



IMPROVED BUSINESS AND INVESTMENT CLIMATE IN WEST AFRICA PROJECT ECOWAS INVESTMENT POLICY AND PROMOTION (IPP) WORKSHOP

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Reducing barriers to the entry and establishment of foreign investment

This Investment Climate Solutions Area supports client countries in improving effectiveness of efforts aimed at attracting foreign direct investment (FDI) by modernizing regulatory regimes for FDI entry, streamlining investment procedures, enhancing transparency and reducing discretion of FDI-related approvals and authorizations.

Context

In today's era of globalization and increasingly inter-related economies, both developing and developed countries have come to appreciate the significant benefits they can derive from greater flows of foreign investment, such as job creation, capital infusion, increased access to foreign markets, access to more advanced technology and managerial practices, infrastructure development, and so on. Yet, countries still create barriers to foreign investment entry.

In some cases, these barriers are imposed intentionally with certain policy objectives in mind. In others, they arise in the form of red tape, without clear policy objectives. Often, however, even the intentional barriers do not effectively serve the objectives that they are designed for, and in fact, generate additional costs for the host country.

To ensure that host countries receive the benefits of foreign investment, policy makers need to pay increasing attention to minimizing and rationalizing the existence of barriers to investment entry.

What the World Bank Group Offers

The WBG helps policymakers identify barriers to entry of investment and the establishment of foreign owned enterprises, rationalize the existence of these barriers, and improve the investment entry regimes in a manner that improves governance and serves

the country's development objectives. Our focus is on three key areas:

Modernizing regulatory regimes for FDI entry

Legal and regulatory barriers to FDI are a result of intentional policy decisions by a government. These barriers are usually prescribed in law, regulation, or policy and encompass a range of measures that may discriminate against foreign investors. They include:

- Prohibition of FDI in certain sectors;
- Foreign equity ceilings;
- Minimum investment requirements;
- Screening of FDI;
- Non-discriminatory quantitative and qualitative restrictions;
- Restrictions on expatriate managerial personnel.

WBG assistance in modernizing legal and regulatory regimes for FDI entry focuses on:

- Conducting assessments of entry regimes to examine if they are coherent with the country's development objectives;
- Ensuring consistency of domestic laws with international legal commitments;
- Gradually reducing sectoral restrictions through opening sectors to FDI or increasing the foreign equity participation limits in individual sectors;
- Abolishing screening requirements for most FDI sectors by introducing a risk-based assessment approach and moving to an open admission system;

- Abolishing minimum FDI requirements;
- Establishing an effective expatriate work permit and visa regime.

Streamlining investment-related procedures

Procedural barriers to FDI often arise as a result of red tape in a regulatory process. These barriers affect foreign investor's process to complete administrative requirements to apply, enter, and become established in a country. They are sometimes unintentional, and often take the form of very slow, complex, or expensive processes. They include:

- Obtaining investment project approvals;
- Registration or notification of investments;
- Authentication and notarization of foreign public documents;
- Obtaining work permits and visas;
- Converting and transferring currency;
- Opening a bank account.

WBG assistance in addressing these barriers in order to streamline investment-related procedures focuses on:

- Conducting investor surveys to identify procedural barriers;
- Developing process maps as diagnostic tools for process simplification;
- Issuing procedural guidelines;
- Applying a risk-based approach to issuing approvals and authorizations;
- Fast-tracking procedures;
- Introducing silent consent principle;
- Enhancing automation of procedures;
- Facilitating accession to the Hague Apostille Convention.

Enhancing transparency and governance of FDI entry regimes

De facto barriers to FDI entry arise on the ground often as a result of weak governance in the country. They reflect the operational barriers to entry, such as lack of transparency and heightened uncertainty. More specifically, they include:

- Lack of enforcement and improper implementation of laws;
- Opaque processes and lack of accountability;
- Excessive discretion in decision-making authority.

WBG assistance in addressing these barriers in order to enhance transparency and reduce discretion in FDI entry regimes focuses on:

- Advocating for increased use of transparency principles of promptness, accessibility, consultation, public interest, and notification.
- Collecting and publishing information on FDI entry regimes;
- Undertaking notice and comment consultations;
- Introducing Investor Tracking Systems (ITS);
- Introducing templates and model forms.

Project examples

In **Turkey**, reform of FDI policy and legislation led to the removal of minimum investment requirements and elimination of screening for FDI approvals. A simple registration system was established instead. Three years after the reform FDI inflows have increased by a factor of 10.

In the **East African Community (EAC)**, a scorecard assessing compliance with regional obligations boosted national reform efforts. For example, in **Tanzania** it triggered the liberalization of regulations that had restricted the movement of capital.

In **Tajikistan**, accession to the Hague Apostille Convention has streamlined documentary requirements for cross-border transactions benefitting investors, traders and citizens.

For further information:

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