FIAS is supporting improvements in the sustainability and competitiveness of the seafood sector in **Mauritania.** The government has designated the Nouadhibou Free Zone (NFZ) as a core element of its national growth strategy. Nouadhibou, the country's main fisheries center, holds 80 percent of the national market. Yet the sector's competitiveness is suffering due to problems with firm productivity and resource use, resulting in fish product losses and high operational costs.*

Support for the sector combines several initiatives including a $47 million program involving the Bank Group's Environment Global Practice and the Global Environment Facility (GEF) program, supporting sustainability of the fish stock; a T&C-GEF lending operation to develop trade infrastructure and enhance the competitiveness of the NFZ; and a FIAS-supported advisory services initiative.

The FIAS advisory effort aims to: (1) integrate sustainability into the NFZ development strategy; (2) establish a PPD platform to prioritize eco-efficiency measures within Nouadhibou's fisheries cluster; and (3) generate clean technology investments through zone- and sector-level technical and operational improvements with at least three pilot firms, thereby saving 5,000 megawatt-hours per year and generating more than $2 million in clean technology investments.

ECONOMIES CANNOT THRIVE IF THEY EXCLUDE WHOLE SEGMENTS OF THE POPULATION FROM PARTICIPATING IN BUSINESS DEVELOPMENT, INNOVATION, AND OPPORTUNITIES FOR GROWTH. ELIMINATING EXTREME POVERTY AND BOOSTING SHARED PROSPERITY REQUIRES THE ECONOMIC PARTICIPATION OF BOTH MEN AND WOMEN, MAJORITY AND MINORITY ETHNIC GROUPS, AND COMMUNITIES WITHIN BOTH URBAN AND RURAL ENVIRONMENTS.

FIAS PROGRAMMATIC THEMES

As part of its continued commitment to broaden the range of impacts and deepen the reach of its programs, the three strategic pillars guiding the FY17–21 FIAS strategy cycle are reinforced by four **programmatic themes**: gender and inclusion; transparency; green competitiveness; and the targeting of high-growth businesses.

The broad applicability of these themes highlights their relevance across all three pillars. In a similar way to competition policy, PPD, and work in conflict-affected countries in the FY12–16 strategy cycle (all of which continue as priorities under the new strategy), the intent here is to embed and mainstream the themes into FIAS-supported diagnostic, knowledge, and operational work. To ensure FIAS delivers on these priority themes, stewardship for each one is to be anchored with a specialized team leader working closely with T&C cross-cutting topic areas focused on green competitiveness, connecting people and firms to markets, and global value chains. Furthermore, each theme complements the main monitoring and evaluation framework with a few additional indicators to ensure consistent tracking and monitoring of results and integration. Thematic work extends beyond individual FIAS-supported projects to include publications and learning events, the identification of priority countries, leveraging external partnerships, and expanding connections with other World Bank Group units.

The approach to inclusion across the three pillars—and the knowledge and projects they support—is as follows:

- Systematic diagnosis of constraints related to the themes during project preparation and design.
- Integration of theme specialists and approaches during project implementation and execution.
- Replication and scaling up of successful project experiences—with support from publications and case studies.
- Creating and testing project models and execution methods for effectiveness and potential to deliver results.

Gender and Inclusion

Economies cannot thrive if they exclude whole segments of the population from participating in business development, innovation, and opportunities for growth. Eliminating extreme poverty and boosting shared prosperity requires the economic participation of both men and women, majority and minority ethnic groups, and communities within both urban and rural environments. This theme focuses on three main areas that will expand over the strategy cycle: (1) reducing the barriers to success for women-owned businesses; (2) promoting inclusive business models; and (3) improving the geographic diversification of economic growth.

Reducing barriers to success for women-owned businesses is based on the premise that an estimated one billion women are constrained from contributing more fully to their economies. The vast majority—800 million of these women—live in developing countries. During the FY12–16 strategy cycle, the Investment Climate Department undertook to develop and strengthen work oriented toward economic inclusiveness for women, smallholder farmers, indigenous peoples, and other disadvantaged populations. FIAS funding has been instrumental in supporting reforms to address gender disparities in the business environment. These efforts gained additional momentum when gender issues were highlighted in the FIAS Midterm Evaluation. T&C has continued that process and actively implemented a strengthened gender and inclusiveness program for the remainder of the FY12–16 strategy cycle. The experience gained has contributed to further improvements designed into the new FIAS strategy.

For the FY17–21 cycle, FIAS-supported activities encourage equal market opportunities for women by reform of discriminatory legislation and regulation, as well as support for improving the path to regulatory compliance for women-owned businesses. Projects seek to foster the development of private sector-driven labor skills geared especially to women *(see Box 9)*. Project design and implementation will promote women's participation in PPD and other reform advocacy mechanisms. Teams will work with clients to go beyond regulations and leverage policy instruments so as to enable and facilitate development and growth of inclusive businesses. Overall, the FIAS approach aligns with and contributes to the T&C Gender Strategy focused on regulatory reform, entrepreneurship and skills development, and community engagement.

Meeting this challenge requires new approaches. Promoting inclusive businesses is a fundamentally different way for the private sector to contribute to global development goals, and to reach the 4.5 billion people who live on less than $8 per day—that is, the people who comprise the base of the economic pyramid (BoP). Inclusive business goes beyond corporate social responsibility and philanthropy to deliver a direct development impact in a financially sustainable manner. Inclusive businesses are providing people at the BoP with affordable, quality products and services as well as valuable employment and training opportunities. However, relatively little is known about the effectiveness and sequencing of various policy instruments available to policymakers in support of inclusive business. Filling this knowledge gap and implementing identified solutions in pilot projects is one of the focal areas of this theme in the FY17–21 strategy.

Improving the opportunities in geographic areas that do not typically see growth from the private sector is another area of thematic support. This carries over and expands on the focus on frontier regions from the previous strategy. First, FIAS will refine its diagnostic approach to ensure the inclusion of disadvantaged regions. Second, it will look to apply sector lenses, such as agribusiness and tourism, and enabling environment accelerators, such as SEZs, to improve growth prospects in these regions. Third, FIAS will support improvements in PPD and M&E to reach and then track outcomes and impacts that have a bearing on these geographic areas.

T&C will rigorously collect and track results and indicators in the gender and inclusion space, for example, examining the geographic diversity of results, the inclusive reach of reforms, the number of women entrepreneurs reached by a project or reform, the number of predominantly women-owned businesses that benefit from reformed registration requirements, and the number of jobs created or improved in lagging regions, including women and youth.

Box 9: Experience with FIAS-Supported Thematic Work in Gender and Inclusion

*Amendments to the family law in **Côte d'Ivoire** passed in FY14 marked a victory for working women. With the help of the Bank Group's Women, Business and the Law Program, women no longer pay a higher tax rate, thereby eliminating a disincentive for women to enter the formalized work force. The revised law affords both spouses a role in choosing the family domicile and pursuing their career of choice, taking into account the interests of the family. The reforms eliminated provisions that limited childcare benefits to men as heads of households. In addition, married women no longer need to provide their marriage certificates to obtain passports. An initial estimate shows that the reform has resulted in a 3 percent increase in revenue to women-led businesses. Bank Group teams, with FIAS support, helped organize a series of consultation and training events bringing together civil society, religious leaders, and journalists to disseminate and promote the family law amendment.*

*In **Bangladesh**, a pilot project to modernize special economic zones (SEZs) includes an initiative to test regulatory frameworks and programs that directly address issues faced by female workers within the SEZ context. The objective of the project is to implement at least five gender-inclusive initiatives, policies, procedures, or practices and to develop a good practice framework based on global research and lessons learned from the pilot project.*

*In **Honduras**, competition policy reforms are opening inclusive business opportunities for smallholder farmers by improving their access to cost-effective inputs. Reform of the import requirements for these inputs not only lowered costs, but expanded the range of inputs that small farmers could access.*

*Highly successful reform and investment-generation projects in **Brazil** and **India** exemplify the merits of the geographic approach to stimulating private sector investment. In both cases, FIAS supported a focus on regions with high economic potential that lagged behind other provinces in terms of FDI and reported significantly higher levels of poverty.*

A sector-driven approach can be seen in the Sri Lanka tourism work highlighted above, and in a new effort to define and support agri-zones that leverage production and processing in zones that may be removed from traditional processing centers.

Transparency, Political Economy, and Sustainability of Reforms

FIAS-supported reforms contribute to greater transparency and better economic governance in many ways. They simplify cumbersome and ineffective regulations; they require higher levels of information disclosure; they help harness new technologies that improve the quality and accessibility of information and increase the transparency of government services; and they enable clients to meet more stringent international norms pertaining to transparency and accountability. Transparency means greater citizen and private sector engagement and buy-in with regard to economic development initiatives. Transparency also promotes fairness and competitiveness in the economy. In addition, it helps developing countries participate on a more level playing field in a global marketplace that increasingly demands transparency as a feature of global trade. In the FY17–21 cycle, T&C will ensure that the FIAS-supported project portfolio includes a range of activities designed to promote transparency and enhance the sustainability of reforms, including: leveraging PPD and other mechanisms to increase the transparency and legitimacy of reform initiatives; strengthening the capacity of governments to carry out sustainable reform and reduce implementation gaps; improving government and regulatory service delivery; and increasing investor confidence by systematically addressing grievances. These activities build on the extensive experience of T&C teams in working with clients on transparency and the sustainability of reforms *(see Box 10)*.

To help clients assess the degree of transparency in investment climate-related policies, regulations, and administrative practices, FIAS funding is helping to develop transparency check-lists for relevant investment climate products. A literature review of the impact of transparency on the investment climate will serve as the basis for focusing on the most relevant products. FIAS is also supporting the development of tools to increase transparency and disclosure requirements in key areas of the investment climate. T&C teams will continue to tailor and develop new indicators to better monitor and track whether government accountability and responsiveness are increased, whether more stakeholders are able to participate in setting priorities, and whether the transparency of information available to stakeholders improves.

Box 10: FIAS Experience in Transparency, Political Economy, Sustainability of Reforms

*In **Jordan**, innovative use of information and communication technology is providing a feedback mechanism for businesses.*

*In **Bosnia and Herzegovina,** a tracking system for investor grievances helps local and federal governments in addressing political risk concerns of foreign businesses.*

*A public service delivery quality project in **Morocco** aims to increase the predictability of public services provided to businesses by helping several government agencies improve the measurement of regulatory performance and increase transparency and disclosure of key indicators. The project is supporting government agencies in three areas: procurement payment delays; value-added tax reimbursement delays; and construction permits. It aims to strengthen government accountability and eventually provide better implementation of regulations.*

*Lessons from Morocco have been applied in **Guinea** and **Nepal**, where investment climate teams are working with government agencies on the publication of reform outcome data. This is another element in providing transparency in implementing investment climate reforms.*

*In FY13, work began on two transparency check-lists. One, concerning business regulation, covered items such as entry into business. The second covered construction permitting as well as investment policy, including policy incentives for investment. First drafts of these check-lists have been completed and those on construction and investment incentives have been piloted in **Morocco** to test their relevance.*

Green Competitiveness

Governments face the challenge of a global environment in which climate variability coupled with increased resource demand and price volatility threaten the competitiveness of economies. Industries and their supply chains are key drivers of economic development and significant contributors to climate change. Energy-saving technologies are increasingly available, as are business opportunities for entrepreneurs with innovative ideas for achieving green growth. A potential market of $1.6 trillion in clean technology sales is accessible to small and medium enterprises in developing countries over the next decade. However, there are knowledge gaps in developing countries. FIAS support can help governments and industries maximize green growth along supply chains, and enhance competitiveness. It can also minimize the negative effects on climate change by promoting innovation, enabling better use of energy and water, and supporting more efficient management of waste *(see Box 11)*.

In the FY17–21 cycle, FIAS-supported teams work with clients to: leverage investment incentives to foster green growth; design and enhance adoption of climate-efficient technologies and practices; and support adoption of green standards and certifications, such as in building construction. This thematic approach goes beyond the focus on firm competitiveness in Pillar 3, and extends green competitiveness approaches to a variety of sectors, from agribusiness to tourism to manufacturing. It also contemplates a reform filter that examines the way economy-wide regulations affect resource use and emissions where appropriate.

Progress in promoting green competitiveness can be assessed through well-established procedures for measuring greenhouse gas emissions and their reduction in terms of metric tons released per year as a result of project efforts. Green growth and the increasing use of climate-efficient technology can also be measured in terms of expected cost savings. These activities build on the momentum of project successes in the FY12–16 cycle.

The green competitiveness thematic approach encompasses a variety of sectors, from agribusiness to tourism to manufacturing.

Box 11: Replicating the Success of Reducing Emissions from EPZs in Bangladesh

*Acting on climate change through climate-efficient industries under a FIAS-funded project, the World Bank Group has helped **Bangladesh** become the first low-income country to adopt a road map for reducing carbon emissions from export processing zones (EPZs). The FIAS-supported effort focused on one such zone in Chittagong, and is now poised to be replicated throughout all of the country's export zones. At the beginning of FY14, Bangladesh began implementing the low-carbon zone guidelines contained in the road map, helping companies in Chittagong to improve energy efficiency while still remaining competitive. Short-term steps have already generated savings of $844,000, and have reduced carbon emissions by 9,000 metric tons per year—the equivalent of the emissions produced by the fuel in 119 gasoline tanker trucks.*

Welcoming the green drive, Nasir Uddin, chairman of Pacific Jeans, an exporter of blue jeans and denim from Bangladesh, said: "At Pacific, we have already started environment-friendly production procedures. Once the green production idea is adopted by all, we hope Bangladesh can stand as an example."

In a spinoff of the EPZ effort, the project—with support from FIAS, IFC, the Korea Energy Agency, the European Union, and the United Kingdom—has generated more than $170 million in private investment in an energy efficient power plant, a project that addresses acute power shortage issues.

Targeting High-Growth Businesses

Targeting high-growth businesses begins with the challenging task of identifying sectors and firms that have exceptional potential to grow and create jobs and then supporting them through a variety of interventions. Empirical evidence suggests that in a typical economy, usually only between 5 and 10 percent of businesses make a disproportionately large contribution to new job creation, income enhancement, and significant productivity growth. These high-growth firms expand rapidly and many become medium-sized or large firms within a few years. In many industries high-growth firms generate new ideas and innovations.

Of the many start-ups and small firms in developing economies, which ones will achieve robust growth? The World Bank Group has been working with client governments to identify the sectors and firms with the greatest growth potential, design appropriate policy instruments, and determine their prioritization and sequencing to support such high-growth firms.

FIAS support helps the Bank Group to further engage with developing countries in targeting sectors, regions, and businesses with high-growth potential. Interventions are targeted at the key stages of the business lifecycle: at inception (for example, by facilitating business start-up or formalization); during upgrading their operations (for example, by strengthening their internal capabilities through enhanced management skills); and in the business scale-up phase (for example, by connecting them to lead firms' value chains).

FIAS also supports work to strengthen firms and their sectors, thereby enabling them to comply with international certifications and standards. These steps are essential to fully integrating developing country businesses into increasingly competitive global markets. The FIAS-supported program seeks to better integrate high-growth businesses into value chains through growth poles, economic zones, and linkages. It also helps clients remove policies and barriers that thwart participation in value chains by high-growth businesses, including the sourcing of goods and services from these businesses.

Participation in GVCs offers competitive firms in developing countries new opportunities to enhance their growth potential through upgrading operations, accessing new markets, and adopting new technologies. Targeting high-growth businesses enhances companies' access to new markets and to the value chains of lead firms. Further, it encourages knowledge diffusion and technology spillovers by:

- Facilitating linkages and match-making between multinational companies and domestic firms through: targeted investment promotion to connect anchor FDI to high-growth local businesses; customizing business registries to create databases of competitive local suppliers; and leveraging PPD mechanisms, such as industry councils, to help high-growth businesses form strategic alliances with lead firms.
- Supporting businesses that have high potential to connect to GVCs through incubation and acceleration services, and assistance with complying with quality standards and obtaining necessary certifications.
- Revising policies that may hinder inclusion of local businesses in GVCs. These may include local content policies or poorly-designed investment incentives that may discourage foreign firms from sourcing through local suppliers.
- Creating an enabling regime for local businesses to enter into contractual arrangements with foreign firms (such as contract manufacturing, outsourcing, or franchising), thus benefiting from their value chains.

Strengthening the internal capability of companies—such as through enhanced managerial capacity and a skilled work force—is a key contributor to productivity growth in many countries. At the same time, acquiring the right talent is a challenge for many businesses in developing countries where skills are scarce and expensive. T&C helps governments create effective regimes for enhanced managerial and business skills through:

- Improving visa and work permit systems to attract high-skilled foreign workers and facilitate transfer of know-how and managerial capabilities to local firms.
- Increasing the effectiveness of investment incentives—such as matching grants or direct financial assistance—for management training, work-based learning, and retention of highly qualified staff. This involves analyzing incentive designs to foster capacity upgrading in a specific country or industry context.
- Fostering specific types of non-equity modes of investment (NEMs) —such as management contracts or contract manufacturing—as tools for transferring cutting-edge business models and management practices to local businesses.

World Bank Group interventions continue to address business informality as one of the binding constraints for latent high-growth businesses to achieve their potential. Specific activities focus on:

- Streamlining business registration processes and facilitating access to business support services. These interventions, coupled with providing information on access to credit and tax compliance requirements, have been shown to catalyze business formalization. Reform assistance comprises process mapping and simplification, enhancing institutional set-up for individual procedures, and leveraging of risk assessment tools.
- Supporting the establishment of business clusters to extend the benefits of formalization to high-growth firms that are connected through common or complementary inputs, personnel, innovations, processes, or products.
- Providing access to finance to encourage formalization and scale-up of high-growth enterprises. This includes targeted financing and financial sector infrastructure reforms, such as strengthening secured transactions, improving payment systems, and enhancing credit reporting mechanisms.
- Carrying out empirical research and impact studies on characteristics of businesses that choose to formalize, factors and policies underlying their choice, and their post-formalization performance.

In both the healthcare and fast food sectors, companies are using non-equity modes of investment, most commonly franchising. However, local and foreign partners still face challenges in franchising or other non-equity arrangements. The process for remittances of technical fees and royalties is a significant obstacle for investors. Obtaining work permits also poses challenges, particularly for highly skilled professionals and technical experts. In addition, import duties are a problem in both the healthcare and fast food sectors. The World Bank Group is therefore working to address these barriers through: improving the regulatory framework for non-equity modes of investment; developing clear guidelines and ICT-solutions for streamlining investment-related procedures; and supporting consistent and transparent implementation of the reforms on the ground *(see Box 12)*.

The World Bank Group is working to improve the regulatory framework for non-equity modes of investment (NEMs) such as franchising.

Box 12: Models for Success in Promoting High-Growth Businesses

*In **Nepal**, FIAS-supported work is strengthening franchising, contracting, and licensing investments aimed at benefitting local businesses through technology and managerial spillovers.*

*In **West Africa**, streamlined business entry processes facilitate business formalization, thus unlocking the latent growth potential of competitive firms.*

*Franchising, licensing, contract manufacturing, and other non-equity modes of investment are rapidly expanding in **Bangladesh**, driven to a large extent by the country's market size and the growing middle class. For example, demand for health services from hospitals and wellness centers is rising. **India's** Apollo Hospital is expanding its presence beyond Dhaka, and the Imperial Hospital is commencing operations in Bangladesh. Demand for international food chains is also growing in Dhaka and other cities of Bangladesh, as evidenced by the ambitious expansion plans of existing chains over the next two to five years.*

The strategy will compile results and indicators about FIAS-supported work promoting high-growth businesses through a variety of means, including tracking the number of high-growth businesses benefiting from new linkages with large firms and from improved business procedures, as well as the number of jobs created by high-growth businesses.

FIAS HAS MADE SIGNIFICANT ADVANCES IN MEASURING IMPACT THROUGH CONSIDERABLE INVESTMENT IN MEASUREMENT TOOLS AND TECHNIQUES IN THREE AREAS:

1 **REFINING THE LOG FRAME OF STANDARD INDICATORS** TO BETTER ARTICULATE THE EXPECTED THEORY OF CHANGE;

2 **DEVELOPING AND TRACKING IMPACT INDICATORS** AS COMMITTED TO IN THE FIAS STRATEGY; AND

3 **DEVELOPING AN IMPACT PROGRAM TO FILL CRITICAL KNOWLEDGE GAPS** AND LEARN FROM OPERATIONAL EXPERIENCE.

Chapter 4

MEASURING SUCCESS: OUTCOMES, IMPACTS, AND TARGETS

In the FY17–21 cycle, the emphasis shifts from a focus on quantity of reforms to achieving and measuring the benefits of reforms, technical assistance, and financial engagement. FIAS has excelled at meeting and surpassing targets for reforms, business savings, and investment generation. In addition, in the years leading into the new strategy, FIAS has made significant advances in measuring impact through considerable investment in measurement tools and techniques in three areas:

- Refining the log frame of standard indicators to better articulate the expected theory of change.
- Developing and tracking impact indicators as committed to in the FIAS strategy.
- Developing an impact program to fill critical knowledge gaps and learn from operational experience.

In concert with a broader World Bank Group effort, the measurement of the effectiveness, results, and impact of the FIAS strategy is extending in much greater depth into impact indicator areas including jobs, productivity, and incomes. The Bank Group is developing a "number of jobs created" indicator as part of this endeavor.

RESULTS FRAMEWORK TO ACHIEVE FIAS AND T&C GOALS

The three FIAS strategic pillars—improve the business environment, expand market opportunities, and strengthen firm competitiveness—are designed to mobilize global engagement, employ reform diagnostics, and leverage partnerships in pursuit of intermediate and final outcomes that produce significant beneficial impacts. T&C's integrated results framework captures key measurements at cascading levels, moving from initial reform-specific benefits to intermediate and finally broader, more aggregated economic benefits.

At the level of intermediate outcomes, the framework encompasses a number of benchmarks, including: the adoption of innovative and improved products and processes; the introduction of new products, processes, or services to national and international markets; increased approval of patents on process or product innovation; and decreased time, cost, and complexity of procedures required to do business. Impact measurement comprises data about job creation, productivity improvement, and investment catalyzed by FIAS-supported work. Indicators to be developed at the FIAS FY17–21 midpoint will cover productivity, participation in value chains, quality of regulation through measurement of the implementation gap, and transparency.

The overarching principle for gathering data on gender and other priority benchmarks will remain consistent throughout the strategy cycle: data is collected unless there is a compelling reason as to why collection is not possible or is irrelevant to project objectives. Implementation of this principle in the gender space will be done in a phased and pragmatic manner, with data collection focusing initially on clearly identified project types and then widening gradually to a broader array of projects, and with due consideration to cost implications.

The World Bank Group Gender Strategy commits to the collection of gender-disaggregated data across the entire Bank Group portfolio. The approach in FIAS-supported projects mirrors what the institution has identified as critically important. Gathering this data deepens our diagnostic and analytical capabilities around the issues concerning the economic empowerment of women, as well as the interventions that work best to their benefit.

SCORECARD FOR TRACKING TARGETS

For the FY17–21 cycle, FIAS is establishing targets for results, impact, and priority geographic focus. These targets are incorporated into a detailed **scorecard** that tracks progress on achieving these targets *(see Table 1)*. The scorecard measures results against targets as in the previous strategy cycle. It also includes a new target measuring the extent to which IFC and IBRD lending operations are leveraged by FIAS. In addition, the

scorecard will be updated to incorporate targets for new World Bank Group indicators in jobs and productivity once these have been developed and rolled out.

The scorecard tracks results organized by five themes:

- Focus on priority clients, covering the share of client-facing project implementation spending in IDA, fragile and conflict-affected situations (FCS), and Sub-Saharan Africa. FIAS continues its emphasis on delivering results in countries where investment climate reform can bring the greatest impact. In this regard, it has committed 70 percent of client-facing project implementation spending in IDA countries, 25 percent in FCS, and 50 percent in Sub-Saharan Africa.
- Delivering significant business results, covering the number of investment climate reforms by priority clients. In addition to tracking the number of reforms in IDA countries, the scorecard will also monitor the reform count in IDA and FCS countries.
- Client satisfaction and development effectiveness, covering T&C projects.
- Measuring impact, such as direct compliance cost savings, investment generated by facilitation of FDI in priority sectors, job creation, and productivity. Job creation and productivity indicators are being developed and systematized at the World Bank Group level, and FIAS targets will be set and included in the scorecard once these are finalized. T&C will make the necessary efforts to disaggregate data and capture the gender impact of FIAS work.
- Leverage, covering IBRD and IFC investment operations informed and enabled by FIAS.

Table 1: Targets, Geographic Focus, and Themes Tracked in FY17–21 Scorecard

Strategic Theme	Indicator	Cumulative FY12–15	FY12–16 Strategy Target	FY17–21 Strategy Target
Focus on Priority Clients	% of FIAS client-facing project implementation spend in IDA countries	78%	70%	70%
	% of FIAS client-facing project implementation spend in FCS countries	28%	25-30%	25%
	% of FIAS client-facing project implementation spend in Sub-Saharan Africa	59%	50%	50%
Delivering Significant Business Results	Number of reforms supported by FIAS	263	250	275
	% of reforms supported by FIAS in IDA countries	72%	60%	70%
	% of reforms supported by FIAS in FCS countries	31%	None	25%
	% of reforms supported by FIAS in Sub-Saharan Africa	66%	None	50%
Client Satisfaction and Development Effectiveness	Overall client satisfaction (results from IFC Client Survey—satisfied)	91%	None	90%
	Development effectiveness (% of FIAS projects rated satisfactory)	89%	None	80%
Measuring Impact	Direct compliance cost savings	$193M	$350M	$250M
	Investment generated via facilitation of FDI in priority sectors*	$1.36B	$1B	$1B
	Productivity—new impact indicator for FY17–21**			TBD
	Jobs—new impact indicator for FY17–21**			TBD
Leverage	IBRD and IFC investment operations informed and enabled by FIAS**			TBD

*The $1 billion target for investment generated is derived using an improved methodology. Using the previous methodology, the comparable investment generated target would be $2 billion for FY17–21, or double the target for the previous cycle.

**Methodology for setting targets for these indicators will be developed during FY17–21 cycle.

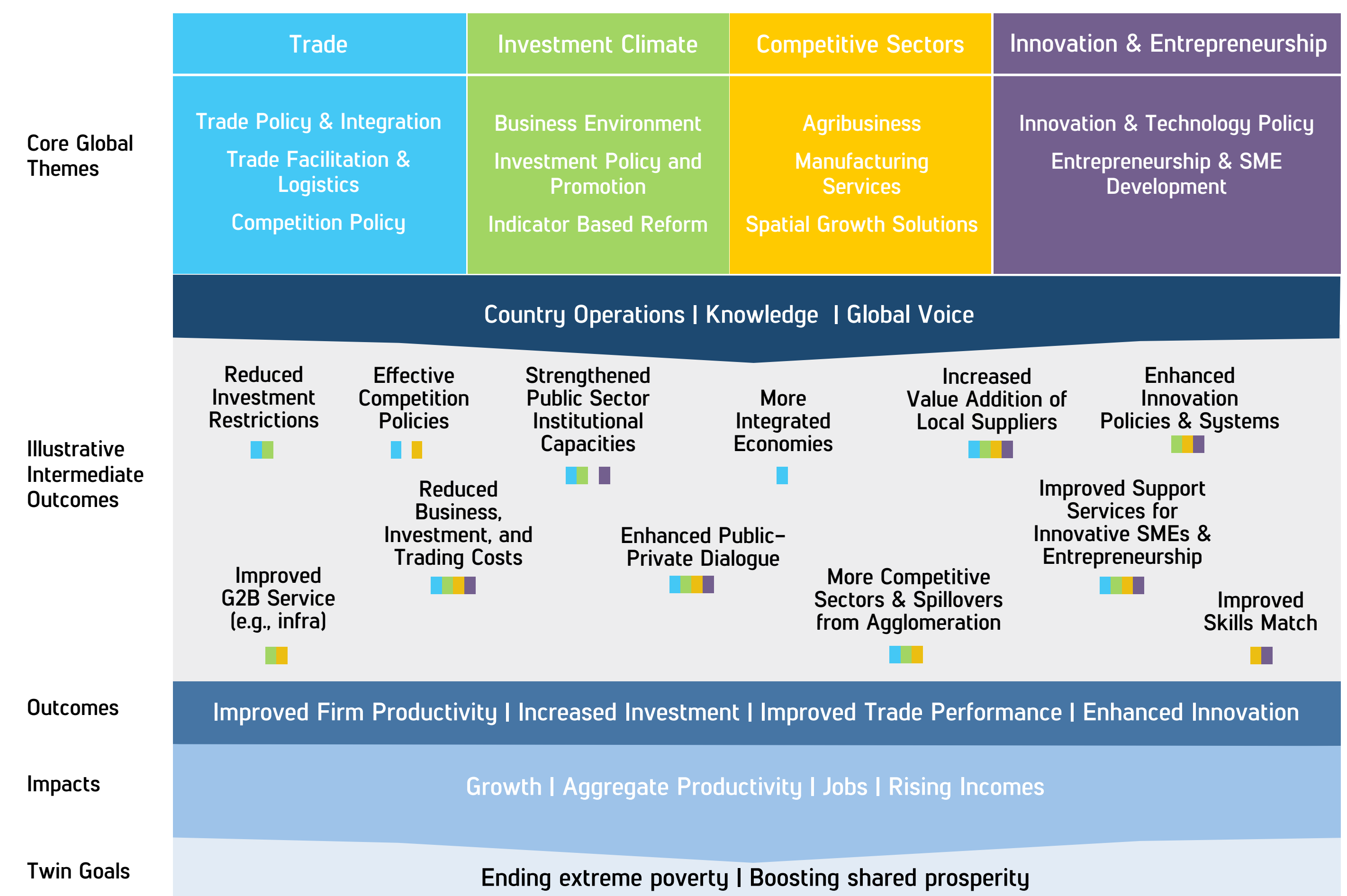
Note: BL=Business Line; FCS= fragile and conflict states; FDI= foreign direct investment; FIAS=Facility for Investment Climate Advisory Services; FY= fiscal year; IBRD= International Bank for Reconstruction and Development; IC= investment climate; IDA= International Development Association; IFC= International Finance Corporation; TBD= to be determined.

T&C, which implements the FIAS program, relies on an integrated results framework that builds on development challenges, solutions, and theories of change under each of its thematic areas (investment climate, trade and competition, competitive sectors, and innovation and entrepreneurship). The framework is the main foundation of results management in T&C and is supported by detailed definitions of indicators. The T&C results framework applies to projects and tasks across all instruments, including to IFC Advisory Services projects.

FIAS-supported projects are integral to the T&C offering and adopt the T&C results chain illustrated below *(see Figure 4)*. The FIAS scorecard aids in tracking progress and results against the set targets.

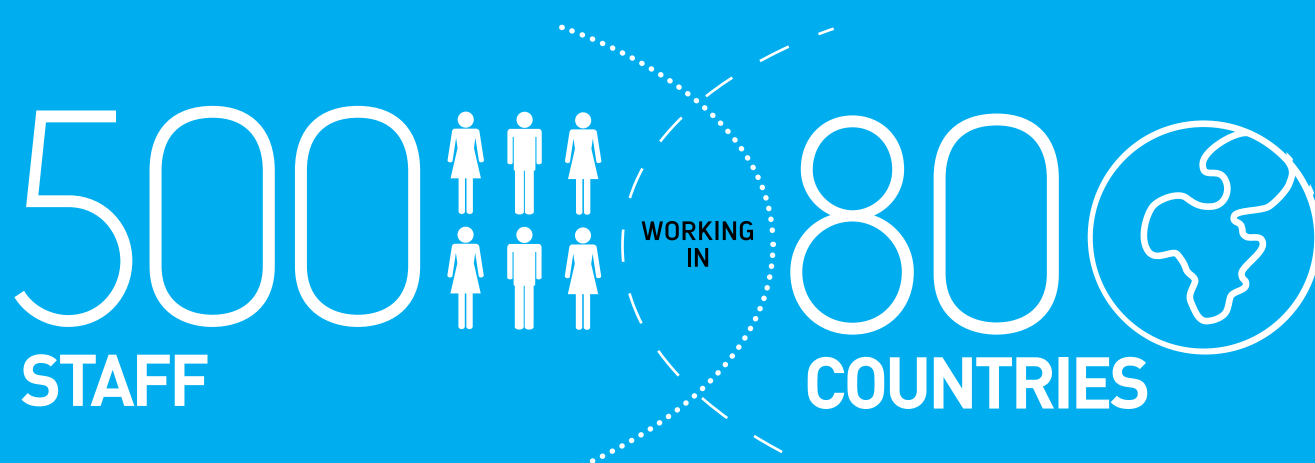
FIAS-supported projects are integral to the T&C offering and adopt the T&C results chain.

Figure 4: The T&C Results Chain



FIAS-SUPPORTED TEAMS WORK WITH THE PRIVATE SECTOR, REGIONAL ORGANIZATIONS, AND GOVERNMENTS TO HELP LINK FIRMS TO INVESTMENT OPPORTUNITIES WHILE BUILDING CAPACITY AND ADVOCATING FOR REFORM THROUGH BUSINESS ASSOCIATIONS AND PUBLIC-PRIVATE DIALOGUE (PPD). A KEY GOAL OF THIS WORK IS TO ENSURE THAT THE PRIVATE SECTOR PERSPECTIVE IS REPRESENTED IN PUBLIC REFORM EFFORTS.

T&C IMPLEMENTS THE FIAS STRATEGY WITH SPECIALIZED TEAMS THAT TOGETHER INCLUDE CLOSE TO ...



Chapter 5

OPERATING PRINCIPLES

Governments and the private sector around the world are actively seeking more effective ways of boosting the volume and value of trade, enhancing the investment climate, improving sectoral competitiveness, and fostering innovation and entrepreneurship—all elements of successful economic growth strategies. The creation of the Global Practice structure, including the joint Trade & Competitiveness Global Practice, signals the World Bank Group's commitment to systematically strengthening its engagement in these issues.

FIAS STAKEHOLDERS

T&C administers the FIAS program with FIAS stakeholders as part of the World Bank Group, consisting of the World Bank (IBRD and IDA), IFC, the Multilateral Investment Guarantee Agency (MIGA), and the Bank Group's Global Practices. Stakeholders include client governments, donor partners, high-income countries, civil society, international organizations, academia, regional organizations, and the private sector.

FIAS works with client governments to partner with sub-national entities on local reform, engage national governments for high-level impact, and assist in implementing reforms. FIAS engagement contributes to the global development agenda, establishes communities of practice, leverages examples and shared experience, improves feedback loops between reform input and implementation, shapes reputation and perception, and creates and increases developing country demand for reforms.

International organizations and academia partner with FIAS to share and replicate good practice, establish and enhance global thought leadership, and implement joint projects and diagnostics through work with organizations such as the OECD, the Food and Agriculture Organization of the United Nations (FAO), the World Trade Organization (WTO), and the UN Industrial Development Organization (UNIDO).

FIAS-supported teams work with the private sector, regional organizations, and governments to help link firms to investment opportunities while building capacity and advocating for reform through business associations and PPD. A key goal of this work is to ensure that the private sector perspective is represented in public reform efforts. Regional projects encompassing multiple countries help FIAS leverage maximum results. Examples of such high-impact efforts include FIAS-supported reform work with the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS), and the Organization for the Harmonization of Business Law in Africa (OHADA), as well as collaboration on trans-border reform agendas.[6]

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[6]OHADA, the French acronym for the Organization for the Harmonization of Business Law in Africa, a 17-nation league of countries in West and Central Africa; ECOWAS is the Economic Community of West African States, a 15-nation economic integration organization.

WITH FIAS SUPPORT, T&C IS POSITIONED TO PROVIDE GLOBAL THOUGHT LEADERSHIP AND STRATEGIC PARTNERSHIPS WHICH GENERATE FLAGSHIP PUBLICATIONS AND KNOWLEDGE-SHARING EVENTS IN CONJUNCTION WITH INTERNATIONAL AGENCIES, DEVELOPMENT PARTNERS, THE PRIVATE SECTOR, AND CLIENTS.

HOW FIAS SERVES ITS CLIENTS

T&C implements the FIAS strategy with specialized teams that together include close to 500 staff operating in over 80 countries. These FIAS-supported teams deliver results through a cycle of support for clients beginning with analysis, product development, incubation and innovation, and leading to new and improved operational projects based on global economic trends, domestic and international market opportunities, and client development challenges. This approach sets the stage for a project implementation phase in which funding support is often sourced at the regional or country level. When FIAS funding comes during project execution, it centers on additional support for high-impact projects, or the piloting of innovative ideas or new project components that enhance results. The focus on innovation, excellence in design, and implementation guidance is complemented by FIAS support for quality control, monitoring and evaluation, and impact measurement throughout the project cycle for client-facing projects. The result is a portfolio of FIAS-supported knowledge programs and client-facing projects that deliver locally, while supporting cross-regional learning, and foster a results-centered culture within T&C, the World Bank Group, and client counterpart teams. Such efforts also help foster a results-centered culture within T&C, the World Bank Group, and client counterpart teams. T&C continues the practice of maintaining a dynamic database of programs and projects that specify the level and form of FIAS support.

The design and implementation of investment climate reforms are informed by technical and strategic advice and by follow-through to ensure that implementation is effective and sustained. FIAS supports the use of PPD with clients, partners, and the private sector in pursuit of business development and sustainable growth opportunities. This convening authority can be used to incubate new ideas, develop pilots, apply analytical outputs, and sustain implementation support—all in partnership with clients.

With FIAS support, T&C is positioned to provide global thought leadership and strategic partnerships which generate flagship publications and knowledge-sharing events in conjunction with international agencies, development partners, the private sector, and clients. FIAS-supported work, including publications and events, leads to the development and dissemination of solutions at the global, regional, country, industry sector, and firm levels. Partnerships with high- and middle-income countries generate lessons learned from experience. Such partnerships also provide the opportunity to transfer lessons and proven solutions to IDA, and to leverage South-South investment.

T&C delivers its support through an integrated platform that draws on the full array of World Bank Group instruments: advisory services and non-lending technical assistance; Bank financial instruments (that is, lending and guarantees); and convening services.

The FIAS commitment to results measurement, impact evaluation, and knowledge and learning includes the proactive communication of results and impact through publications, newsletters, product launches, speeches, social media, and other communications channels. The foundation of this commitment is a cutting-edge results measurement and knowledge-management program backed by impact evaluation and the FIAS theory of change. Together, these systems, publications, and programs create a feedback loop linking project implementation, results, product design, and global thought leadership.

FIAS TO SERVE T&C'S INTEGRATED DELIVERY PLATFORM

T&C delivers its support through an integrated platform that draws on the full array of World Bank Group instruments: advisory services and non-lending technical assistance; Bank financial instruments (that is, lending and guarantees); and convening services. FIAS contributes to the T&C platform by supporting advisory services that deliver thought leadership and client-facing programs with attributable and measurable outcomes and impacts. Over time, advisory services will also leverage programs more systematically to originate, influence, and add value to World Bank financial instruments, IFC investments, and MIGA guarantees.

SCALING UP IMPACT THROUGH LEVERAGE

A powerful new dynamic in the FIAS program for FY17–21 is the addition of World Bank Group financing tools to the strong foundation of advisory, technical assistance, and knowledge leadership. IBRD lending and IFC investment present opportunities to combine advisory and Bank Group financing mechanisms in a coordinated fashion. It also helps to mobilize additional capital for development impact *(see Box 13)*.

FIAS monitors and reports IBRD lending and IFC investment that have been informed and enabled by FIAS-funded projects, for example:

- Restructuring government agencies; investment in ICT and implementation systems; capacity building and skills development in the public sector and through public extension services.
- Infrastructure investment to increase sector competitiveness.
- Private sector investments to create jobs and business opportunities for local firms and suppliers.

Box 13: Combining Advisory Services with Lending Instruments to Leverage Results

When taken together, IBRD lending, IFC investment, public financing, and private investment are informed and enabled by FIAS-funded projects that deliver impact based on the results framework. Successful examples on which FIAS will build include:

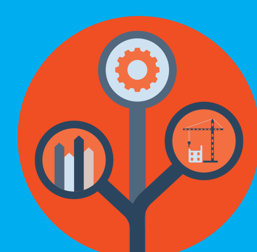
*In **Tanzania**, advisory and IBRD lending have combined to increase economic sustainability. The advisory services program is providing technical assistance to support the government's implementation of policy actions, with $50 million in financing from an IBRD Development Policy Operation. The combination will improve capacity to implement reform, enhance the quality of reform, and encourage private sector compliance. The resulting $150 million-plus pipeline of IBRD lending aims to strengthen entrepreneurship support and help establish a supplier development program for a new liquid natural gas export terminal.*

*In **India** and **Nepal**, tourism along the Buddhist Circuit is attracting private investment and creating jobs. Advisory services have helped build a branding strategy, prioritized public and private investment, upgraded quality and services, and improved PPD. Among the results are $16 million in IFC Investment projects with the Marriott and Hyatt hotel chains. The effort is expected to create more than 2,700 direct and indirect jobs, with additional supplier linkages for local businesses.*

FIAS IS MANAGED BY THE WORLD BANK GROUP'S TRADE & COMPETITIVENESS GLOBAL PRACTICE, A JOINT ORGANIZATION OF IFC AND THE WORLD BANK. T&C HAS ENRICHED ITS SUITE OF OFFERINGS AND ORGANIZED THEM UNDER FOUR CORE COMPETENCIES:

TRADE AND COMPETITION

INVESTMENT CLIMATE



COMPETITIVE SECTORS

INNOVATION AND ENTREPRENEURSHIP

DELIVERY ON THE WIDE ARRAY OF ACTIVITIES OFFERED UNDER THESE FOUR T&C AREAS OF ACTIVITY CAN BE STRENGTHENED BY ACCESSING FIAS FUNDING

Chapter 6:

INSTITUTIONAL SET-UP AND FUNDING

FIAS is managed by the World Bank Group's Trade & Competitiveness Global Practice, a joint department of IFC and the World Bank. T&C has enriched its suite of offerings and organized them under four core competencies: trade and competition, investment climate, competitive sectors, and innovation and entrepreneurship. Delivery on the wide array of activities offered under these four T&C areas of activity can be strengthened by accessing FIAS funding. Some of the client-facing technical assistance implemented by T&C and funded by FIAS receives additional support from other sources. T&C also manages other activities that do not fall under the scope of FIAS, but are fully funded separately.

FIAS is not an operational unit or separate legal entity. Rather, it is a global funding vehicle administered by IFC on behalf of the Bank Group and donor partners. FIAS is categorized as IFC Donor-Funded Operations, signifying that the FIAS Trust Fund is IFC-administered, and that FIAS-related donor and client agreements are signed by IFC on behalf of the Bank Group. T&C operates across Bank Group institutional borders. The FIAS Trust Fund is managed in accordance with the policies, administrative processes, and systems of IFC Advisory Services, including those for project approval, reporting, and trust fund and financial management. As a funding platform, it is accessible to all T&C staff, serving as a means to enable and leverage all types of Bank Group instruments including additional advisory services, analytics, lending, and investments.

GOVERNANCE, REPORTING, AND MIDTERM EVALUATION

The formal internal oversight of FIAS operations rests with the **Joint Global Practices Steering Committee**, which consists of the two IFC Vice Presidents for Global Client Services and the Bank Group's Vice President for Equitable Growth, Finance, & Institutions (EFI). The overall objective of the Steering Committee is to enable Bank Group senior management to oversee the two joint Bank Group Global Practices—T&C and F&M—and report on results achieved, as well as discuss operational and other issues to ensure effective delivery.

The agenda of the Steering Committee, which meets at least on a quarterly basis and discusses FIAS twice a year, includes joint IFC-IBRD initiatives. Among other responsibilities, the Committee serves as the forum for review and approval of the FIAS annual budget and provides guidance on strategic matters. The composition and mandate of the Committee provides assurance that FIAS-funded activities are implemented in close coordination with the rest of the Bank Group's private sector development activities.

FIAS donors provide general guidance and oversight via the **Annual FIAS Consultative Committee of Donors** meeting, held during the yearly T&C Development Partners Forum. The meeting includes a review of past activities and progress achieved, as well as a discussion of upcoming priorities and strategic matters related to the overall direction of FIAS.

T&C will continue to report on the implementation of FIAS via the ***FIAS Annual Review***. This comprehensive report on FIAS-funded activities of the previous fiscal year provides an overview of the programs and activities co-financed through FIAS. It highlights the results achieved as well as key developments during the reporting period. The *Annual Review* also serves as a key input for the FIAS Consultative Committee of Donors meetings.

In line with past practice—and to assess progress achieved and review and revalidate the strategic directions—a midterm evaluation will be commissioned to an external consulting firm in FY19, midway through the FY17–21 operational cycle.

FY12-16 FIVE YEAR FUNDING RAISED

$180 MILLION

$130.5 MILLION

OF THE $180M was contributed by donor partners

28%

($50 million of the $180 million) from IFC, MIGA, and the World Bank. These fundraising figures include contributions to the Trade Facilitation Support Program (TFSP)

FY17-21 FIVE YEAR FUNDING GOAL

$200 MILLION

This represents a 10.8 percent increase over actual FY12–16 fundraising and reflects both increasing client demand for FIAS-supported projects and the expanded scope of the FY17–21 strategy cycle program.

FUNDING TARGETS FOR FY17–21

The FIAS strategy for FY12–16 set a funding target of $155 million for the five-year cycle and actually raised approximately $180 million in funding for the entire cycle, or about $36 million per year. Roughly 73 percent of this amount ($130.5 million) was contributed by donor partners, and 28 percent ($50 million) from IFC, MIGA, and the World Bank. These fundraising figures include contributions to the Trade Facilitation Support Program (TFSP), a special initiative to support client countries in aligning their trade facilitation practices and systems with the WTO Trade Facilitation Agreement. TFSP will be supported through a separate funding stream during the FY17–21 FIAS strategy cycle.

On the basis of the successful FY12–16 mobilization results, estimated fundraising targets for FY17–21 are set at $200 million for the five-year cycle to support new activities and continued evolution and expansion of the program. The baseline used for the FY17–21 funding estimate was calculated on the basis of the average annual funding secured during the FY12–16 cycle, which includes funding for TFSP, tax simplification and transparency, and debt resolution. This represents a 10.8 percent increase over actual FY12–16 fundraising (including the IFC Investment Climate Business Line supplemental contribution) and reflects both increasing client demand for FIAS-supported projects and the expanded scope of the FY17–21 strategy cycle program.

Average annual expenditures from FIAS trust funds during FY12–16 are about $27.9 million per year. Average annual spending targets for the FY17–21 cycle are expected to be in the range of $35–40 million.

ADMINISTRATION OF DONOR FUNDS

During the FY12–16 cycle, FIAS was a collection of trust funds aligned with its strategy. The platform embedded a core trust fund to support the agendas for the knowledge management (KM) and product development agenda, as well as overall program management expenses. In addition, the FIAS core trust fund supported regional client-facing technical assistance implemented by the Bank Group regions. To facilitate the administration of donor funding earmarked for specific activities of interest to our donors, program- and project-specific trust funds were established on a case-by-case basis. As a result, the number of trust funds managed under FIAS has complicated financial management significantly and led to high transaction costs. Moreover, the option of earmarking funding for specific programs and projects has meant fewer untied core funds, limiting the program's flexibility and undermining FIAS' business model. FIAS is in the process of streamlining the trust fund architecture in a way that ensures that donor priorities continue to be met.

The World Bank Group and T&C management are grateful for the support during the FY12–16 cycle of 19 FIAS development partners: Australia, Austria, Canada, European Union, France, Ireland, Japan, Republic of Korea, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States, Bill & Melinda Gates Foundation, Ewing Marion Kauffman Foundation, TradeMark East Africa.

The World Bank Group and T&C management are grateful for the support during the FY12–16 cycle of 19 FIAS development partners.

Table 2: FIAS Fundraising Results and Expenditures, FY12–16

	FY12	FY13	FY14	FY15	FY16 (projected)	FY12–16 TOTAL	Average per year	Share of FY12–16 TOTAL
WBG – Core	8,163	8,000	7,000	6,700	6,700	37,163	7,433	21%
IFC[b]	4,063	4,000	4,500	5,100	5,100	22,763	4,553	13%
IFC IC Business Line						12,900		7%
MIGA	2,500	2,400	1,500	–	–	6,400	1,280	4%
World Bank	1,600	1,600	1,600	1,600	1,600	8,000	1,600	4%
Donors – Core	5,730	5,532	21,241	7,872	7,848	48,223	9,645	27%
Donors – Programmatic	6,203	5,447	15,410	16,522	10,404	53,986	10,797	30%
Donors – Project	9,457	5,456	5,933	4,666	2,103	27,615	5,523	15%
Client Contributions (cash)	484	90	75	50	–	699	140	0%
Total	30,037	24,525	50,259	35,810	27,055	180,586	36,117	100%
Expenditures	*28,679*	*30,355*	*25,582*	*25,011*	*30,000*	*139,627*	*27,925*	

Note: FY= fiscal year; IC= investment climate; IFC= International Finance Corporation; WBG= World Bank Group.

[a] FY16: Projections as of December 31, 2015.

[b] IFC's contribution outlined in the table includes direct contribution to the FIAS core trust fund and the IFC Advisory Services administrative budget to cover staff costs of a number of mainstreamed positions related to FIAS.

[c] Table includes supplemental allocation from IFC under the annual global Investment Climate Business Line (ICBL) envelope in the amount of $12.9 million.

125 PROJECTS REVIEWED

FOR EACH OF THE 125 PROJECTS WITHIN THE FIAS PORTFOLIO REVIEWED BY THE INDEPENDENT CONSULTANT IN TERMS OF STRATEGIC RELEVANCE THE PROJECTS SCORE 'AS EXPECTED' AND 'BEYOND EXPECTATIONS'

7% ↓

SLASHING OVERHEADS FROM 17% OF THE TOTAL FIAS BUDGET BREAKDOWN TO 7% IN THREE YEARS WAS AN EXCELLENT ACHIEVEMENT.

FIAS HAS BEEN FULLY COMPLIANT WITH FACILITATING REFORMS IN DEVELOPING COUNTRIES

Management agrees that measurement beyond reforms is critical and has made and continues to make significant progress over the last two years in moving toward measurement of impacts.

ANNEX 1

The FIAS Midterm Evaluation and Management Response

Excerpts from the Executive Summary of the FIAS Midterm Evaluation by the independent consultant[7]

FINDINGS—STRENGTHS

FIAS has been fully compliant with facilitating reforms in developing countries and on the basis that the current trajectory can be maintained, having already supported around 175 reforms just beyond the mid-point of the strategy cycle, the headline outcome level target is most likely to be exceeded. This performance is highly commendable.

Efficiency and Effectiveness: FIAS achieved a high efficiency rate when compared with the technical assistance / advisory support service rate globally with delivery modes, from Independent Consultant's research, appearing to be more effective and impactful when clients make financial contributions. The independent consultant also witnessed solid performance in terms of mainstreaming and maximizing synergies and complementarities across the product range. FIAS has thrived in the result-oriented environment courtesy of a robust and evolving M&E matrix. Slashing overheads from 17% of the total FIAS budget breakdown to 7% in three years was an excellent achievement.

Strategic Relevance: For each of the 125 projects within the FIAS portfolio reviewed by the independent consultant in terms of strategic relevance the projects score "as expected" and "beyond expectations".

Results: In addition to almost 200 supported reforms just beyond the mid-point of the strategy cycle, investment facilitation in priority sectors is also well above the target trajectory. ... With an average client facing expenditure in FY12 and FY13 of 26% (32% of FIAS projects) in fragile and conflict-affected states (FCS), this is entirely consistent with strategic goals.

RECOMMENDATIONS—ADDRESSING WEAKNESSES / BUILDING ON STRENGTHS

The independent consultant sees integration of CIC and the FIAS program into the Trade & Competitiveness Global Practice from a position of strength with a well-honed product range—very impressive results pipeline—strong brand equity—deep-rooted M&E impact oriented culture—with the vast majority of programmes optimally placed to make a direct and significant contribution to the WBG twin goals. That said, adjustments and realignments are needed and should be commenced in FY14—otherwise the relevance of the FIAS strategy will have a shorter "shelf-life" which will be unhelpful from both a donor and T&C GP senior management perspective.

The independent consultant sees integration of CIC and the FIAS program into the Trade & Competitiveness Global Practice from a position of strength with a well-honed product range—very impressive results pipeline—strong brand equity—deep-rooted M&E impact oriented culture—with the vast majority of programmes optimally placed to make a direct and significant contribution to the WBG twin goals.

Monitoring and Evaluation key recommendations: The independent consultant noted that several key impact indicators, such as jobs, productivity and incomes were not part of the FIAS strategy and strongly recommends that impact must be measured at a higher aggregate level than at the level that the FIAS strategy cycle initially started from.

Cross-cutting dimension recommendations: Gender Approach: Compared to other CIC product line and initiatives where, generally, the independent consultant has witnessed stellar performance, there is so much scope for improvement in this area that a rethink is needed whereby alignments should feature in the remainder of the strategy cycle. The independent consultant notes that this has been acknowledged by FIAS management which should manifest in a new gender initiative being launched within the second half of the strategy cycle.

Trade & Competitiveness Global Practice recommendations: Political Economy: In project design, devote more time to identifying non-business stakeholders impacted by regulatory reforms. Engage both business and non-business stakeholders in the public-private dialogues and capitalize on the expertise within T&CGP.

[7] David Brown, Paul Wymenga, Richard Liebrechts, David Regeczi, *Midterm Independent Evaluation of FIAS 2012–2016 Strategy and Program*, ECORYS (The Netherlands), Nov. 10, 2014, See full report at: https://www.wbginvestmentclimate.org/donor-partners/upload/FIAS-Midterm-Evaluation-11-Nov-2014.pdf.

Knowledge Management recommendations: The independent consultant recommends that knowledge management be aligned with strategic objective of Trade and Competitiveness Global Practice. … In summary, what is missing currently from the KM is, first, a sense of ownership in which an individual or small unit takes the time to re-synthesize those lessons learned into specific problem solutions that address problems being faced in the field.

Excerpts from Trade & Competitiveness Management Response:[8]

Efficiency and Effectiveness: Management appreciates the independent consultant's overall ratings on efficiency and effectiveness. It notes that the positive assessment is a function of continuous improvements that began in earlier strategy cycles and took on additional momentum with refinements in the advisory approach of the past three years.

Political Economy: Management agrees that more can be done on political economy analysis (PEA) and in a more consistent manner. Political economy analysis (PEA) is an integral part of project design. It is important to understand the relationship between the economy and the state, including power dynamics and triggers of conflict.

Results Monitoring and Evaluation: Management agrees with the assessment on strategic relevance and notes that it has been an area of particular focus in this strategy period.

Management agrees that measurement beyond reforms is critical and has made and continues to make significant progress over the last two years in moving toward measurement of impacts. On this FIAS has excelled, surpassing investment-generated targets before the closure of the cycle. It is also making substantial progress on other impact targets.

Cross-Cutting: Management agrees that the approach to gender can be improved under FIAS. Prior to the FIAS midterm evaluation, an effort was launched to develop a gender strategy for investment climate. It was approved by the management team in FY2014. The action plan on gender is based on the FIAS FY12–16 strategy that focused on engaging on gender when client demand and commitment is strong.

Product Line and Embedded tools Contribution to FIAS Objectives:

Public Private Dialogue: Management agrees on the challenges faced in implementing and measuring the impact of public-private dialogue (PPD). Management also agrees that an evaluation of the PPD activities, whether standalone or embedded in projects, can be very beneficial to understanding how and where PPD works best—in addition to developing better measures of its impact.

Sector Specific: Management is indeed ramping up work in agribusiness which accounts for the majority of the industry portfolio. The value chain approach is integral to how we design and implement our work programs, integrated across FIAS, and across sector units of the IFC and World Bank.

Overall, however, Management disagrees with the findings regarding the sector focus. Based on agreements with donors in developing the FIAS strategy, one of the three key pillars of the FY12–16 FIAS Strategy is "Unlocking Sustainable Investments in Key Sectors" to ensure a sector approach to reform which would complement the economy-wide reforms of FIAS. The real sector was acknowledged as a priority and was agreed to be an area of focus. However, agribusiness and tourism were specifically identified as sectors which would receive increased attention in this FIAS cycle, with more sectors to follow. They were the first choices given their potential impact on growth, poverty reduction and as source for significant employment generation.

Knowledge Management: Management acknowledges that while there have been significant advances in knowledge management, with a dedicated knowledge management team in place since the beginning of the strategy period, more progress can be made in this area.

[8] World Bank Group, Trade & Competitiveness Global Practice (T&C), 2014. T&C Management Response to FIAS Midterm Review, Nov. 11. At At https://www.wbginvestmentclimate.org/donor-partners/upload/FIAS-Midterm-Review-Findings-and-Recommendation-with-Management-Response-11-11-2014.pdf.

ANNEX 2

FIAS FY12–16 Reform Totals (through FY15)

	FY12	FY13	FY14	FY15	FY16	TOTAL
GRAND TOTAL	46	75	76	68	–	265
East Asia and the Pacific	0	1	2	1	–	4
Philippines	0	0	1	1	–	2
Timor-Leste	0	1	0	0	–	1
Vietnam	0	0	1	0	–	1
Europe and Central Asia	13	10	8	14	–	45
Albania	1	0	2	3	–	6
Armenia	1	3	0	1	–	5
Belarus	1	1	0	0	–	2
Bosnia and Herzegovina	0	0	0	3	–	3
Georgia	1	0	2	0	–	3
Kazakhstan	1	0	0	0	–	1
Kosovo	2	3	0	1	–	6
Kyrgyz Republic	0	0	0	2	–	2
Macedonia, FYR	0	0	0	1	–	1
Moldova	3	2	0	0	–	5
Montenegro	1	0	0	1	–	2
Russian Federation	1	0	3	0	–	4
Tajikistan	1	0	1	1	–	3
Ukraine	0	1	0	1	–	2
Latin America and Caribbean	11	14	4	7	–	36
Colombia	1	2	1	1	–	5
Costa Rica	3	2	0	1	–	6
Dominican Republic	0	0	0	1	–	1
El Salvador	0	1	0	0	–	1
Guatemala	1	2	0	1	–	4
Haiti	0	1	0	0	–	1
Honduras	0	1	2	1	–	4
Jamaica	0	1	1	1	–	3
Mexico	1	0	0	0	–	1
Nicaragua	0	1	0	0	–	1
Panama	2	2	0	0	–	4
Peru	2	0	0	1	–	3
Trinidad and Tobago	0	1	0	0	–	1
Uruguay	1	0	0	0	–	1
Middle East and North Africa	2	0	0	0	–	2
Algeria	1	0	0	0	–	1
Morocco	1	0	0	0	–	1
South Asia	1	1	0	1	–	3
Bangladesh	1	1	0	1	–	3

	FY12	FY13	FY14	FY15	FY16	TOTAL
Sub-Saharan Africa	19	49	62	45	–	175
Africa Region—Common Market for Eastern and Southern Africa (COMESA)	0	0	0	1	–	1
Angola	0	0	0	2	–	2
Benin	0	2	4	3	–	9
Burkina Faso	0	2	2	0	–	4
Burundi	3	6	0	0	–	9
Cameroon	0	1	3	0	–	4
Central African Republic	0	0	1	0	–	1
Chad	0	1	1	0	–	2
Comoros	0	2	1	0	–	3
Congo, Dem. Rep.	0	1	5	3	–	9
Congo, Rep.	2	0	1	0	–	3
Côte d'Ivoire	0	4	5	4	–	13
Djibouti	0	1	1	0	–	2
Equatorial Guinea	0	0	1	0	–	1
Gabon	0	2	1	1	–	4
Ghana	0	0	1	0	–	1
Guinea	0	2	3	1	–	6
Guinea-Bissau	0	1	1	0	–	2
Kenya	0	0	2	1	–	3
Lesotho	2	0	0	0	–	2
Liberia	0	1	1	0	–	2
Madagascar	0	0	0	4	–	4
Malawi	1	1	1	1	–	4
Mali	3	0	1	2	–	6
Mauritania	0	1	2	0	–	3
Mauritius	0	0	0	1	–	1
Mozambique	0	3	0	0	–	3
Namibia	0	0	0	1	–	1
Niger	0	2	1	0	–	3
Rwanda	3	7	4	5	–	19
São Tomé and Principe	0	1	2	0	–	3
Senegal	0	1	5	1	–	7
Seychelles	0	0	0	1	–	1
Sierra Leone	2	0	1	0	–	3
Sudan	0	0	0	1	–	1
Swaziland	0	2	1	1	–	4
Tanzania	1	0	2	1	–	4
Togo	1	1	4	2	–	8
Uganda	1	2	2	2	–	7
Zambia	0	2	2	3	–	7
Zimbabwe	0	0	0	3	–	3

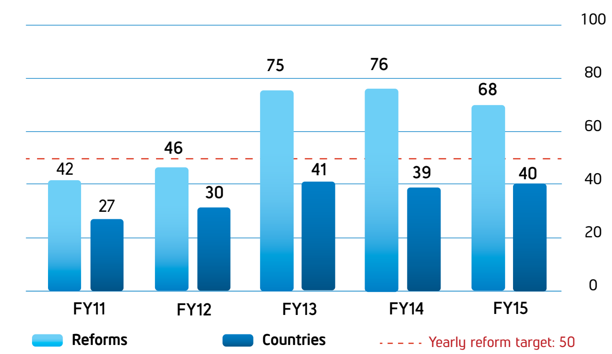
ANNEX 3

Results Highlights, FY11–15

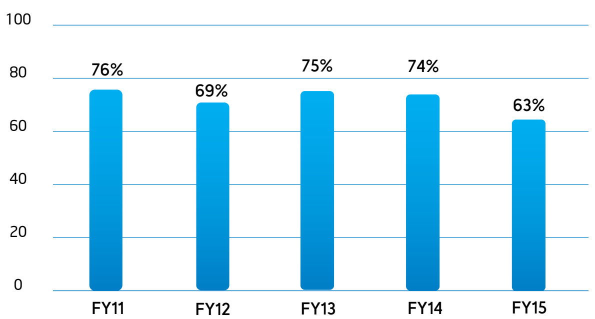
FIAS Strategy Cycle Metrics through FY15

With four years of the five-year FY12–16 strategy cycle completed, the numbers indicate that steady-state expenditures are yielding more projects and reforms. FIAS-supported teams are now working in more than half of FCS states and generating more reforms in more countries. *(Figures for FY11 are shown to provide a pre-strategy cycle baseline.)*

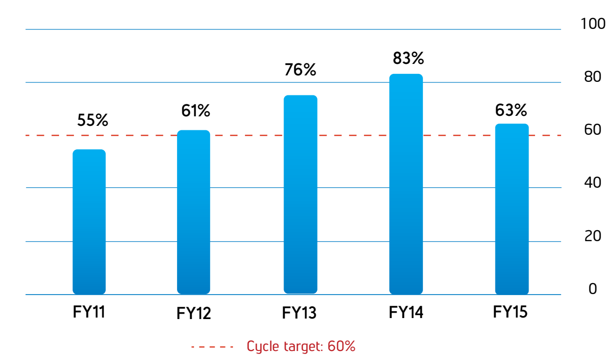
Total FIAS-Supported Reforms



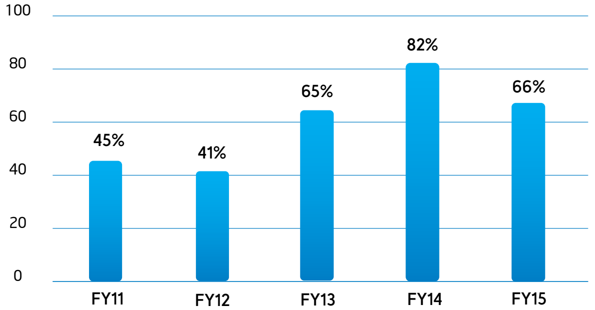
Implemented Reforms Recorded in *Doing Business*



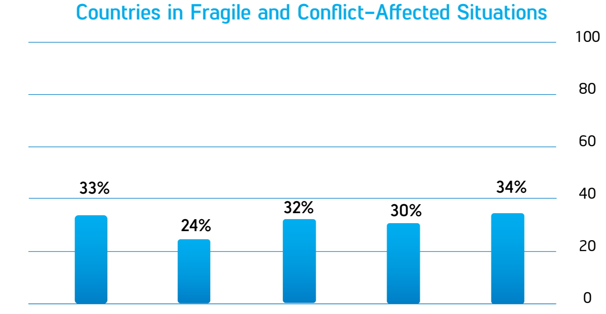
Reforms in IDA Countries



Implemented Reforms Recorded in Sub-Saharan African Countries

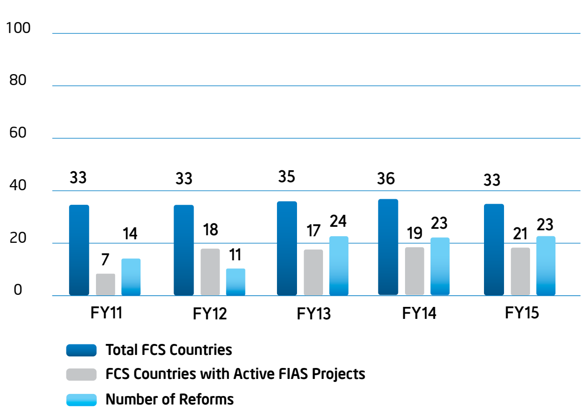


Share of FIAS-Supported Reforms Achieved in Countries in Fragile and Conflict-Affected Situations



Note: Goal indicates goal per year for the FY12–16 strategy cycle.

FCS Countries, FIAS-Supported FCS Projects and Reforms



Acknowledgments:

Editorial

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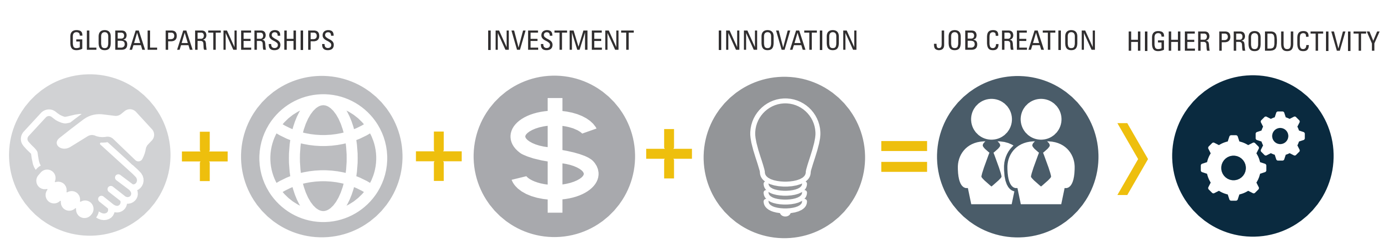
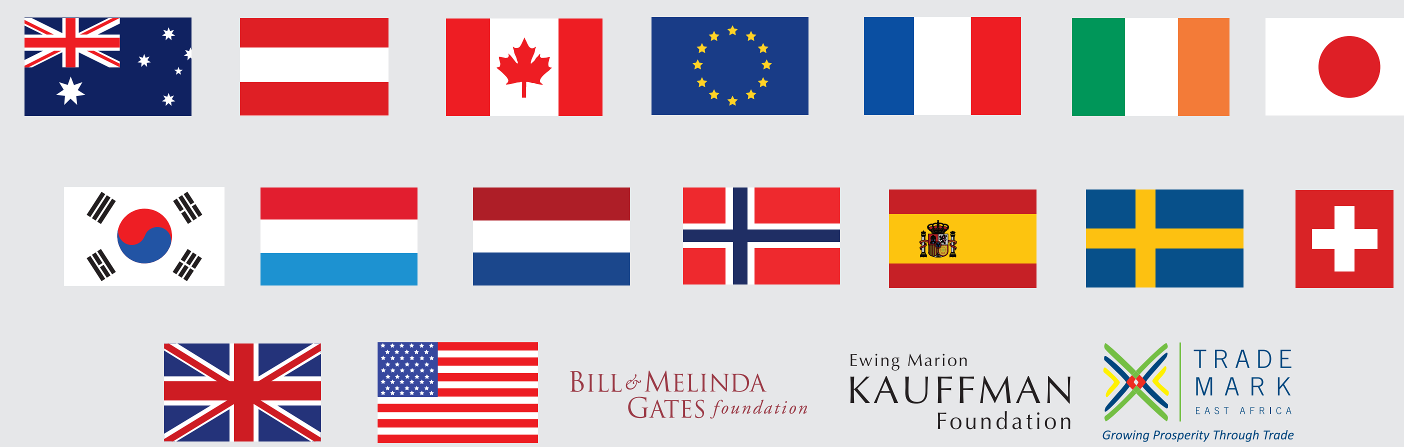


The World Bank Group and T&C management are grateful for the support during the FY12–16 cycle of 19 FIAS development partners:



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