

**Center for Institutional Reform and the
Informal Sector (IRIS)**

Improving the Business Environment: Investor Roadmaps

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Purpose of talk today:

- ❑ Outline “Investor Roadmap” as a diagnostic tool to promote improvements in business environments
- ❑ Describe the type of reforms that Roadmaps can facilitate
- ❑ Highlight some preliminary findings from an assessment of Roadmap projects completed to date.

Basic premise of an Investor Roadmap study:

If an investor wanted to start and then operate a business, what would she have to do to comply with governmental requirements?

What would compliance cost?

Note: perspective could be that of foreign and/or domestic investor.

Systematically catalog instances where an investor would encounter “barriers” imposed via:

- legislation
- regulations
- policies
- procedures
- paperwork requirements

Barriers could take the form of:

- registration requirements
- licenses
- permits
- approvals
- reporting requirements
- land use applications
- product standards and certifications
- inspections and enforcement practices.

Roadmaps cover several areas of business regulation, including:

- registration and reporting
- employment
- land and plant acquisition
- on-going operational costs such as taxes, inspections, clearing customs, and the like.

Once the first phase of identifying specific barriers has been accomplished...

...the next phase of is to accomplish reforms which lessen the barriers.

Note: The methodology for the first phase was jointly developed by FIAS (Foreign Investment Advisory Service, a joint service of the International Finance Corporation and the World Bank), USAID and The Services Group. FIAS uses the label “Administrative Barriers Study” instead of Investor Roadmap whenever they conduct the first diagnostic phase.

First used in Ghana in 1995....

...one underway now in Ukraine

Over 53 countries, plus several regional benchmark studies, completed first diagnostic phase.

FIAS usually only does first phase, whereas USAID has provided technical assistance for reform implementation for some countries.

28 diagnostic studies conducted by FIAS
16 conducted as USAID projects
7 were joint products of USAID and FIAS
2 sponsored by other donors.

From these experiences, USAID is culling lessons learned about what works where and when so as to improve future programming.

Two features of diagnostic methodology have varied between the country applications.

1. Different methods of measuring costs of compliance
2. Different methods of presenting report and engaging people in discussion about need for reform.

RESULTS:

What kind of reforms have followed after Investor Roadmap?

Where?

Under what circumstances?

BROAD Criteria used to identify “results”

- Any officially sanctioned change relevant to business environment
- Not necessarily tied to technical assistance projects
- Any time after diagnostic study
- Evident to desk review

Note: assessment is not trying to show causality, simply correlation.

29 countries with evidence of reform:

- **Afghanistan**
- **Bosnia**
- **Croatia**
- **Djibouti**
- **Dominican Republic**
- **Egypt**
- **Ghana**
- **Jamaica**
- **Jordan**
- **Kazakhstan**
- **Latvia**
- **Lithuania**
- **Malawi**
- **Macedonia**
- **Madagascar**
- **Mauritania**
- **Morocco**
- **Mozambique**
- **Namibia**
- **Nicaragua**
- **Romania**
- **Russia**
- **Senegal**
- **Slovenia**
- **South Africa**
- **Tanzania**
- **Uganda**
- **Vietnam**
- **Zambia**

What type of reforms?

Majority focus on:

- General issue of attention to business environment
- business registration requirements
- licensing
- customs procedures and other regulatory barriers to international trade.

Plenty of problems but reform less obvious in:

- land use regulation
- controls on construction/use of buildings
- employment requirements

What type of reforms?

- organizational changes with re-allocation of decision-making between agencies
- changes in official requirements within agencies
- Laws imposed across agencies
- IT enhancements

Example of Reforming Country – Romania

1. Prime Minister appointed working group to focus on business environment and tasked Ministry of SMES to address issue.
2. Ministry of Finance and Trade Registry eliminated one step in business registration process.
3. MSME further addressed registration and start-up approvals by creation of “one stop shops”.
4. Ministry of Public Information changed law to require notice and comment before regulatory requirements changed.

Do reforms of administrative barriers matter to economic performance?

Initial findings suggest that although countries with Roadmap studies and reform do not always experience larger amounts of investment, reform correlates with improved performance.

Note: again, just looking at correlation, not claiming that Investor Roadmaps cause increase in investment.

Very simplistic calculation - compare average change in Foreign Direct Investment flows following a Roadmap study for the group of countries that chose reform with those that did not.

Reformers average \$97 million more FDI over the years since their Roadmap study was completed, versus non-reformers who average \$388 million less.

What explains why certain countries have reformed but not others?

Assessment will use findings to better target application of diagnostic and also to improve methodology.

Are there political features that matter to whether governments engage in reform of administrative barriers?

Does the Investor Roadmap diagnosis appeal more to economies with obvious growth potential or to those who feel constrained by other macroeconomic constraints?

Other relevant studies:

“Investment Climate Assessments” from World Bank Group’s Private Sector Development Strategy – 10 countries completed thus far, 2 underway.

“Benchmarking FDI competitiveness in Asia” from Multilateral Investment Guarantee Agency – 6 countries for 2 specific industries.