FY2017-2018 Project Research on Donor Support Programmes for Investment Promotion
– A Study on Business Environment Reform and Investment Promotion

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STUDY REPORT

BUSINESS ENVIRONMENT REFORM AND INVESTMENT PROMOTION

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Executive Summary

Under the Sustainable Development Goals (SDGs) launched in 2015 private investment is a key input into the efforts to achieve many of the socio-economic goals of the developing countries. In that policy environment official development assistance (ODA) is increasingly focusing on catalyzing private investment and business environment reforms (BER) are viewed as one of the important policy tools for that purpose. Can BER, defined as "a complex of policy, legal, institutional and regulatory conditions that govern business activities," play a catalytic role for private investment in conjunction with investment promotion and other policy measures? Can the donor support programmes enhance the effectiveness of BER in catalyzing private investment? This study conducted a donor survey with a questionnaire and interviews, reviewed the extant literature including technical reports and project documents, and conducted selected country case studies.

Approach and methodology

The study began with the stocktaking of the ongoing support programs through a questionnaire and interview survey of donors and development agencies to obtain a synoptic view of the donor's strategies and support programmes. Extant literature on the dynamic links between BER and private investment had already established that many of the donor supported BER and investment promotion measures have positive outputs on investment generation, job creation, and increases in personal incomes but mostly in the narrow context of the projects and programmes, and the economy wide impacts remain elusive. A focus on the economy wide impacts should naturally require a contextualized comprehensive perspective inclusive of macro policy and political economy in the recipient countries.

The study then focused on the recipient countries and looked at the panel data of their macro level investment performance in the last decade, and identified high performers. The study conducted two country case studies, one for Ethiopia and another for Myanmar to delve further into the analysis of BER support programmes and economy wide impacts. Those countries were chosen as they were among the high performers in terms of GFCF/GDP ratios and they exemplified the best reforms in recent years as recognized by the 2017 Best Reformer Awards of the World Bank. They are by no means representative of the average developing country in the two major developing continents, and thus further country studies are warranted to corroborate the findings.

Evolving Policy Environment – Donor Survey

- **SDGs and BER Support Programmes Objectives:** The policy environment of BER and investment promotion is evolving, encompassing broader SDG objectives including job creation, productivity, poverty reduction, equality and gender issues, and SME development and formalization.
- **Programmatic BER Support Programmes:** Most support programmes cross and encompass multiple functional areas. Many programmes are categorized as "Other" falling outside the functional areas of BER defined in DCED Practical Guidance (DCED (2008)). These trends appear to reflect a systemic and programmatic approach and a broader policy framework that are increasingly adopted by the donors.
- **Direct support to firms and industries:** Support programmes are increasingly targeting specific firms and industries by directly providing technical and managerial support and by matching foreign investors and counterpart local firms in twinning arrangements.
- **Good practice cases:** Although the outcomes of the good practice cases are assessed positively in terms of reforms accomplished, compliance costs reduced, new investments realized, and jobs created in the narrow context of the projects, economy wide outcomes remain elusive.

- **Monitoring & Evaluation:** A log frame approach often used in support programmes is expedient, but not sufficiently rigorous as an analytical tool for results orientation. The links between outcomes and impacts are complex and involve other factors with the result that outcomes do not necessarily guarantee impacts.

Main Findings of Ethiopia Case

- **Foreign Direct Investment (FDI) inflows:** FDI rose dramatically beginning in 2012.
- **BER and investment promotion:** There had been considerable improvements in BER and investment promotion in Ethiopia since the early 2010s. The rapidly increasing FDI in the last five years is to a considerable extent credited to BER and investment promotion undertaken by Government of Ethiopia (GOE) with donor support.
- **Structural Transformations**: A sound macroeconomic policy would dictate structural transformations from reliance on public investment and private consumption to private investment and export on the demand side and from agriculture to manufacture on the supply side. This structural transformation is enshrined in the GOE's Growth and Transformation Plan Phase II 2015/16-2019/20 (GTP II).
- **GTP II**: The key strategy of GTP II is to attract FDI and domestic investment in the priority manufacturing sectors, mainly including the textile and garment industry and leather and leather products.
- **Meso (sector) and micro (firm) data and analyses** generally show trends that are broadly consistent with a macroeconomic policy objective of structural transformation through increases in private investment and development of manufacturing industry.
- **Transmission of reform outcomes:** Notwithstanding the generally positive direction of structural transformation there are a number of issues arising in the offing that pose challenges for both the GOE and donors. Manufacturing's net value added is still small at less than six percent of GDP and its employment share at a similar level of total labour force. Moreover, overall FDI is still one fifth of domestic investment. It is too early to see transformation of current reform efforts into outcomes.
- **Donor support programmes:** The industrialization strategy through FDI and IPs is of late attracting major donor support. Amidst the proliferation of donor support programmes, however, information sharing and donor coordination are insufficient.
- **A dichotomy of Ethiopian DBR:** DBR was intended originally as an indicator of the business environment for domestic SMEs and not for FDI, which requires a broader set of conditions. The apparent dichotomy of the low DBR and the stellar investment performance aided by the effective reforms in Ethiopia as recognized by the 2017 Best Reformer Award by the World Bank speaks to the need to expand the role of DBR. Perhaps, a separate DBR for FDI may be considered.

Main Findings of Myanmar Case

- **Civilian rule:** Following transition to a new civilian rule in the early 2010s Myanmar launched an ambitious reform programme aimed at opening up and liberalizing the market economy accompanied by legal and regulatory reforms.
- **A series of holistic reform framework:** The reforms were first encapsulated in FESR 2012-15. Subsequently, a series of holistic approaches in relation to BER and investment promotion were formulated with the support of multiple development partners, including National Comprehensive Development Plan (NCDP), Long-term Foreign Direct Investment Promotion Plan (FDIPP), and Myanmar Investment Promotion Plan (MIPP).
- **Investment trends:** In response to those reforms total investment/Gross Domestic Product (GDP) ratio rose from 15 to over 20 percent in 2012, and further to 23 percent in 2016 mainly reflecting sharp increases in FDI.
- **BER support programmes**: Donor support programmes surged after transition to civilian rule in the early 2010s. Donor support programmes concentrated first on national policy and planning that set the stage for a holistic strategy for social and economic development, which

was followed by specific projects that addressed the issues that would lead to achievements of overarching goals.

- **The legal reforms:** The important BER undertaken by the Government of Myanmar (GOM) with the support of multiple set of development partners in recent years are Myanmar Investment Law of 2016, which integrated Foreign Investment Law and Myanmar Citizens Investment Law, and Myanmar Companies Law of 2017. Myanmar Investment Law lowered entry barriers, streamlined procedures, put in place a dispute settlement mechanism, and provided for selective incentives. Myanmar Companies Law, replacing its original version adopted more than a century ago, modernized regulatory framework on company activities.
- **Transparency and predictability:** In drafting the laws, GOM went through a thorough vetting process with the business communities and the public in an initial step of a "virtuous circle" of policy development and implementation, where government transparency, dialogue with the private sector, and donor support transpired harmoniously.

Hypotheses

The study searched for some viable hypotheses concerning the effectiveness of support programmes for BER and investment promotion in the particular cases of Ethiopia and Myanmar. The efforts are intended to yield lessons to help meet the challenges to DCED, and at the same time to shed light on the fundamental issue of the possible correlation between the macro level investment and growth performance and BER and investment promotion in the developing countries. The hypotheses are contextualized, i.e., conditional on the particular conditions and priorities of those countries, which hopefully will be further scrutinized and generalized in a broader context of developing countries in future research projects.

Hypothesis 1: A holistic approach

Macro level investment and growth require a holistic approach combining BER and investment promotion and a broader macro development policy framework aimed at structural reforms.

While structural reforms such as liberalization or industrialization are intended to fundamentally drive the structural transformation, BER involving regulatory reforms and factor market reforms are means to facilitate the process of structural transformation through improving productivity in selected clients and reallocation of factors of production by reducing transaction costs and improving market efficiency. As such structural reforms and BER are fundamentally complementary and are sometimes two sides of the same coin. The case studies showed that the surge in macro level investment and growth seen beginning in the early 2010s is strongly correlated with the combination of structural reforms such as liberalization and industrialization and the BER and investment promotion supported by donors and development agencies.

Hypothesis 2: Replication of good practices

Direct support to new and nascent firms and industries, an important part of donor support for BER and investment promotion, should pay particular attention to catalyzing replication of demonstrated good practices by other firms and industries.

Direct support to sectors, clusters, and investors is often provided through tax and other fiscal incentives. Such supports are vital for nurturing nascent firms and industries, which needs to dovetail with the linkages and spillovers of FDI. It is imperative that the good practices born out of the combination of such supports and the surge in FDI be replicated by domestic firms and industries at large. For the replication of good practices, further BER needs to incentivize domestic investment through better access to finance, foreign exchange, infrastructure development, and more broadly through factor and product market reforms. Furthermore, particular care should be taken to avoid possible perverse incentives of direct supports and to strengthen the firm capability or the absorptive capacity of domestic firms for spillovers from FDI to materialize.

Hypothesis 3: Commitment to investment attraction

Tailoring and navigating support programmes for BER and investment promotion to "investment attraction" will contribute to the increase of investment opportunities.

The case studies showed that BER, a subset of investment climate, is often couched in a broader context encompassing related policy objectives such as private sector development (PSD) including export promotion. Considering that PSD is the core components of the broader policy framework, it is vital to have a clear idea how the improvement of PSD policy links to BER and investment climate. PSD specific BER and investment climate may include access to finance and foreign exchange, skills development, labour market reforms, infrastructure development, and business development and innovation supports. The transmission of the effects of those reforms to investment generation would be most effective if they benchmark PSD policies and are navigated by governments with the fundamental strategy for investment attraction.

***Hypothesis 4:* A virtuous circle of coordination**

Donor support is effective where the coordination is made dynamic and relevant to the requirement and evolvement of the policies of the recipient country.

There are different levels of donor coordination, ranging from a light touch to something more profound. Light touch coordination includes general information sharing and avoidance of duplication and division of labour based on donors' comparative advantages. This study speaks to the need of a more proactive and flexible donor coordination under an integrated assistance strategy. In Ethiopia GOE's priority of private sector led industrialization should be supported by coordinated efforts by the donor group centering around the IPs but also encompassing second generation reforms of further liberalization and deregulation of trade and investment in the service sector to begin with. This initiative of donor coordination should be implemented in a Myanmar type virtuous circle of government/donor/private sector coordination.

Conclusions and Policy Recommendations

There are two main conclusions of this study:

- **A causality test of the effect of BER on macro level investment**

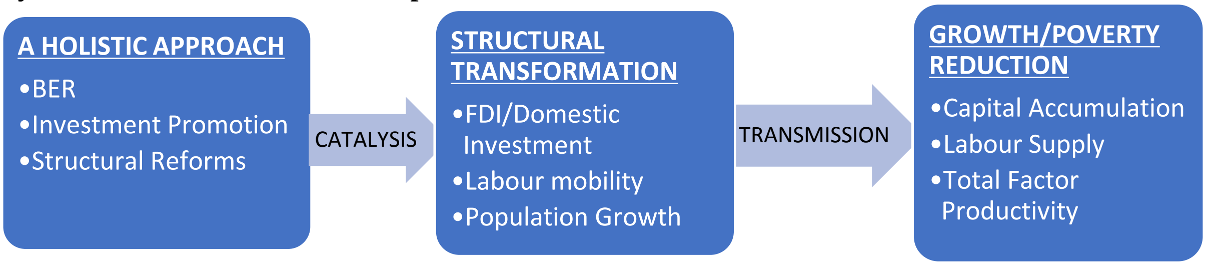
The proposition that BER and investment promotion lead to investment generation on an economy wide scale leading to concomitant growth and poverty reduction was tested in the two specific country case studies. A causality test was run through detailed empirical analyses. The test showed that macro level investment data both on FDI and domestic investment exhibited clear surges coinciding with BER and investment promotion efforts with a strong nexus to the concurrent structural reforms in the two countries, which is consistent with Hypothesis 1 (a holistic approach).

The timely surges in investment and the concurrent structural transformation strongly support the causality proposition. The impact is in the right direction, but the case studies showed that it falls short of macroeconomic targets set by the national development plans and SDGs.

- **Dynamic links to macro level investment and implications for BER and investment promotion**

BER and investment promotion, intended to make an impact on macro level investment, employment, growth, and poverty reduction has a long process to go through as in Figure below. Case studies show some initial signs of desired structural transformation pursued in a holistic approach. However, for material impacts to macro level goals commensurate with SDGs would require further structural reforms and BER.

Dynamic Links of Reforms to Impacts



Source: Consultant team conceptualization

The conclusions of this study regarding the dynamic links are:

First, **BER can be used to catalyse structural transformation:** The case studies show clear signs of investment generation at the macro level and desired structural transformation at the micro and meso levels. So, the initial catalysis process as in the Figure above is strongly supported.

Second, **BER can be used to enhance the transmission effects of industry reforms:** Business environment reforms that create firm-level changes are transmitted through FDI linkages, industry development programmes and the replication of good practices by domestic firms and industries to macro level impacts. However, the case studies showed that the transmission process is still in its early stage and in order for material impacts to macro level goals commensurate with government development plans and SDGs to take place, further BER and second-generation structural reforms will be required.

This study concludes with the following policy recommendations:

- **A Holistic Approach:** BER and investment promotion should be integrated into a broader policy framework for structural transformation which is consistent with the national development plans underpinned by growth diagnostics and micro and meso data and analyses in individual developing countries. (Hypothesis 1)
- **Second Generation Reforms:** To sustain structural reforms such as in further liberalization and market reforms. After the first generation reforms for the fundamentals of legal and regulatory reforms Ethiopia needs to continue with further liberalization of trade and investment and Myanmar may hone her investment and growth strategy through participation in global value chains taking advantage of its geographical proximity to India, China, and ASEAN countries. (Hypothesis 1)
- **Transmission of Reform Outcomes:** A combination of BER intended to improve the general conditions for doing business, importantly including product and factor market reforms, and a vertical intervention via sector-, subsector-, cluster-specific industrial policies for better access to finance, infrastructure development, and business development and innovation supports will help the transmission of initial effects of reforms to economy wide impacts. (Hypothesis 2)
- **Investment Attraction:** Design BER tailored to investment attraction and navigate the implementation in harmony and sequence with concurrent reforms such as export promotion and PSD. (Hypothesis 3)
- **A Virtuous Circle of BER Implementation:** Establish an ideal government/donor/investor coordination mechanism as in Myanmar consisting of a virtuous circle of the government commitment to investment attraction, support programmes tailored accordingly, and investor response reinforcing the government commitment. (Hypothesis 4)

List of Acronyms

ADB	Asian Development Bank
AGOA	African Growth and Opportunity Act
AmCham	American Chamber of Commerce
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
BER	Business environment reform
BEWG	Business Environment Working Group
BMZ	German Federal Ministry for Economic Cooperation and Development
DACU	Development Assistance Coordination Unit
DAP	Development Assistance Policy
DBR	Ease of Doing Business Ranking
DCED	Donor Committee for Enterprise Development
DER	Development Effectiveness Roundtable
DFID	United Kingdom Department for International Development
DICA	Directorate of Investment and Company Administration
EC	European Commission
EIC	Ethiopian Investment Commission
EIPP	Ethiopia Industrial Promotion Project
EPPCF	Ethiopian Public and Private Consultative Forum
EU	European Union
FAO	Food and Agriculture Organization
FCF	Fixed Capital Formation
FDI	Foreign direct investment
FDIPP	Long-term Foreign Direct Investment Promotion Plan
FESR	Framework for Economic and Social Reforms
FIL	Foreign Investment Law
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIZ	German Technical Cooperation
GOE	Government of Ethiopia
GOM	Government of Myanmar
GTP II	Growth and Transformation Plan II
HRD	Human Resource Development
HIP	Hawassa Industrial Park
IAIP	Integrated Agro-Industrial Park
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization
IP	Industrial Parks
IPA	Investment Promotion Agency
IPDC	Industrial Park Development Corporation
IPR	Investment Policy Review

JICA	Japan International Cooperation Agency
KOICA	Korea International Cooperation Agency
METI	Ministry of Economy Trade and Investment
MIDV	Myanmar Industrial Development Vision
MIL	Myanmar Investment Law
MIPP	Myanmar Investment Promotion Plan
MJJI	Myanmar Japan Joint Initiative
MOEE	Ministry of Electricity and Energy
MSDP	Myanmar Sustainable Development Plan
MSME	Micro, Small and Medium Enterprises
NCDP	National Comprehensive Development Plan
NGO	Non-Governmental Organization
NLD	National League for Democracy
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSS	One Stop Service
PPD	Public Private Dialogue
PPP	Public Private Partnership
PSD	Private Sector Development
RRI	Regulatory Restrictiveness Index
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SEZ	Special Economic Zone
SIDA	Sweden International Development Agency
SME	Small and medium-sized enterprise
SNA	System of National Accounts
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
TVET	Technical and Vocational Education and Training
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United National Industrial Development Organization
URL	Uniform Resource Locator
USD	United States dollar
USDP	Union Solidarity and Development Party
WBG	World Bank Group

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1. INTRODUCTION

1-1 Issues and knowledge gaps

Generation of private investment, including foreign direct investment (FDI) and domestic investment, is considered key to the economic growth of developing countries through private sector development, the creation of employment, and technology transfer. Governments of many developing countries are promoting investment by implementing business environment reforms (BER), sometimes with support from donor and development agencies, and at the same time adopting investment promotion measures to incentivize specific investment projects e.g. by providing favourable tax arrangements, subsidization, special credits, and by promoting arrangements such as private public partnerships and other strategic alliances. Thus, BER is at the core of donors' growth-oriented aid strategies.

Meanwhile, the Sustainable Development Goals (SDGs) initiatives, a framework to guide overall development efforts through the year 2030, is predicated on generation of United States Dollar (USD) 2.5 trillion in new investment, much of which must come from the private sector.[1] In the SDGs context, the promotion of private investment is considered critically important. Thus, a renewed challenge for the donor community is to more effectively support BER towards promoting private investment, i.e., to play a more effective catalytic role in promoting private investment through BER in developing countries. This is in keeping with the principles agreed in the Monterrey Consensus on Financing for Development.[2]

While it may be agreed that the donor community should play an effective catalytic role in promoting private investment, the performance of its support programmes in the area of generation of investment through BER and investment promotion in the past had been mixed at best. The programmes had focused on creating an enabling environment, investing in improving the business environment including the legal and regulatory framework, capacity development, and basic infrastructure with considerable success, but whether it had contributed to the final objectives of macro level private investment, employment, productivity, and growth remains unclear. The extant research outcomes are inconclusive of the dynamic links between BER and investment promotion and macro level outcomes.

According to Supporting Business Environment Reforms: Practical Guidance for Development Agencies[3], to which the Donor Committee for Enterprise Development (DCED) members are all signatory, business environment is a subset of investment climate, and is defined as the combination of a policy and legal framework, a regulatory and administrative framework, and institutional arrangements at sector specific, regional, national, and subnational levels, encompassing the nine functional areas.[4] The DCED's Standard for Measuring Results in Private Sector Development – Control Points and Compliance Criteria, also provides detailed guidelines on measurement of the reform outcomes and management of the monitoring system.[5]

[1] UNCTAD (2015a)
[2] United Nations (2002)
[3] DCED (2008)
[4] Simplifying business registration and licensing procedures; improving tax policies and administration; enabling better access to finance; improving labour laws and administration; improving the overall quality of regulatory governance; improving land titles, registers and administration; simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms; broadening public-private dialogue processes with a particular focus on including informal operators, especially women; and improving access to market information.
[5] DCED (2017)

Notwithstanding the guidelines on donor assistance for BER and investment promotion enshrined in DCED (2008, 2017), and more broadly in the Organisation for Economic Co-operation and Development's (OECD's) Policy Framework for Investment[6], the donor approach to BER and investment promotion and private sector development varies widely, reflecting divergent views on the role and methodology of assistance, which in turn reflects a lack of clarity on the dynamic links between BER and macro level private investment in developing countries.

Literature survey revealed that most attempts to establish relations of BER and investment promotion with macro level impacts on investment and growth turned out to be inconclusive. An Independent Evaluation of World Bank Group Support for Reforms of Business Regulations (World Bank Group (2015)) concluded that among the projects implemented by the World Bank and IFC during FY 2007-13 well over half of the designated results indicators had been met. However, the reports warned that the results indicators achieved meant procedural simplifications and reduction of costs and risks, but did not mean impacts on economy wide investment, employment, and growth.

WBG's Trade and Competiveness Global Practice is somewhat more optimistic on the impact of investment promotion on FDI, citing the research establishing correlations between FDI inflows and targeted and quality investment promotion services. (World Bank Group (2017b)) The services include advocacy of value proposition/comparative advantage, provision of information needed by investors, and facilitation of establishment and expansion of businesses.

The latest literature on the subject, the DFID's Supporting Business Environment Reform and Investment Promotion and Facilitation[7], and the World Bank's 2017|2018 Global Investment Competitiveness Report: Foreign Investor Perspectives and Policy Implications[8], offers some insight but leaves considerable gaps unfilled in the knowledge regarding BER and its dynamic links to macro level private investment. The DFID paper, based on an extensive and systematic literature survey, concludes that BER is shown to be conducive to firm level investment generation, but that when it comes to overall investment the links are difficult to prove as there are other factors involved including macroeconomic policies, political economy, and external shocks. The paper suggests for further research context and country specific studies and a continued drive for more outcome measurements among others. Global Investment Competitiveness Survey 2017/2018 by the World Bank, based on an extensive questionnaire survey of investors, emphasizes among others the importance of tailoring BER according the specific types of FDI, aftercare of investor protection, guarantees to retain FDI, and IPA services especially to investors from developing countries. The World Bank paper, however, does not provide a systematic analysis towards filling the knowledge gaps between BER and generation of macro level private investment.

1-2 Study focus and objective

This study follows the main literature on BER and investment promotion and attempts to shed light on the issues left off for further studies. In particular, the study has sought to take stock of the ongoing donor and development agency support in the area of BER and investment promotion and facilitation, and analysed its effectiveness in promoting private investment, both FDI and domestic investment, in the recipient countries' individual context. The study conducted a mapping exercise of the donor and agency support programmes for BER andidentified their gaps and overlaps as well as compared them with the needs of the recipient countries. The study draws on the information from the selected best practice cases, paying attention to the particular issues and impediments in the broader country context including policies at cluster, sector and firm levels as well as macroeconomic policy and political economy.

[6] OECD (2015b)
[7] DFID (2015)
[8] World Bank Group (2018)

1-3 Approach and methodology

Our study first conducted a questionnaire survey and donor interviews to establish the baseline in terms of strategies and status quo of the support programmes for BER and investment promotion. In addition, relevant reports and project documents were canvassed many of which were publicly available in the donors' websites.

Next, the study compiled the global panel data on Gross Fixed Capital Formation (GFCF)/GDP ratios spanning the decades before and after the financial crisis of 2008 and noted the high performers and their characteristics.

Then, out of the high performers were chosen two countries to delve further into the time-series data on GFCF/GDP ratios to analyse any links with policies and reforms implemented and assess the effectiveness of support programmes in catalyzing private investment leading to growth and poverty reduction. Country case studies were conducted for Ethiopia and Myanmar as they exemplified the best reforms in the past several years as recognized by the 2017 Best Reformer Awards of the World Bank. They are by no means representative of the average developing country in the two major developing continents, and thus further country studies are warranted to corroborate the findings based on the selected cases.

A mapping exercise, originally intended to cover the entire spectrum of donor support programmes for BER according to the DCED Guidelines proved implausible. We found that the donors programmes mostly cut across the functional areas as per the Guidelines, and are classified according to donors' own taxonomies, making it impossibly laborious to reclassify them according to a common platform. In the end, a mapping exercise was conducted as part of the country case studies where the exercise was not only made plausible but also the results dovetailed more clearly with the overall analysis in a country context.

As such our study draws heavily on the materials from the extant literature. On the basis of the gathered information we attempted to provide a perspective that helps better understand the dynamic links between the support programmes for BER and investment promotion and the economy wide impacts.

2. DONOR SURVEY

What follows is a brief summary of the findings on the individual donors' approaches consisting of quotes from the questionnaire or interview responses and consultants' interpretations. In order to substantiate our findings, the consultant team continued to conduct follow-up studies as suggested by questionnaire respondents through additional information sources including donors' websites and specific project documents. (For a full version see Annex 4 on A Synoptic View of Donor Strategies and Support Programmes)

2-1 Evolving policy environment

The policy environment of BER and investment promotion is evolving. A new policy framework is emerging which encompasses broader objectives including job creation, poverty reduction, and SME development, productivity improvement as well as overall growth. This trend is in keeping with the initiatives under the SDGs. Major donors are re-evaluating their assistance strategies and restructuring their support programmes. A preliminary attempt at a mapping exercise for some donors has yielded two findings: first, most support programmes cross and encompass multiple functional areas; and second, many programmes fall outside the functional arears of BER defined in DCED (2008). These trends appear to reflect a systemic or programmatic approach based on each donor's strategic goals and a broader policy framework that are increasingly adopted by the donors.

Through the questionnaire/interview survey emerged three patterns among the donors in approaching the broader policy framework. These patterns are relevant to all agencies but to different degrees: first, led by the UN agencies, there is a broader policy framework very much in line with the SDGs; second, there are efforts to delve deeper into the intermediate policy issues of private investment such as differentiation on the basis of types of FDI and lifecycle processes; and third, there are efforts to strategize and operationalize the guidelines geared towards a broader policy framework.

2-2 Dynamic linkages with macro level investment

There does not appear to be any definitive views on the causality of economy wide impacts substantiated by evidence-based analysis. Analytical problems abound; no counterfactuals are available, the existence of external factors, and time lags. Related issues raised are: FDI may crowd out domestic firms out of markets; capital intensive FDI creates little employment; limited development space bound by the implementation capacity and the scale of donor support. However, a number of programmes are deemed hopeful in generating broader impacts with time lags. Some agencies are actively searching for a new paradigm of BER support with a systemic and contextualized approach that would be more effective in generating economy wide impacts.

2-3 Measuring outcomes and impacts

Impact measurement is context specific. For instance, a logical framework approach consisting of outputs, outcomes, and impacts with corresponding policy measures and results indicators is often used, which is specific to each project. World Bank's DBR is also often used as an indicator of outcomes. But, there are cases where countries improve their ranking without impacts on new investment.

Measurements are made in terms of compliance cost saving, investment generation, jobs created and retained, and productivity gains. Reform progress is measured by numbers of reforms implemented including laws and regulations. New investments are estimated by tracking down all relevant firms for information gathering.

2-4 Good practice cases

A review of the good practice cases cited by donors in the questionnaire survey indicates that considerable work is being undertaken in the planning of and dialogue with the stakeholders on the BER and investment promotion, but actual reforms implemented are gradual and its scale appears to be modest in relation to the recipient countries' needs. Although the outcomes of the good practice cases are assessed positively in terms of reforms accomplished, compliance costs reduced, new investments realized, and jobs created, economy wide outcomes remain elusive. Leveraging the project level outcomes for wider outcomes is not clearly strategized or assessed. This gap begs the question especially in the new policy environment.

Good practice cases are found mostly in Africa and to a lesser extent in Asia in addition to a number of global funds. African good practices cited include Liberia for institutional and market development, Ethiopia for a holistic/systemic approach on a multi-donor platform, Morocco for an SME focused investment environment reform, Rwanda for establishment of a network of Public Private Dialogue (PPD), Nigeria for focusing on growth centers as well as SME and business environment. There are good practices of matching efforts as in Supporting Indian Trade and Investment for Africa and Partnership for Investment and Growth for Africa intended for Chinese investments in selected African countries.

The rationale for the choice of good practice cases include measured impacts on new investments, new company registrations and formalizations, compliance cost reduction, and jobs created, improvements in DBR by the World Bank, administrative process improvement such as online regulation and registration, a national and local network of PPD for continuous sectoral and thematic dialogue, good recipient country counterparts, and effective implementing agencies in partnership.

2-5 Donor coordination

Support programmes are aligned with country specific conditions including dialogue with private sector. For some agencies Public Private Dialogue (PPD) is critically important. There a sensitive approach is needed as private sector has different priorities depending on whether SMEs or large companies or capital intensive or rural companies are concerned. Chambers of Commerce are important counterparts for PPD. Some agencies work closely with investors and Investment Promotion Agencies in the recipient countries.

Two frontiers of new efforts are emerging: first, enhancing partnerships and dialogues among the donors and private sector entities including nongovernmental organisations (NGOs) in the recipient countries; and second, donors collaborate strategically with private sector investors including the donor country's banks and corporations working with local firms in the recipient country. Strategic private sector engagement also encompasses Public Private Partnerships (PPPs), capital market development, and structured funds.

2-6 Challenges going forward

It is a moving target of both quantity and quality of investment in an evolving policy environment that poses two challenges. One, development oriented BER and investment promotion requires an integrated approach encompassing a broader policy framework. Some conceptual works have been done but at the end of the day, the concepts should be contextualized in a given recipient country. Two, the broader challenges need to be programmed and projectized, which poses an enormous operational challenge, not least for lack of resources on the part of the donors and capacity of governments in implementing reforms. They beg the two basic questions: one, what is a contextualized integral policy framework in a given recipient country; two, how do we cope with the implementation gaps given limited donor resources and government implementation capacities.

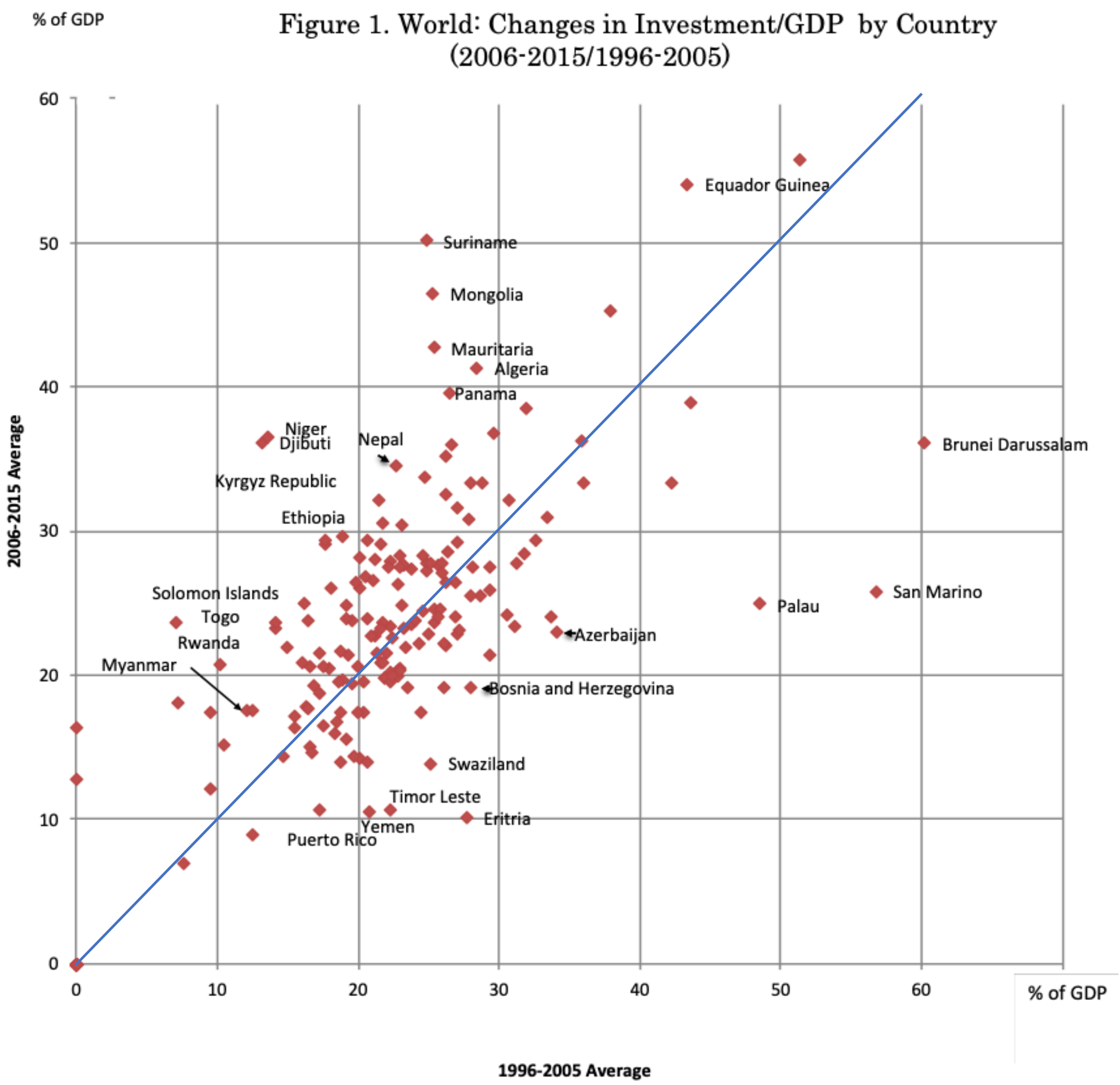
3. COUNTRY CASE STUDIES

3-1 A global perspective

On the back of the strong fiscal stimuli and accommodating monetary policies following the financial crisis of 2008, significant upward trends emerged across many developing and middle-income countries in their investment/GDP ratios during the decade ending in 2015 compared with the preceding one (Figure 1).

Many African countries including Ethiopia as well as Eastern European countries in transition recorded high increases. In Asia traditional high investors such as China, India, and Indonesia registered moderate increases from already high levels while Myanmar recorded a rapid increase from a relatively low level. Those accommodating policies will eventually reverse themselves and may render global investment finance more competitive. Under those circumstances, policymakers of many developing countries would be challenged to develop more innovative investment policies including those intended to catalyze private sector investment.

Figure 1. World: Changes in Investment/GDP by Country (2006-2015/1996-2005)



Source: Plotted with data from the World Bank Development Data

3-2 Case study on Ethiopia – a paradigm shift for industrialization

3-2-1 Investment trends, 2011-16

Gross Fixed Capital Formation (GFCF)/GDP rose from 32% in 2011 to 41% in 2016, a 9 point increase in five years, surpassing the average of IDA and IBRD countries in East Asia & Pacific and reaching nearly the double of the SSA average in 2016 (Figure 2). Private sector GFCF /GDP rose from 14% in 2011 to 22% in 2012, and plateaued before rising again to 25% in 2016, an 11point increase in five years, rivaling high performers such as Myanmar. FDI net inflows/GDP rose from 2.2% in 2011 to 5.8% in 2016, a 3.6 point increase in five years. The 2016 level is nearly twice the average SSA. All in all, very impressive upward trends in the last five years rivaling international high performers. GFCF private sector growth is outpacing GFCF total, suggesting synergy among FDI, large public infrastructure investments, and private investment.

Figure 2. Gross Fixed Capital Formation/GDP

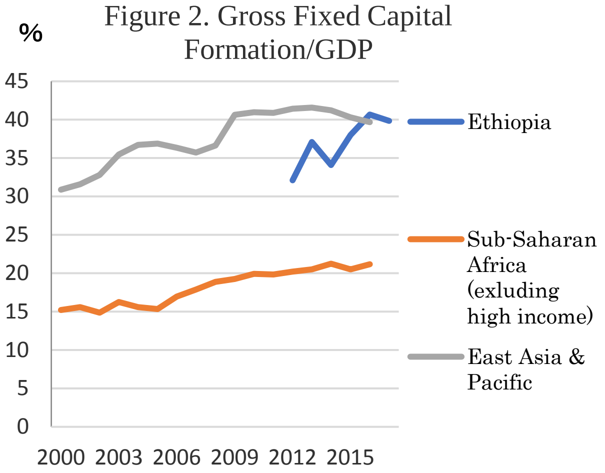


Figure 2 (cont.) Gross Fixed Capital formation, Private/GDP

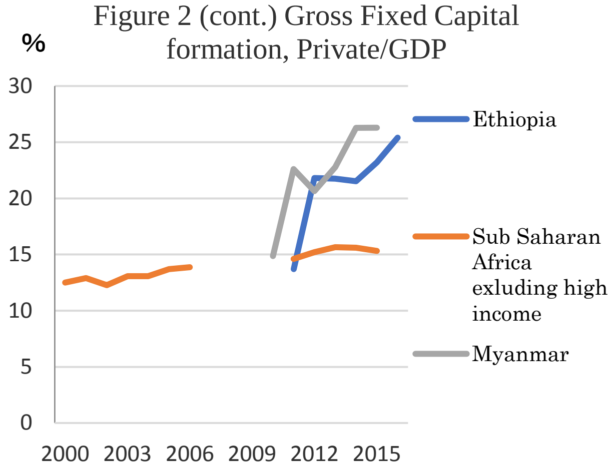
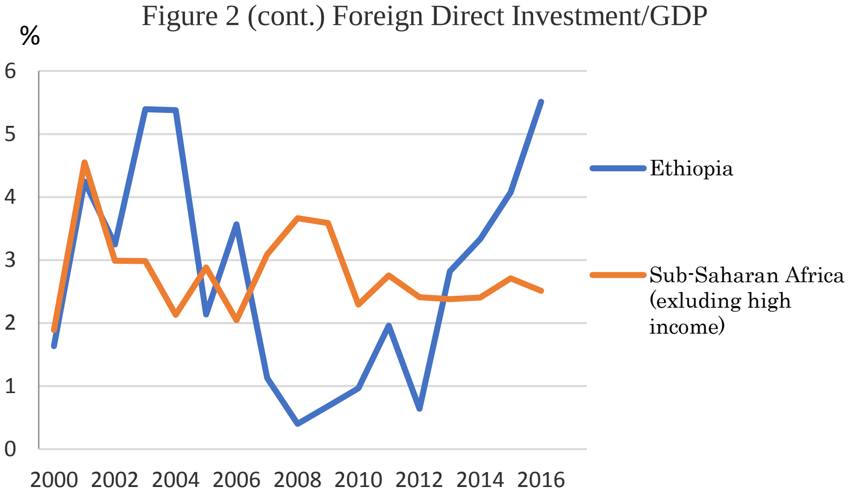


Figure 2 (cont.) Foreign Direct Investment/GDP



Source: World Bank Open Data

3-2-2 Investment climate, BER, and investment promotion

There have been considerable improvements in BER and investment promotion in Ethiopia in recent years. Ethiopia received a World Bank Best Reformer Award in 2017 given in recognition of the reforms in respect of legal framework for investment and industrial parks (IPs) which were instrumental in attracting FDI into the manufacturing sector. FDI rose dramatically beginning in 2012 concurrently with the adoption of the Proclamation on Investment tailored to incentivize FDI in the manufacturing sector where the competitively low wages in Ethiopia relative to other SSA countries held out the potential for efficiency seeking FDI. Those reforms were adopted by GOE in close consultation with various stakeholders/professionals including the Japanese experts in the JICA sponsored continuous industrial policy dialogue forum beginning in 2009.

In addition to the legal and regulatory reforms facilitating foreign investments, Ethiopian Investment Commission (EIC) has established a one stop shop to provide numerous licensing and registration services to foreign direct investors. In order to improve investor facilitation services EIC has added three Divisions for Investment Operations, Industrial Park Regulation, and Policy Research and Improvement. Nonetheless, Ethiopia lags in structural reforms in relation to comparator countries and the business environment in general remains unfavorable inhibiting growth in manufacturing and agriculture. According to the latest IMF staff report businesses consider foreign exchange shortages, rationing of bank credit, and onerous tax administration and licensing requirements are the main impediments to private investment. Thus, further reforms to the business climate are necessary to elicit broad based investments. [9]

Ethiopia's Doing Business Ranking (DBR) by the World Bank fell to 161st place out of 190 economies in 2018 from 102nd place out of 178 in 2008, a significant decline in the relative ranking of ease of doing business over the last ten years. Within SSA, Ethiopia ranked in the 31st place out of 48 in 2018 while Kenya, its neighbor and competitor, ranked third in SSA in the same year. Over the last ten years there had been some notable improvements in improving access to credit information, streamlining registration procedure, and contract enforcement, not enough, however, to put Ethiopia ahead of other developing countries. Of particular concern according to the 2018 report are the low rankings in getting credit and protecting minority investors while the rankings in getting electricity and contract enforcement fared better.

DBR was intended originally as an indicator of the business environment for domestic firms and not for FDI which requires a broader set of conditions. The apparent dichotomy of the low DBR and the stellar investment performance aided by the effective reforms in Ethiopia speaks to the need to expand the role of DBR as an indicator of business environment not only for domestic firms but also for FDI. Perhaps, a separate DBR for FDI may be considered.[10]

3-2-3 A contextual analysis

Growth diagnostics

Ethiopia's economy began to grow at a rapid pace in the first decade of the millennium on the heels of the large market reforms in the 1990s. The high rate of growth averaging 11 percent in the last decade has been fueled by the state's heavy investment in infrastructure and human resources accompanied by regulatory improvements and development of industrial parks. The growth, also spurred by private investment and consumption against the background of rapid population growth and urbanization, lead to the booming construction and service sectors, which absorbed labour from the agricultural sector. [11] This structural shift of value addition from the agriculture to the construction and service sectors meant a shift of resources from low productivity to high productivity sectors. By one estimation, the service sector productivity is on the average five times higher than in the agricultural sector.[12] Thus, at least one third of the robust growth in Ethiopia has been accounted for

[9] IMF Staff Report for the Article IV Consultation with Ethiopia 2017
[10] However, it is to be noted that DBR measures part of the investment climate, and as such it is not necessarily an efficient predictor of private investment.
[11] World Bank Economic Update 2015: ETHIOPIA'S GREAT RUN – The Great Acceleration and How to Pace It
[12] IFC, Mid-Term Review of Ethiopia Investment Climate Programme Phase I, 2016

by total factor productivity improvements.[13] However, this high pace and pattern of growth will be unsustainable in the long run.

Ethiopia's growth diagnostics call for a structural transformation in order to maintain the robust growth and rapid poverty reduction towards a middle-income country status by 2025. The main challenge facing GOE will be the fiscal pressures that will at some point mount and limit its ability to continue financing public investment and drive the growth as in the past. There appear to be some warning signs in the latest external debt sustainability assessment by the IMF although GOE disputes this. A sound macroeconomic policy would dictate structural transformations from reliance on public investment and private consumption to private investment and export on the demand side and from agriculture to manufacture on the supply side. Despite a robust growth of the manufacturing industry, its GDP share still hovers around 4 to 5 percent and the export/GDP ratio is falling.

Such structural transformation is enshrined in the GOE's Growth and Transformation Plan Phase II 2015/16-2019/20 (GTP II). The key strategy of GTP II is to attract FDI and domestic investment in the priority manufacturing sectors, namely the textile and garment industry, leather and leather products, sugar and sugar related products, cement, metal and engineering, chemical, pharmaceutical, and agro-processing. To that end, the 2012 amendment to Investment Proclamation introduced provisions for the establishment of industrial development zones with investment, tax, and infrastructure incentives. GOE also established the Ethiopian Industrial Parks Development Corporation under the Ministry of Industry in 2012 to oversee the construction and regulation of industrial parks (IPs). There are fifteen (publicly owned) IPs and four pilot agricultural industrial parks mostly at various stages of development and some in operation. Furthermore, GTP II provides incentives for foreign investors including facilitation of repatriation of investment and profits, ease of hiring expatriate personnel, temporary income tax exemptions, duty free import of capital goods, components, and raw materials for exporting industries and manufacturing industries in the priority sectors.

This macro growth policy contextualizes the BER and investment promotion measures that GOE should be pursuing, and the support programmes by the donor and development agencies. BER and investment promotion combined with concurrent structural reforms and transformation appear to have the best chance for material impacts on private investment and growth. For example, JICA's Industrial Policy Dialogue programmes have since 2009 utilised Asian experiences on various aspects for such structural transformation to the Ethiopian context through regular dialogue processes with GOE.

Micro and meso data and analysis

Meso (sector) and micro (firm) data and analyses generally show trends that are broadly consistent with a macroeconomic policy objective of structural transformation through increases in private investment and development of manufacturing industry pillared on agro industry, textiles and garments industry, and leather and leather goods as enshrined in GTP II. GOE aims to establish Ethiopia as an African light manufacturing hub in the garments and leather goods industries. To that end, it is constructing a wide network of IPs to facilitate FDI inflows. Some 30 IPs are expected to come on stream in the near term, half of which are state owned, most notably the Hawassa Industrial Park (HIP). HIP was constructed at record pace to social and environmental international standards, and it is home to PVH, a world No. 2 US apparel manufacturer, and to over a dozen global supplies which PVH brought in to form the garment industry cluster at HIP. Another significant investor is H&M, a Swedish global manufacturer/retailer and the second largest apparel company in the world, which is establishing a long-term foothold in Ethiopia, also bringing its international suppliers and sourcing their products domestically from firms in other IPs.

[13] Yared Seid *et al*., Ethiopia – an Agrarian Economy in Transition, 2016

IPs hold out great potential for creation of jobs directly and indirectly, and there are broad estimates of job creation. For instance, HIP is expected to generate 60,000 jobs, many of them for young women, once it is fully operational. The Job Compact with DFID aims at creating 100,000 jobs through support for selected IPs. Indirect impacts on jobs are also expected through backward linkages and expansion of domestic firms catalyzed by transfer of technology and skills.

The industrialization strategy through FDI and IPs is of late attracting major donor support. A good number of donors are now channeling increasing resources into IP related programmes. Light manufacturing, especially garments and leather goods industries is the core of industrialization strategy in Ethiopia as it takes advantage of Ethiopia's competitive labour force in labour- intensive industries. A policy dialogue along those lines was initiated as early as ten years ago with the development experts under JICA sponsorship advising GOE on Asian experiences in which the highest echelon of GOE showed interest. Since then, policy dialogue continued regularly and intensively with GOE from top to practical levels, encompassing various issues on industrial development including investment policy, IP development and management, and BER in a holistic approach, which exemplifies a good practice of donor support.

During the last ten years, Ethiopia's services sector expanded faster than agriculture and manufacturing to claim the largest share of GDP at 45 percent by 2013, while agriculture declined to 42 percent and manufacture largely remained unchanged at 4 percent. [14] [15] Service sector value addition has been mostly in the traditional services, i.e. distribution, transport, the public sector, and other services, accounting for most of the sector in terms of value addition, exports, and employment, surpassing comparator developing countries. Ethiopia, however, lag in the modern services including communication, banking, insurance, and education.

One of the salient features of Ethiopian services is that notwithstanding the lagging modern services and relatively underdeveloped infrastructure, the service sector's is characterized by a high export/output ratio, and services account for more than half of the country's goods and services exports. The service exports are concentrated in transport and travel, of which the Ethiopian Airlines accounts for the lion's share. This represents a revealed comparative advantage of Ethiopian service exports though mostly attributable to a single firm.

Another salient feature of the service sector performance is that the dynamic growth of trade and distribution, the engine of growth in the last five years, was mostly attributable to labour productivity increases. Moreover, what is interesting is that factors resulting in labour productivity increases were three quarter due to within-sector improvements as opposed to one quarter resulting from a shift between sectors. Within-sector productivity increases were mostly due to supermarkets and large stores that emerged mainly in the Addis Ababa area. Nonetheless, trade in Ethiopia is still mainly (up to 80 percent) conducted by smallholder traders. Thus, the labour productivity within in the trade and distribution is probably still low and subject to a large variance.

Still another salient feature of Ethiopian services is the intensive nexus with the manufacturing sector. The most important service inputs according to the World Bank survey in 2011 were distribution and trade, transport, business services, and ICT. This nexus is due to the high costs of transport and distribution relative to the limited value added in manufacturing. Service inputs are more than half of manufacturing's value added, rendering service efficiency the most important potential driver of productivity enhancement in manufacturing. Improving services in commerce and introducing modern service inputs would yield great dividends for Ethiopia manufacturing. Moreover, as such this is a focal policy issue for industrialization particularly in the context of the global value chains that are increasingly reliant on expanding networks of distribution services.

[14] This section draws heavily on World Bank, Economic Update 2017: INESCAPBLE MANUFACTURING-SERVICES NEXUS - Exploring the Potential of Distribution Services for data and analysis.
[15] More recently, manufacturing's share appears to have risen to over 5 percent (FY2016/17) according to author's estimates.

In manufacturing, private investors' perception appears favorable as evidenced by marked upward trends in FDI and domestic private investment since the beginning of the 2010s in response to the GOE pro-industrialization policy stance. There are promising market signs indicating investors' activities in Ethiopia despite the challenging environment for private investments. Anecdotal evidence suggests that the textiles and leather sectors appear to be doing better than agro industry so far. Evidence is emerging that IPs are attracting private investments particularly in the textiles and garment industry and the leather and leather goods industry. Agro industry is poised to grow pending completion of agriculture-integrated industrial parks.

Nonetheless, Ethiopia' success in attracting FDI and domestic investment in the last five years in the manufacturing sector is yet to yield clear dividends in terms of overall economic growth, exports, and employment. Manufacturing value added still languishes at about 4 or 5 percent of GDP. However, those dividends are expected to emerge gradually in the medium term especially as the major infrastructure investments in the transport and energy sectors come on stream and the industrial parks become fully operational. It is important to recognize at this juncture that private investment decisions are taken mostly by domestic investors including MSEs, many of them in the informal sector. National accounts data indicate that domestic investment is about five times as large as FDI. Thus, the new FDI in the light manufacturing emerging through the various incentives for foreign investors have a large gap to fill if they were to drive the growth of the entire economy.[16]

Firms in Ethiopia benefit from low labour and energy costs. The wage level in manufacturing is estimated at about half of the regional average. Energy costs are extremely low at one-quarter of those in the region. Ostensibly, these advantages attract both domestic and foreign investors. However, other factors of the investment climate inhibit firms' investments. Enterprise Survey 2015 by the World Bank shows that by far the greatest proportion of those canvassed, especially small firms, cite access to finance as the biggest obstacle.

GOE policy commitment and investment promotion as well as fundamentals including competitive labour and energy costs resulted in some high profile international investment decisions and in rapid increases in FDI in recent years. GOE's ambitious policy based on IPs include thirty more IPs, fifteen of which are state-owned, eight or nine are privately owned (by Chinese, Taiwanese, and Bangladeshi investors), and four pilot Integrated Agro Industrial Parks (IAIPs). However, the implementation of the ambitious policy faces numerous challenges, and the pace of IP construction varies. For instance, HIP has been constructed rapidly, and is already operational, but the IAIPs, being constructed by regional governments, are lagging behind schedule. No construction of IAIPs has been completed as of 2017.

Anecdotal success stories mainly involve foreign firms' investments and operations, which contrasts with the characteristic of firms that foreign ownership ratio is much lower in Ethiopian firms than those in the rest of SSA. It shows the economy is still relatively closed to foreign investors. Ethiopia maintains extensive limits to foreign investment notwithstanding all the incentives for foreign investors in the priority areas. GOE prohibits foreign investment in banking, insurance, financial services, broadcasting, air transport, shipping agencies, retail and wholesale trade, etc. GOE maintains monopoly of investment in telecommunications, power transmission and distribution, and postal services except courier services. Foreign firms' operations employ local labour and procure local raw materials and other supplies. Further opening of markets hold out the potential for expanding the benefits including from the backward linkages. It is generally accepted as a good signal

[16] For instance, the challenge in agro industry, one of the GOE priorities in GTP II manufacturing development, is to bring a large mass of smallholding subsistence farmers into commercial networks via IAIPs under construction. Interventions in the large informal sector poses a particular challenge. In the service sector, trade and distribution services, the most dynamic sector leading the high growth of Ethiopian economy in the ten years are run by domestic businesses as the Investment Code prohibits foreign investment in this area. New supermarkets and large stores in the Addis Ababa area were presumably the investments made by domestic businesses. Moreover, the bulk (by one estimation up to 80 percent) of retail and wholesale trade and distribution in Ethiopia is conducted by smallholder traders.

that the Ethiopian new prime minister inaugurated in April 2018 has been indicating and preparing opening up some of those prohibited sectors for foreign investors.

Transmission of effects of structural reforms

Notwithstanding the generally positive direction of structural transformation, there are a number of issues arising in the offing that pose challenges for both the GOE and donors. Despite a clear shift of growth driver from services to manufacturing in term of GOE priorities and FDI inflows, manufacturing's net value added is still small at less than six percent of GDP and its employment share at a similar level of total labour force. It is imperative that GOE address development of the service and agriculture sectors with much higher GDP and employment shares in conjunction with manufacturing for broad based growth. In this regard, development of agro industry needs special attention as well as the nexus of service industry with manufacturing, namely transport, distribution, and logistics services as inputs in manufacturing industry.

Despite the high-profile investors operating in IPs, overall FDI is still one fifth of domestic investment and its employment effect is estimated in modest proportions relative to large cohorts that annually enter into the labour force. A cohort of labour coming into the labour force is estimated at well over one million per annum, which dwarfs any estimate of employment creation through individual business ventures.

Moreover, issues remain with respect to the linkages between FDI and domestic firms. Firm level analysis shows high profile investors now operating in the IPs are bringing in international suppliers with whom domestic suppliers must compete. PVH adopting a vertical integration business model will hopefully find ways to integrate local businesses in its supply chains. The implementation of the IP construction plans faces numerous challenges not to mention the pressures on public finance and GOE capacity.

FDI linkages with domestic economy

IPs hold out great potential for creation of jobs directly and indirectly. Indirect impacts are in fact as important as direct ones in that it would result from domestic firms at large replicating and expanding the good practices introduced by FDI. Conventional wisdom on FDI linkages with local suppliers calls for capacity building, investment attraction/matching, and institutional building. Mindful of this, GOE is supporting local firms wanting to participate in HIP by providing incentives such as access to finance and foreign exchange, cost sharing for training and skills development programmes, as well as wage subsidies for expatriate managers hired by domestic firms. In this connection, it is of particular interest that PVH has adopted a vertical integration business model in Ethiopia, where it invests in locally suppliers of raw materials and intermediate goods. However, domestic suppliers need to be trained to catch up with the international suppliers initially brought in by PVH.

Nonetheless, direct and indirect impacts of FDI and backward linkages on job creation and overall growth and poverty reduction appear dwarfed by the sheer size of population trapped in subsistence or low productivity jobs in agriculture, and by the population growth and urbanization that add millions to the workforce annually. FDI itself is much smaller than domestic investment, and so establishing backward linkages alone may not be enough to achieve ambitious macroeconomic goals of investment generation and growth.

The key is that good practices demonstrated by FDIs in terms of technology and managerial skills be replicated widely by SMEs as well as large investors and stimulate domestic investment on an economy wide scale. Therefore, a broader policy directly addressing fundamentals for domestic investors is called for to complement the efforts to establish linkages with FDI. Namely, financial reforms encompassing access to finance and addressing the issues of currency overvaluation, financial repression, foreign exchange, and credit rationing, tax reforms, and formalization. BER and investment promotion cannot be implemented in isolation from the broader policy framework, and this has important implications for the way donors' support programmes should be developed and implemented.

3-2-4 Support programmes for BER and investment promotion – a mapping exercise

The rapidly increasing FDI in the last five years is to a considerable extent credited to BER and investment promotion undertaken by GOE with donor assistance in the areas of Public Private Dialogue (PPD), legal and regulatory reforms, fiscal incentives, and industrial parks. In addition, sector specific interventions are bearing fruits, but their impacts are still limited in scale and the interventions are yet to catalyze private investments on a wider scale. Although those investments hold out potential for future dividends in terms of broad based growth and employment Ethiopia needs to implement further reforms for them to materialize.

Table 2 (Annex 1) presents a panoramic view of the latest support programmes by major donors and development agencies for BER and investment in Ethiopia mapped in the conventional DCED format.[17] It is apparent that the programmes are concentrated in "i. Other" category outside the conventional BER functional areas as was generally seen in the support programmes across all agencies in the developing countries. Those programmes cut across all major donors and development agencies and range from industrial policy dialogue, export promotion, trade logistics, competition policy, privatization of SOEs, industrial parks, FDI and domestic investment promotion, Kaizen programmes, to direct support to firms in priority sectors.

In contrast to the wide range of interventions in the "Other" category, the programmes in the conventional functional areas are sparse. This is counterintuitive to Ethiopia's low ranking in the World Bank's DBR. Particular gaps of the support programmes are found in the Functional Areas d. on Labour Laws and Administration and g. on Dispute Settlement Mechanisms. Access to finance is considered by many firms, especially by SMEs to be the most serious of constraints according to the latest International Monetary Fund staff report on the 2017 Article IV Consultation with Ethiopia.[18]

The industrialization strategy through FDI and IPs is of late attracting major donor support. A good number of donors are channeling increasing resources into IP related programmes, led by WBG, DFID, FAO, and JICA. Other donors include ILO, the Netherlands, Italian Cooperation Agency, GIZ, UNIDO, EU, EBI, SIDA, and others. AfDB is also in negotiation with GOE. There are four major projects under implementation: WBG's Competitiveness and Job Creation Project focusing on Bole Lemi II and Kilinto Industrial Parks; FAO's Integrated Agro Industrial Park Initiative with four pilots IAIPs under various stages of construction; WBG/DFID/EU collaborating under Economic Opportunities Project/Job Compact Programmes for creation of jobs for Ethiopians and refugees. JICA is implementing Ethiopia Industrial Promotion Project in (EIPP), consisting of three main components, namely industrial policy dialogue, institutional support for EIC and IPDC, and export promotion.

Other European development agency and donors (such as ILO supported by SIDA, DFID, GIZ and the Netherlands) provide various support programmes for IPs in the areas of recruiting personnel, training, technical and vocational education and training (TVET), social and environmental standards, improving working conditions, and public private collaboration. Amidst the proliferation of donor support programmes donor coordination leaves something to be desired although a certain level of coordination has been attempted and partially implemented, including JICA-GIZ joint firm level study project on basic metal and engineering industries and occasional development partner meetings on private sector development jointly organized with the Ministry of Industry. Also, there has been an attempt to balance the support for governance and social and environmental standards

[17] DCED 2008 (*ibid.*)
[18] International Monetary Fund (2017b)

spearheaded by European donors with that for the quality control and engineering by JICA in the donor programmes for IPs.

3-2-5 Evaluation of BER support programmes

Donors use varying methodologies to design, implement, and evaluate the support programmes for BER and investment promotion. Among those methodologies, the state of the art appears to be the use of a log frame. A typical log frame consists of outputs, outcomes, and impacts with their definitions, actions, indicators, and targets. Outputs may be business environment, investments and upgrades, functions/rules of sectors, and labour rules compliance. Outcomes may be sales of firms, access to finance, changes in practice. Impacts are job creation and increases in incomes. Outcomes are intermediate objectives while impacts are final policy objectives.

The links between outputs and outcomes are usually direct and straightforward. The donor survey indicated that results are measured in terms of compliance cost savings, investments generated, jobs created and retained, and productivity gains. Reform progress is measured by the numbers of reforms implemented including laws and regulations. They are outputs and outcomes specific to projects. The links between outcomes and impacts are more complex and involve other factors with the result that outcomes do not necessarily guarantee impacts. In that sense, the log frame approach is expedient, but not in and of itself sufficiently rigorous as an analytical tool for results orientation.

Thus, a broader and contextual analysis is essential to complement the project specific framework such as a log frame in designing the support programmes for BER and investment promotion. This point is brought home by some of the pioneering works done by DFID, GIZ, and WBG. New frontiers of assistance strategy are explored by GIZ in its development-orientation of support programmes, WBG in its support for the life cycle of foreign investments, and DFID in its emphasis of a broader framework and contextualization by the country team on the ground. Those prototype works need to be translated into the context of specific developing countries.

For instance, a new program of GIZ for Economic Policy and Investment Competence (EPIC) is predicated on the principle that investment is a means to achieve overarching development goals, notably SDGs and provides for technical cooperation needed to coordinate now small poorly coordinated projects in a holistic approach. It is to be operationalized in a country specific, context specific way through the EPIC hub consisting of the framework of Steering Committee, Public Institution Coordination Groups, and PPD instruments.

Ongoing country programmes inclusive of BER are in a sense contextualized, but its effectiveness needs to be enhanced. This study attempted such enhancement in Ethiopia through growth diagnostics and micro and meso data and analyses, suggesting industrialization through manufacturing investments in the industrial parks needs to be supported with focus on the links with domestic economy. Domestic investment, which still accounts for the bulk of Ethiopia's investment, hold the key to continued robust economic growth. The question is whether FDI can stimulate domestic investment. Therein lies the challenge for GOE and donors supporting BER and investment promotion. In this connection GOE and donors should address the issues of backward linkages of FDI, efficiency increases in trade and transport services, access to finance, and specific sector and market interventions.

The ongoing donors' support programmes in Ethiopia cover some components that are relevant to the aforementioned areas of intervention. However, they need to be scaled up for greater impacts. Keys to the effectiveness in terms of economy wide impacts are two:

One, replication of project level impacts should be more strategically planned. A systemic approach to promoting flourishing of good practices should be developed along the lines of creating fundamental incentive systems that elicit private sector responses on a wider scale.

Two, a holistic approach is only feasible if the support programmes for BER are coordinated with donors' other programmes. A more proactive donor coordination for that purpose is called for. Existing policy fora such as Ethiopian Public Private Consultation Forum (EPPCF) should more specifically address this aspect of coordination processes involving GOE and private sector.

3-2-6 Summary

To recapitulate, there had been considerable improvements in BER and investment promotion in Ethiopia since the early 2010s. The rapidly increasing FDI in the last five years is, to a considerable extent, credited to BER and investment promotion undertaken by GOE with donor support. Growth diagnostics, micro and meso data, and analysis have shown that structural transformation towards industrialization is gaining traction. However, the transformation is still in its inception, and there are a number of issues arising in the offing that pose challenges for both the GOE and donors. It is imperative that the surge in FDI catalyze domestic investment through backward linkages and replication of good practices by domestic firms at large. The industrialization strategy through FDI and IPs is of late attracting major donor support. Amidst the proliferation of donor support programmes, however, information sharing and donor coordination can be improved.

3-3 Case study on Myanmar – a good practice of government led BER

3-3-1 Overview

Following transition to a new civilian rule in the early 2010s Myanmar launched an ambitious reform programme aimed at opening up and liberalizing the market economy accompanied by legal and regulatory reforms. Many years of military rule had left the market economy underdeveloped, segmented, and dominated by informality, and institutional capacity for governance weak.

The reforms were encapsulated in the Framework for Economic and Social Reform, 2012-15 (FESR). The reforms undertaken under FESR and related initiatives represented a holistic approach combining BER and structural reforms, encompassing budgetary and tax reforms; monetary and financial sector reforms; liberalization of trade and investment; food security and agricultural growth; land issues; and improvements in infrastructure availability and quality.

There were surges in both foreign investment and BER support programmes coinciding with the politico economic transition in Myanmar in the early 2010s. Donor support programmes concentrated first on national level policy and planning that set the stage for a holistic strategy for social and economic development, which was followed by specific projects that addressed the issues that would lead to achievements of overarching goals. UNDP supported drafting of FESR. It was followed by a series of development strategies all supported by various donors.

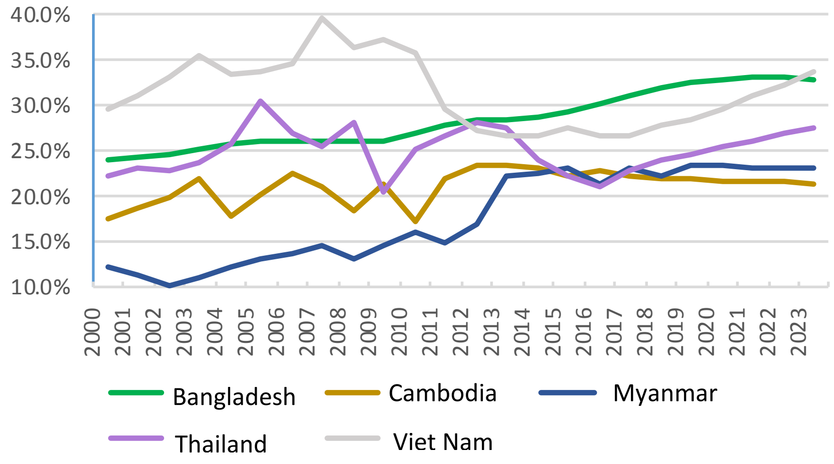
GOM attached great importance to attracting FDI to create employment and increase people's incomes. To that end, GOM enacted a series of legislations beginning with the new Foreign Investment Law (FIL) in 2012 and the revised Special Economic Zone (SEZ) Law in 2014. Subsequently, FIL and Myanmar Citizens Investment Law enacted in 2013 were integrated into the new Myanmar Investment Law in 2016. Myanmar Investment Law lowered entry barriers, streamlined procedures, put in place a dispute mechanism, and provided for selective incentives. In 2017, the new Myanmar Companies Law replaced its original version adopted more than a century ago, modernizes regulatory framework on company activities. Numerous donors assisted GOM in drafting those laws led by ADB, IFC, Japan/JICA, DFID, ILO, AusAID, and OECD. GOM went through a thorough vetting process with the business communities and the public in general (through numerous public hearings and invitations to comments for a series of versions of draft bills to private organisations and international organisations) in an initial step of a "virtuous circle" of policy development and implementation where government transparency, dialogue with the private sector, and donor support transpired harmoniously.

In response to those reforms total investment/GDP ratio rose from over 20 percent in 2012 from 15 percent in the previous year. FDI jumped in the early 2010s reflecting lumpy investments in the oil and gas, and communications sectors but stabilized in subsequent years with inflows in manufacturing and services averaging at about 9 percent of GDP. Since 2012, number of registered foreign companies rose rapidly, to 1,200 in 2015. The FDI/GDP ratio is higher than average comparator countries. However, reflecting modest domestic investment total investment/GDP ratio is lower than average comparator countries. Economic growth accelerated to an average of 7 percent in recent year with the services and industries leading while agriculture declined in absolute terms.

3-3-2 FDI and domestic investment

Myanmar's total fixed capital formation (FCF) to GDP was lowest among its neighboring countries at 15% or below until 2011. (Figure 3) Myanmar's FCF/GDP ratio increased significantly in 2012 after the transition to the civilian government, and in 2015 it expanded to around 23% and caught up with Thailand and Cambodia. The turning point in Myanmar's investment in 2012 coincided with the enactment of FIL.

Figure 3 . Myanmar: Trends of Investment to GDP
(Unit: %)



Source: International Monetary Fund, World Economic Outlook Database, April 2018

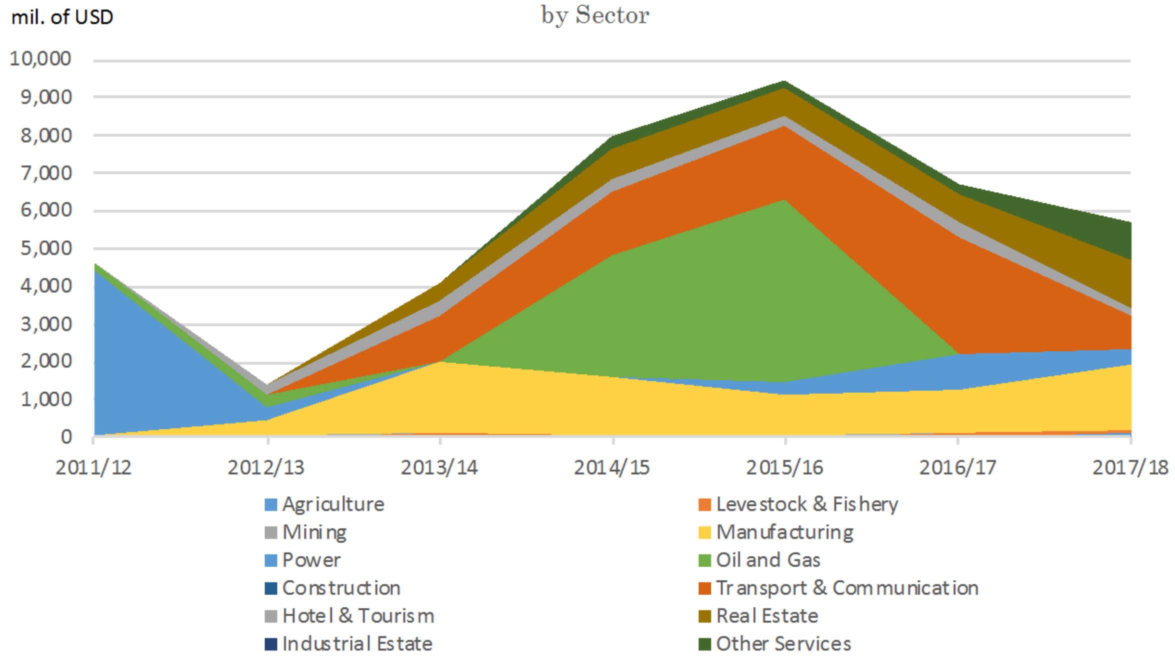
Trends of FDI to date show that before the FIL enactment in 2012, there was no active FDI with a few temporary large-scale investments from specific infrastructure development projects in oil & gas and power sectors. However, a steady inflow of FDI is registered after 2012. FDI reached US$9.5 billion on approval basis in 2015 and tapering to US$5.7 billion in 2017. (Figure 4)[19] The enactment of the investment laws is seen closely correlated with FDI inflows.

FDI flows by sector show lumpy increases from 2013 to 2017 in the oil & gas sector and the communication sector. The direct causes of these increases were the allocation of tremendous amount of new offshore natural gas plots and the liberalization of the communication policy (relaxation of the

[19] Actual investment fund transfer data available from UNCTAD/STAT exhibit similar trends in FDI inflows.

communication licensing).[20] Apart from these lumpy investments, there is a steady investment trend in the manufacturing sector and other services sector after the introduction of FIL. (Figure 5) Barring a slight decline due to the general election in 2015, about US$1.5 billion per year have been invested constantly in the manufacturing sector, which occupies 2/3 of the total investment in terms of the number of investment project. Moreover, there may be an initial signal of increase of investment in the services sector. This may be investment in the services that support manufacturing activities, reflecting an investor perception that the advancement of the manufacturing sector is a long-term trend in a stabilizing business environment.

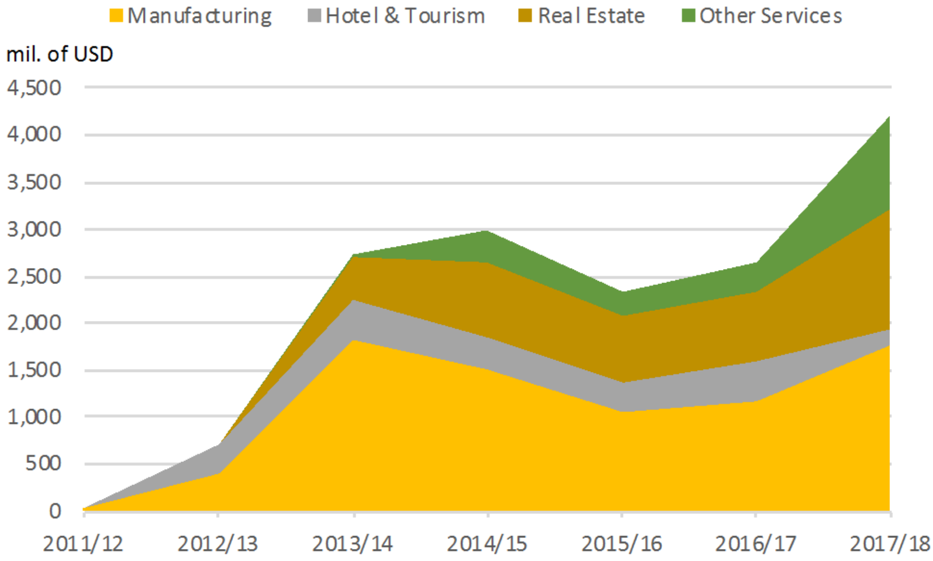
Figure 4. Myanmar: Trends of Yearly Approved Amount of Foreign Investment by Sector



Source: DICA

[20] During this period, large but specific investments were made by the telecommunication operators through subsidiaries in Singapore, such as KDDI/Sumitomo (Japan), Telenor (Norway) and Ooredoo (the former Qatar Telecom), who gained licenses due to the relaxation of communication sector in Myanmar.

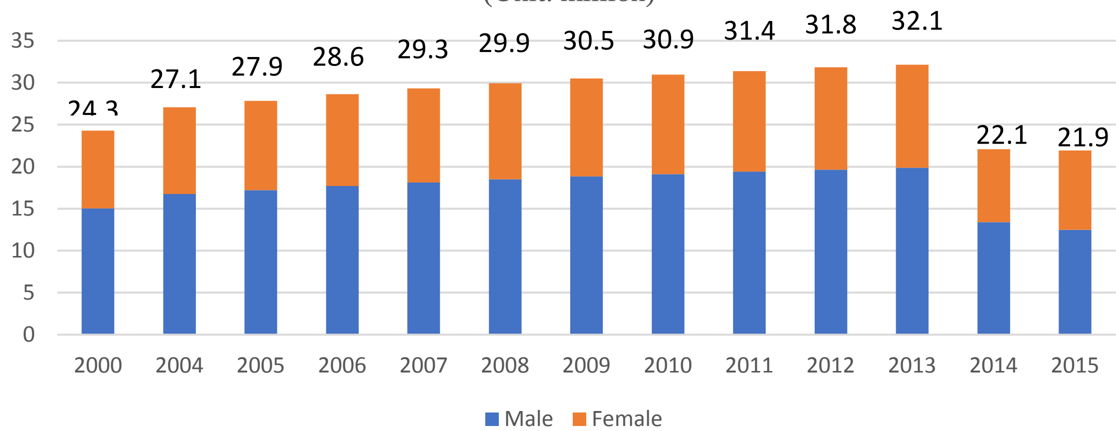
Figure 5. Myanmar: Trends of Yearly Approved Value of FDI
(in focus of Manufacturing and Services)



Source: UNCTAD/STAT[21]

The number of employees showed an increase of about 3 percent per annum between 2000 and to 2013, reaching 32.1 million while the unemployment rate has remained at about 4%. (Figure 6) In 2014, the Labour Law enacted in 2013 made it mandatory to conclude an employment contract for each employee. As only those on contract were counted the number of employees declined in 2014.

Figure 6. Myanmar: Trends of number of labor force
(Unit: million)



Source: MMSIS: Myanmar Statistical Information Service, CSO: Central Statistical Organisation, MOFP

3-3-3 Support programmes for BER

Two important donor programmes in the early stages since the shift to civilian rule were the support for "The Framework for Economic and Social Reforms (FESR, 2012 - 2015)" and the support for developing "National Comprehensive Development Plan (NCDP)." The FESR showed the direction of the first national plan in the new administration in 2012. The plan included details such as "budgetary and tax reforms; liberalization of trade and investment; food security and agricultural

[21] The data by the Central Statistical Organisation of Ministry of Planning and Finance was Kyat based up to 2015, USD based available wider range of statistic data was referred from UNCTAD / STAT.

growth; land issues; and improvements in infrastructure availability and quality" and presented the mid-term goals of the new administration.[22]

UNDP provided technical assistance through assignment of an expert for drafting of NCDP. (Table 1) A project team was formed within the Ministry of National Planning and Economic Development at that time, and the assigned technical expert lead the team. At the time of NCDP drafting (2012-2014), the development work of the OECD's "Investment Policy Review" which was announced in 2014 and the JICA project with support for DICA's capacity building and drafting the long-term strategy ("Long-term Foreign Direct Investment Promotion Plan (FDIPP)" 2014-2030) were underway; therefore, there were occasions between UNDP, OECD and JICA for information sharing on the investment environment and policy issues and direction. Such information sharing is considered to have led to the consistent direction for NCDP, IPR and FDIPP, regarding the improvement in business environment including further improvement of investment laws.

Table 1. Myanmar: Support Programmes and Policies/Policy Measures

Year	Month	Policy/Strategy	International Development Agencies / Gov.
2011		"Fifth Five-Year Plan (2011-12 to 2015-16)"	
2012		"The Framework for Economic and Social Reforms (FESR) (2012 - 2015)" <as a bridge between the "Fifth Five-Year Plan (2011-12 to 2015-16)">	UNDP: Support to Ministry of National Planning and Economic Development.
2013		"National Comprehensive Development Plan (NCDP) 2011-2031"	UNDP: Support by UNDP expert.
		"Investment Policy Review"	OECD.
2014	Mar.	"Long-term Foreign Direct Investment Promotion Plan (FDIPP)"	JICA: Support by project.
		"Master Plan for MYANTRADE"	KOICA: Support by project.
2015		"Small and Medium Enterprise Development Policy"	UNESCAP:"A New Policy Framework for Myanmar's SME". (Feb., 2014) OECD/ASEAN/ERIA: "ASEAN SME Policy Index, 2014"
	Mar.	"National Export Strategy"	ITC:Technical support BMZ: Financial supoort GIZ: Implementation support
2016		Myanmar PPP Policy Paper (draft for consultation) (MOC)	ADB: Support for PPP Framework Development (Jul 2014-Dec.2017) Funded by DFID
	Feb.	Industrial Policy (Ministry of Industry)	
	June	"Myanmar Industrial Development Vision (MIDV)(Proposal)"	JPN Gov.: Support by METI (Ministry of Economy, Trade and Industry)
2018	Mar.	"Development Assistance Policy (DAP)" launched	UNDP: Support by project. DFID: Support through UNDP
		"SDG: 238-point economic policy agenda" (Draft)	GIZ: Support by project (2017-2020) UNDP: Support by project.
	May	"Myanmar Sustainable Development Plan (MSDP) <incl. SDGs>" (Draft)	GIZ: Support by project (2017-2020) UNDP: Support by project.
	July	"Myanmar Investment Promotion Plan (MIPP)	JICA: Support by project.

Source: Consultant team

Based on these national plans, from 2012 onwards the development of the business environment was benchmarked against policies and laws in various fields such as Foreign Investment Law (2012), Myanmar Investment Law (2016), and Myanmar Companies Law (2017). The donors' support programmes through the assistance of experts contributed to the enhancement of the contents and alignment of each policy and law. In 2015, a Small and Medium Enterprise Policy was

[22] Originally, the Government of Myanmar aimed at developing the five-year FESR based on the long-term national development plan (NCDP); however, since it took time to formulate the NCDP which took into consideration of the period of 30 years from 2011-2031, the actual formulation of the FESR had to wait till 2013.

formulated; this was facilitated greatly by recommendations of the UNESCAP's Policy Framework at the time and the efforts of "SME Policy Index" by ASEAN / OECD / ERIA. In response to this, in the same year, "Small and Medium Enterprise Development Law No. 23/2015" was enacted through the joint support of ITC/BMZ/GIZ. In addition, in 2015 the "National Export Strategy" was formulated jointly with ITC / BMZ / GIZ. The development of "Master Plan for Trade Promotion (Master Plan for MYANTRADE) ", which was supported by KOICA contributed to the formulation of the export strategy.

In 2016, Asian Development Bank (ADB) supported the development of the "PPP Policy" with a series of complementary supporting programmes. The PPP policy, addressing a cross-cutting issue, benefited from a well-coordinated framework of support programmes among development agencies, some beginning in the previous year, including UNESCAP with the Planning Department of Ministry of Electricity and Energy (MOEE), ADB/IFC with the sector related Departments of MOEE, and JICA with DICA chairing an inter-ministerial task force under the FDIPP framework. In the same year, the Financial Institutions Law was enacted, replacing "Financial Institutions of Myanmar Law 1990, as was the Payment of Wages Act, replacing the "Payment of Wages Act 1936.

The Myanmar Investment Law (2016) integrating provisions on domestic investment and foreign investment followed the recommendations of IPR by OECD. The IFC provided major support for formulation of the law while JICA's support contributed to this process through assignment of long-term experts stationed in DICA since 2014[23]. On financial reforms, IFC, ADB, and DFID[24] provided technical assistance and on labour reforms and relevant laws ILO[25] provided support. (Table 2)

Table 2. Myanmar: Supporting Programmes and Laws/Schemes

Year	Month	Laws/Institutionalization/PSD	International Development Agencies / Gov.
2012	Nov.	"Foreign Investment Law No.21/2012"	
2013	June	*Thilawa SEZ Phase I*	JICA
2014	Jan.	Myanmar Special Economic Zone Law No.1/2014	
2015	April	**"Small and Medium Enterprise Development Law No.23/2015"**	
2016	Jan.	"The Financial Institutions Law No.20/2016"	
2016	Oct.	**"Myanmar Investment Law No.40/2016"**	**IFC: Support by TA since 2014.**
2017	Aug	*Thilawa SEZ Phase II*	JICA
2017	Dec.	**"Myanmar Companies Law No.29/2017"**	**ADB: Support by project (2016-2019)**

Source: Consultant team *1: Long/Short Term International Technical Expert

The revision of Myanmar Companies Law of 2017 was largely supported by the ADB's technical support projects for strengthening laws and regulation in the area of commerce, including the assistance of an expert (attorney) stationed in DICA for drafting and consultation. This project was partially funded also by the Government of Japan. Varieties of inputs were provided by the international community, including the business community such as American Chamber of Commerce, EU Chamber of Commerce, and Myanmar Japan Joint Initiative. In the meantime, based on the Loan Agreement (L/A) signed with JICA in June 2013, GOM has developed supporting infrastructures (electricity and port) around Thilawa SEZ. Such assistance in essential hard infrastructure, combined with capacity development project on SEZ Management Committee

[23] This JICA's support also contributed to the formulation of Myanmar Companies Law (2017), implementation of FDIPP, capacity building of DICA, launching various investment promotion tools such as regional investment fairs and cost survey.
[24] Projects: "47159-001 Financial Sector Reforms" (ADB)、"GB-GOV-3-PPY-SEA-1507 Develop Burma's financial sector" (DFID) , etc.
[25] Project: "Supporting the Improvement of the Legal and Institutional Framework on Occupational Safety and Health in Myanmar" (ILO)

including the establishment of one stop shop for various permit applications etc., helped Thilawa SEZ succeeding in attracting large-scale FDI. In 2017, another L/A for Zone B development (101ha), in addition to the already-completed Zone A (405ha) was signed.

It is to be noted that supporting programmes are more effective where the initiative of recipient government is secured (further than the ownership of one particular project or programme but supporting programmes as a whole). In this respect, GOM has a positive foundation (stance) and readiness to take initiatives towards establishment and implementation of a policy-oriented system addressed to "investment attraction", and willingness to express its determination and to listen to the public voices including business communities. This stance has been enhancing "predictability of Myanmar" for the investors. This is evident as GOM is consistently responsive to recommendations and requests from the public including the business community and the international organization.

In 2018, the Development Assistance Policy (DAP) was announced to prepare the next phase of donor assistance plan, and also at the same time, the "Myanmar Sustainable Development Plan (MSDP)" incorporating SDGs was completed in August. UNDP and DFID supported the formulation of DAP and UNDP and DFID supported the development of the MSDP. Furthermore, OECD has initiated IPR update facilitating future direction. JICA has assisted DICA to revise FDIPP and to draft Myanmar Investment Promotion Plan (MIPP) as a long-term plan toward 2035, which was approved by the Cabinet in July 2018.

GOM Initiatives in a "Virtuous Circle"

The legal integration of foreign investment and domestic investment laws proposed in the OECD's IPR was put into effect by Myanmar Investment Law of 2016. Also, the Company Law 2017 was amended taking into account the requests made by the foreign private sector.

The prior to the amendment of Investment Law, the draft bill had gone through revisions six times and a number of public hearings and invitations of public comments from international organizations and national/international business chambers.

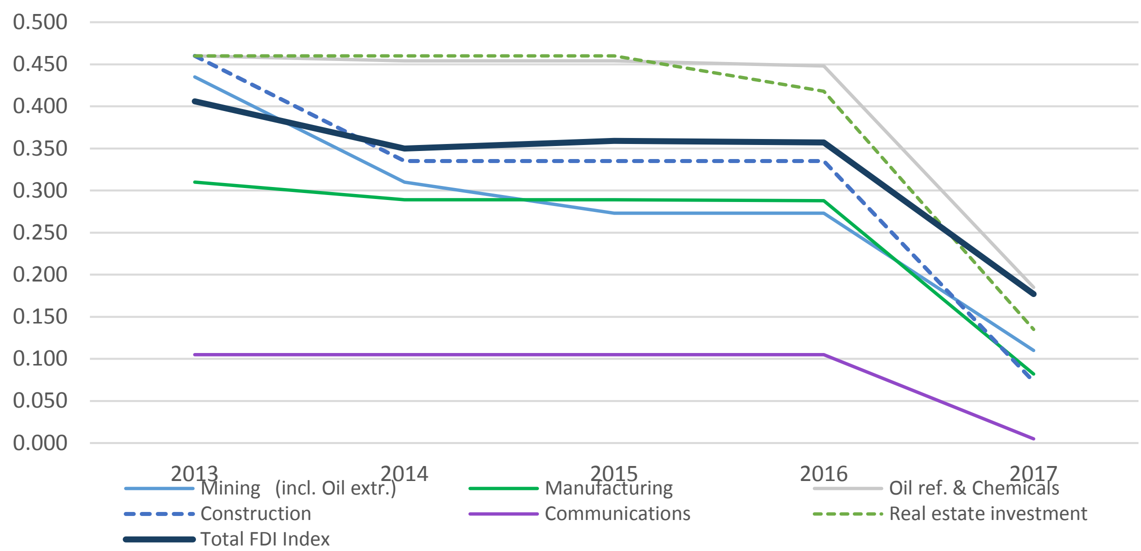
With regard to the new Company Law, the amendment process, started from 2014, actively invited public comments from the initial stage providing workshop opportunities to exchange public views. Triggered this event, the draft amendment was open to the public through website, and a number of public consultations and public hearing were held. The revisions were made five times before the Cabinet approval.

As demonstrated in the formulation process of two laws above, which are not exceptional but well noticeable, it is observed that the entire exercise was conducted under the steady initiatives of GOM in the process of "virtuous circle" of transparent policy formulation and implementation where the inclusive and participatory consultation was held with the stakeholders especially the private sector.

3-3-4 Doing business ranking

The Myanmar's ranking for "starting a business" category in the World Bank's Doing Business Ranking by the World Bank improved from 189th place in 2015, 160th in 2016 to 146th in 2017. However, it slipped back to 155th in 2018. Improvements in the Regulatory Restrictiveness Index (RRI) by OECD between 2013 and 2017 are remarkable with a 56 percent improvement in overall FDI, a 73 percent improvement in the manufacturing industry and a 95 percent improvement in the communication sector, where the private sector participation in the mobile communication business was recently allowed. (Figure 7)

Figure 7. Trends of OECD FDI Regulatory Ristrictiveness Index



Source: DAC, OECD

3-3-5 BER support programmes and investment – a mapping exercise

In order to grasp the overview of BER related supporting programmes in Myanmar, an overall review was conducted on Technical Assistance (TA) projects of mainly DCED member agencies through the website databases. The number of projects implemented or on-going in Myanmar since 2000 exceeded 500, of which those with connection to BER were 108, about one fifth of the total. These projects do not include loans, grants, assignments of experts, and training programmes, and projects undertaken by non-DCED members are also not included.[26]

BER related projects were selected including ones with indirect aspects of BER in the policy areas as in Table 3. Even in the cases where classification codes and keywords are attached to specific sectors or purposes other than BER, we included them as BER projects when project abstract suggests the contribution to, or a relationship with BER. In addition, there are projects that cut across several functional areas defined in DCED's Donor Guidance or that tackle issues indirectly related to a functional area in pursuing the project purposes. For this reason, we examined the relationships of the projects to BER by focusing on the project contents mainly from the perspectives of private sector development, policy support, legal and regulatory reforms, financial sector, and labor market. For example, among private sector development cases, even if the main purpose of a project is for the support of a specific enterprise, there are not a number of cases where the project also aims for the ripple effects on regional development and the support of the entire sector with the need for a specific BER through project activities and recommendations. Similarly, a project on macro policy may make proposals on tax related BER or may require a revision on investment law. It is also important to understand the policy direction of the Ministry of Finance and Planning and DICA in selecting BER projects to include in the mapping exercise.

[26] This study focused on TA projects, as their data were clearer in terms of connection to BER. While TA projects are the main modality of support for BER, others including loans, grants and assignments of experts should be included in future studies.

Table 3. BER Related Projects by Supporting Area

Number of major BER related Projects to Myanmar

	Listed #	BER related #	Policy related Project	Gov. Measures Suport	Financial area Project	PSD	Labour/TVET	Study
ADB	67	24	14	1	4	3	2	
DFID	64	9	1	2	3	3		
GIZ	18	5	1		1	1	2	
IFC	75	12	2	4		6		
ILO	28	15				5	10	
ITC	5	5				1		
JICA	75	12	5	1	3	1	2	
UNDP	51	4	4					
USAID*1	106	8	2	3		3		
WB*2	21	6	1	1	1	3		4
UNCTAD	8	8		8				
Total	518	108	30	20	12	26	16	4

Legend: Policy related：Economic Policy, Trade Policy, Investment Policy
Governance, Legal System, Tax System, Other Institutional Systems
Financial System and Sector Support
PSD：Promotion of Trade and Investment, SME Promotion, specific sector promotion
Labour Environment, Schemes, HRD/TVET

*1: adjusted on total number of 432 including annual count and administration cost
*2: total number originally 63 since 1956 - number on the list is after 2000

Table 3 gives a summary of the 108 projects by supporting area and by donor agency (A more detailed timeframes of support programmes is given in Annex 2). A large proportion of those projects (just under 30%) are policy related, followed by legal and tax reforms accounting for 20%. Thus, those supporting programmes for development of plans, policies, and laws provided an environment where the surge in FDI occurred beginning in the early 2010s.

The timeframes of the projects show that those supporting policy and administrative measures started first, those for private sector development began slightly thereafter along with the private sector support, followed by the projects supporting the financial and labour reforms. The order is observed of showing the direction by policy first, then supporting private sector development based on the policy, and finally tackling the issues of administration and finance.

Sustained announcements of benchmarking policies and laws and donor programme supporting them provided a clear sense of direction, and this sense of direction was supported by technical support. This structure created a virtuous circle providing predictability to the investors and led stable investment.

As a side note, looking at the distribution of projects by sectors, we recognize the tendency that UNDP, ADB, DFID and JICA have supported more projects on policy, while IFC, ILO and GIZ supported more projects on issue-oriented aspects such as private sector development and labour. Such an observed trend is based on TA projects related to BER in this case study. In the future further studies may include not only TA projects but also other modalities, to examine if the same tendency could be recognised.

On the occasion of the Myanmar Development Effectiveness Roundtable in March in 2018, it was expressly indicated that the framework for coordination established between the Government and the donors will remain unchanged in the future. The investors consider this framework to reflect the government's stance that they will take responsibility for coordination, enhancing the "predictability" of GOM policy stance.

3-3-6 Other support programmes

In addition to international development partners, Chambers of Commerce and Industry of Japan, US and EU together with the Government of Myanmar and the Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) contribute to BER. The business community plays an integral role in the "virtuous circle" of coordination and closely cooperates with the respective government and development agencies, which is critical to making the virtuous circle functional and sustainable. In some cases, initiatives of the business community triggers new donor support programmes, creating synergy towards expansion of business and investment opportunities.

3-3-7 What the case of Myanmar suggests

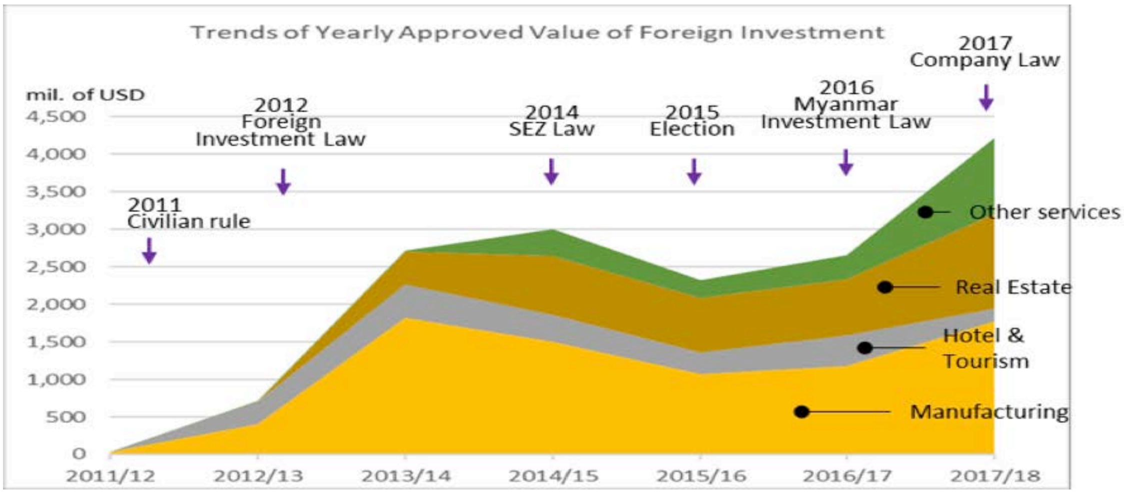
Among the support programmes for BER, there are a number of projects which actually regard BER as a means and process to achieve further objectives such as investment promotion, private sector development and export/trade promotion. This case study has not allowed for individual project analysis. However, few projects were found dealing with BER alone. Most BER-support activity was contained in broader PSD and investment and trade promotion programmes. Thus, it appears that the synergistic outcomes of these combined programmes may have brought about effects for the increase of investment.[27]

Nonetheless, the dynamic links and hence the causality between BER-support programmes couched in broader policy objectives and investment levels remain a challenge to prove. It is also difficult to know how best to evaluate the investment effects of these programmes. We should not be misled by the transient investment increases as a result of the time-bound projects, e.g., construction of power generation facilities, infrastructure development of new oil field. For this survey purpose, we should distinguish the outcomes of the policies and measures that are connected to "investment attraction" from transient outcomes. It would be possible then to assess with conventional indicators whether BER support programmes have effects on the investment increase.

On that basis, there is a *prima facie* case in Myanmar for the positive impact of BER reforms in the legal and regulatory framework and the effective coordination by GOM with the donor community and the private sector in policy development and implementation on the acceleration of investment and growth. There was a clear increase in the amount of FDI in the early 2010s under the new investment laws and the growth accelerated along with it. (Figure 8)

[27] The DFID's project information disclosure on its web-site carries a well-presented chart to explain the proportion of addressed sector (issue area covered) in each project.

Figure 8. Myanmar: BER Milestones and Trends of Foreign Investment



Source: Figure 5, Tables 1 and 2

Note: The data omit bulky investments in sectors such as oil& gas, power, and telecommunications which are related to the project cycles and thus present "noise" in the assessment of investment climate.

The case study also showed that FDI in manufacturing and services rose and stayed at a level higher than the neighboring countries since the early 2010s and that concurrently assistance programmes by donors and development agencies surged to support GOM in a holistic approach combining BER and structural reforms for market reforms and institution building. The study showed that GOM kept sending out policy messages of commitment to the consistent stance toward the preservation or enhancement of "investment attraction" and that this stance contributed not only to investor perception of predictability but also to formulation of harmonious support programmes in a "virtuous circle" of coordination among GOM, the donor community, and the private sector.

4. Hypotheses

In search of viable hypotheses, this study assessed the policies and reforms implemented, focusing on;

a) the government priorities and the way the donors' support programmes dovetail with them,
b) the effectiveness of donor coordination,
c) whether the support programmes are tailored to the investment attraction (fundamental factor attracting investment, both FDI and domestic,) and
d) whether the reforms take into account the continuous phases of the investment lifecycle (i.e. whether or not business sustainability is supported by liberal markets for finance, foreign exchange, and labour as well as dispute resolution mechanisms).

The study came away with the following hypotheses, which will hopefully be corroborated by other country cases in the future.

4-1 Hypothesis 1: A holistic approach

Macro level investment and growth require a holistic approach combining BER and investment promotion and a broader macro development policy framework aimed at structural reforms.

First, let us define BER and investment promotion in relation to structural reforms. While growth occurs through capital accumulation, employment growth and technological progress at the macro level, it is efficiency gains at the micro and meso levels that lead to the reallocation of factors of production from low to high productivity firms, clusters and sectors. This structural transformation gives rise to total factor productivity improvements. This is particularly relevant to developing countries in achieving a rapid growth and labour productivity gains conducive to poverty reduction. In Ethiopia, a large measure of the robust growth in recent years (one third) is said to be due to total factor productivity increases. This factor is critical in determining the future growth path of the country.

While structural reforms such as liberalization or industrialization are intended to fundamentally drive structural transformation, BER involving regulatory reforms and factor market reforms facilitate the process of reallocation of factors of production by reducing transaction costs and improving market efficiency. As such structural reforms and BER are complementary and can be two sides of the same coin. In both Ethiopia and Myanmar growth spurts in recent years were initiated by deep structural reforms. This included the opening up of markets, liberalization of trade and investment, industrialization, and government commitments to those reforms. BER and investment promotion measures in general, and especially legal and regulatory reforms, were an important part of these reforms. In Ethiopia, the framework for industrialization included GTP II for a vision and plan, legal and regulatory reforms to incentivize FDI, establishment of IPs with strategic policy support, and further liberalization of trade and investment in the future.[28]

It is important to note that in both Ethiopia and Myanmar BER and structural reforms were often found to be embodied in the same policy actions. For instance, legal and regulatory changes were necessary to operationalize certain structural reforms as in Myanmar in the early 2010s. Allowing foreign private operators in the mobile communications sector was a structural reform intended to introduce competition and superior technology and expand the communications sector.

[28] It is noted that the structural adjustment programs beginning in the 1980s driven by Washington consensus often resulted in unintended consequences due to inadequate policy design, premature liberalization, contraction of public services, and the implementation limited by political economy. It is important to learn lessons from those experiences. Structural reforms for industrialization/liberalization are fraught with risks but offer developing countries tremendous benefits of globalization if the reforms are carefully designed, owned, and sequenced with development of domestic institutions. BER support programmes should be instrumental in that endeavor.

The reform was operatively accompanied by relaxation of licensing rules for foreign operators. This nexus makes a causality test elusive if one tries to focus on either BER or structural reform separately. A test may be more tractable if run with respect to the combination of the two.

In that spirit, the findings of the case studies would clearly support a counterfactual that, if either of BER and structural reforms had been missing in Ethiopia and Myanmar since the early 2010s the impacts on FDI and growth momentum would have been substantially compromised.

Thus, Hypothesis 1 is confirmed: Macro level investment and growth requires a holistic approach that combines BER, investment promotion, and structural reforms. This includes a need for a broad macro development policy framework to guide structural reforms within which BER programmes can be formulated and monitored.

4-2 Hypothesis 2: Replication of good practices

Direct support to new and nascent firms and industries, an important part of donor support for BER and investment promotion, should pay particular attention to replication of demonstrated good practices stemming from the supported domestic firms as well as from FDI.

Direct support to sectors, clusters, and firms by donors is often provided through technical assistance sometimes accompanied by fiscal and financial incentives offered by the government. Important as it may be as a way to nurture nascent firms and industries direct support faces many challenges. These include the limited scale of impact relative to economy wide policy goals, fiscal costs and the moral hazards of vested interests and possible rent seeking activities. Rather than focusing on a few firms that benefit from individual supports, a sharper focus is needed on industry-wide incentives and responses by private investors at large.

The key is that good practices demonstrated by the supported firms as well as FDI is replicated widely by SMEs as well as large investors and stimulate domestic investment on an economy wide scale. Thus, direct support to firms such as matchmaking FDI and local firms and direct supports to priority firms including JICA's Kaizen programs may be combined with vertical and more systemic supports. Therefore, a broader policy directly addressing fundamentals for domestic investors is called for as well as establishing linkages with FDI. Such a policy may take the form of industrial policies which provide vertical [29] interventions focused on specific sectors, subsectors, and clusters and encompassing labour market reforms, infrastructure development, access to finance, and business development and innovation services.[30]

It is noted that spillovers of FDI depend on multiple and interdependent characteristics of multi-national enterprises (MNEs) and characteristics of the host countries, rendering the causality analyses difficult. However, extant literature is conclusive of positive spillover effects in the backward linkages between MNEs and local suppliers especially if the ownership is shared. In addition, the absorptive capacity on the part of local firms is key. In Ethiopia, backward linkages to raw materials (cotton, leather and other agricultural products) hold out great potential for spillovers.

Thus, Hypothesis 2 is confirmed: While direct support to new and nascent firms and industries may be used to stimulate increased private investment flows, BER and investment promotion initiatives should focus on systemic improvements. As government and market systems are transformed, the private sector is encouraged to replicate good practices within firms and industries.

[29] Sector-specific as opposed to horizontal for economy wide reforms.
[30] DCED (2013, 2016)

4-3 Hypothesis 3: Commitment to investment attraction

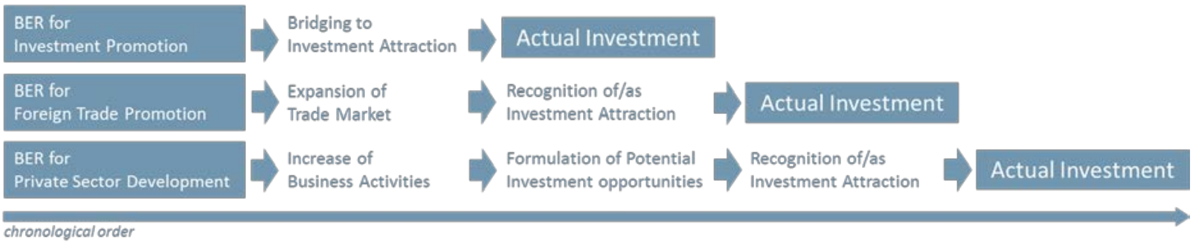
Tailoring and navigating supporting programmes for BER and investment promotion to "investment attraction" will contribute to the increase of investment.

"The supporting programmes on BER should contribute to the increase of investment, when they are addressed to "investment attraction" and where it is predictable" - which was one of the major foci at the starting point of this study.[31] "Investment attraction," defined as the "fundamental factors which attract investors." Investment attraction in the case of Myanmar may be enhanced by the second generation reforms geared towards further liberalization to reap the potential benefits from participating in the global value chains given its geographical proximity to China, India, and ASEAN as well as the population dividends and competitive wages. In Ethiopia government commitments to reforms and FDI oriented industrialization supported by infrastructure investments in the establishment of IPs as well as the competitive wages and energy costs are the fundamental elements of investment attraction.

It is observed that BER, a subset of investment climate according to DCED (2008), is often couched in a broader context encompassing related policy objectives such as private sector development including export promotion. Considering that PSD is the core component of the broader policy framework and often contributes to investment promotion, it is vital to have a clear idea how the improvement of PSD policy links to BER and theinvestment climate. PSD specific BER and investment climate may include access to finance and foreign exchange, skills development, labour market reforms, infrastructure development, and business development and innovation supports. The transmission of the effects of those reforms to investment generation would be most effective if they are benchmarked to export promotion and PSD policies and are navigated by governments with the fundamental strategy for investment attraction.

Figure 9 illustrates possible stylized paths of the transmission taking into consideration time lags and steps involved. It would be important to understand the transmission routes and plan and navigate the implementation of BER and investment promotion in a holistic approach.

Figure 9. Time lags and different steps of BER supporting programmemes to actual investment



Source: Consultant team

4-4 Hypothesis 4: A virtuous circle of coordination

Donor support is effective where the coordination is made dynamic and relevant to the requirement and evolvement of the recipient country's policy priorities.

There are different levels of donor coordination, ranging from a light touch to something more profound. Light touch coordination includes general information sharing and avoidance of duplication and division of labour based on donors' comparative advantages. For instance, we

[31] JICA (2018)

observed in the questionnaire survey a number of instances of multi donor coordination wherein the coordination mainly takes some form of funding arrangements between donors and implementers (e.g. the implementer being IFC). A somewhat more profound coordination is where main donors (e.g. WB) are complemented by funding donors (e.g. DFID and some European donors) and supported by others offering technical assistance in specialized fields (e.g. ILO). The three-layered group as a whole could constitute an effective coordination platform. We also noted that there is potential synergy to be created in the case of Ethiopia by balancing support for governance and social and environmental standards (e.g. by European donors) with focus on quality control and productivity improvement (e.g. by JICA) as they are complementary and both are essential for sustainable development and operation of IPs (and some initial attempts are observed).

What we would advocate in this study, however, is a more proactive donor coordination under an integrated assistance strategy contextualized in a given country. We have argued that in Ethiopia GOE's priority of private sector led industrialization should be supported by coordinated efforts by the donor group centering on the IPs but also encompassing further BER and second generation reforms of liberalization and deregulation of a still tightly controlled market system including liberalization of trade and investment in services. In such an approach, a lead donor or donor group would conduct intensive dialogue with the government and stakeholders and establish a platform for donor coordination including division of labour. A similar form of coordination already exists in Ethiopia which is co-chaired by the Ministry of Industry and a donor by turns although the system has been inactive lately due to institutional reorganizations.

In Myanmar a "virtuous circle" of reforms was observed which exemplify a good practice of donor support and coordination. The government keeps sending out messages of its consistent policy stance toward enhancement of "investment attraction," supported by donor projects formulated in harmony with that policy stance, which leads to predictability and maximum impacts on investors. This lends credibility in turn to the coordinated approach to BER and investment promotion. The virtuous circle is predicated on the recipient country government leadership as well as the involvement of private investors in close and continuous policy dialogue.

5. Conclusions and Policy Recommendations

5-1 Conclusions

There are two main conclusions of this study:

5-1-1 A causality test of the effect of BER on macro level investment

The proposition that BER and investment promotion lead to investment generation on an economy wide scale leading to concomitant growth and poverty reduction was tested in the two specific country case studies. A causality test was run through detailed empirical analyses. The test showed that macro level investment data both on FDI and domestic investment exhibited clear surges coinciding with BER and investment promotion efforts with a strong nexus to the concurrent structural reforms in the two countries, which is consistent with Hypothesis 1 (a holistic approach).

The two cases displayed a close nexus of BER and structural reforms. The nexus consists of a supporting role of BER for structural reforms and a more proactive role of moving the reforms as in legal and regulatory reforms operationalizing the reforms. Both countries appear to present a strong nexus between BER and structural reforms. In Ethiopia there was a shift of growth paradigm for industrialization led by the state. In Myanmar there was a transition to a market-based economy under new civilian rule. Causality of BER and FDI needs to be assessed in that contest.

Ethiopia: The nexus of BER and structural reforms have been made stronger through government policy and commitment to a broad policy framework combining BER and structural reforms. For instance, industrial parks offer incentives for FDI to develop light manufacturing. This is a structural reform (i.e., promoting the transition from subsistence agriculture and services to light manufacturing and for export). At the same time, BER, such as one stop shop within IPs and targeted infrastructure services provides a means for FDI to reduce compliance costs and to have preferential access to infrastructure services.

Myanmar: FDI and donor supported reforms coincided beginning the early 2010s, suggesting causality between the two. Myanmar's BER may have a stronger nexus with structural reforms as it is in transition to a market-based economy. For instance, liberalization of capital controls that introduced private operators into the mobile communications sector was both a structural reform and a regulatory reform. This type of low hanging reform opportunities may be abundant in the period of transition, but perhaps not in the long run.

The timely surges in investment and the concurrent structural transformation strongly support the causality proposition. The impact is in the right direction, but the case studies showed that it falls short of macroeconomic targets set by the national development plans and SDGs.

5-1-2 Dynamic links to macro level investment and implications for BER and investment promotion

BER and investment promotion, intended to make an impact on macro level investment, employment, growth, and poverty reduction have a long process to go through as in Figure 10 on Dynamic Links of Reforms to Impacts. The case studies showed some initial signs of desired structural transformation pursued in a holistic approach. However, for material impacts to macro level goals commensurate with SDGs would require further structural reforms and BER.

Figure 10. Dynamic Links of Reforms to Impacts

Source: Consultant team conceptualization

The conclusions of this study regarding the dynamic links are:

First, **BER can be used to catalyse structural transformation:** The case studies show clear signs of investment generation at the macro level and desired structural transformation at the micro and meso levels. So, the initial catalysis process as in Figure 10 is strongly supported.

Second, **BER can be used to enhance the transmission effects of industry reforms:** Business environment reforms that create firm-level changes are transmitted through FDI linkages, industry development programmes and the replication of good practices by domestic firms and industries to macro level impacts. However, the case studies showed that the transmission process is still in its early stage and in order for material impacts to macro level goals commensurate with government development plans and SDGs to take place there is still a long way to go in terms of further BER and second-generation structural reforms. While first generation reforms involved fundamentals of the regulatory regime and market reforms, second generation reforms are to be more proactive in learning, innovation, and structural transformation. It needs to encompass an appropriate macroeconomic policy framework of structural reforms and a strategic approach consisting of, e.g., direct support to firms, industrial policy, linkages between FDI and local firms, and education in the long run.

5-2 Recommendations for future BER and investment promotion

This study concludes with the following recommendations for support programmes for BER and investment promotion:

- **A Holistic Approach:** BER and investment promotion should be integrated into a broader policy framework for structural transformation which is consistent with the national development plans underpinned by growth diagnostics and micro and meso data and analyses in individual developing countries. (Hypothesis 1)
- **Second Generation Reforms:** To sustain structural reforms as in further liberalization and market reforms. For both Ethiopia and Myanmar, first generation BER and structural reforms focused on the fundamentals of legal and regulatory reforms and privatization and liberalization of markets. Second generation reforms should be strategically more proactive in investment generation. In Ethiopia, the still pervasive trade and capital controls should be addressed among others by liberalizing trade in services to begin with. In Myanmar, after an initial round of BER centering on legal and regulatory development a more proactive industrial policy may be in order aimed at participation in global value chains taking advantage of the geographical proximity to China, India and other ASEAN Countries. (Hypothesis 1)
- **Transmission of Reform Outcomes:** To catalyze domestic investment through linkages with FDI in its supply chains and replications of good practices via the transfer of superior technology and skills. A combination of BER intended to improve the general conditions for

doing business and a vertical intervention via sector-, subsector-, cluster-specific industrial policies, infrastructure development, and business development and innovation supports as well as will help the transmission of initial effects of reforms to economy wide impacts. (Hypothesis 2)

- **Investment Attraction:** To design and navigate the implementation of BER tailored to investment attraction by customizing and benchmarking the BER to the concurrent reform goals such as PSD, including export promotion. (Hypothesis 3)
- **A Virtuous Circle of BER Implementation:** Establish an ideal government/donor/investor coordination as in Myanmar consisting of the government commitment to investment attraction and thus signaling, support programmes tailored accordingly, and investor response reinforcing the government commitment. (Hypothesis 4)

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Annex 1: Table on Ethiopia: Support Programmes for BER and Investment Promotion by Agency

Functional Areas	*IDA*	*IFC*	*DFID*	*UNIDO*	*JICA*	*GIZ*	*SIDA*
a. Simplifying business registration and licensing procedures		Ethiopia Investment Climate Programme - Commercial Registration and Business Licensing Proclamation			Industirial Promotion Project in Ethiopia - Improving registration and licensing processes		
b. Improving tax policies and administration		Ethiopia Investment Climate Programme - Income Tax Proclamation and Tax Administration Proclamation					
c. Enabling better access to finance	SME Finance Project - Support for SME finance and provision of bank instruments for SME-IP linkages		Private Enterprise Programme for Ethiopia - Access to finance				
d. Improving labour laws and administration							
e. Improving the overall quality of regulatory governance							
f. Land titles, registers and administration						Sustainable Land Management	
g. Simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms							
h. Broadening public-private dialogue process with a particular focus on including informal operators, especially women		Ethiopia Investment Climate Programme - Ethiopian Public Private Consulting Forum		Programme for Country Partnership for Ethiopia - International Agro Industry Investors Forum	Women Entrepreneurship Development Project - Support for SMEs owened by women; Pulbic Private Dialogue - Community dialogue for tourism development	Public Private Dialogue - Dialogue with businesses	Private Sector Hub - Support for research, advocacy, and policy support through the Chamber system
i. Other	Competitiveness and Job Creation Project - Supports development of industrial parks focusing on Bole Lemi II and Kilinto Industiral Parks; National Quality Infrastructure Development Project - Improves quality assurance services to enterprises in targeted sectors; Trade Logistics Project - Improves services at Modjo Dry Port on Ethiopia-Djibouti Corridor; Economic Opportunities Project, 2018 - Supports the environmental, social, financial sustainability of industrial parks	Ethiopia Investment Climate Programme - Trade logistics and Investment policy	Private Enterprise Programme for Ethiopia - Direct support for priority sectors	Programme for Country Partnership for Ethiopia - Support for GTP II; Integrated Agro Industrial Parks; Modjo Leather City	Industirial Promotion Project in Ethiopia - Policy dialogue; FDI promotion; industrial parks; Management capacity development; Support for KAIZEN programme development in the public and private sectors through Ethiopia Kaizen Institute	Promotion of Sustainable Forest Products from Biosphere Reserves - Capacity Building in Education Sector	

Source: Compiled by author with data from the agencies websites

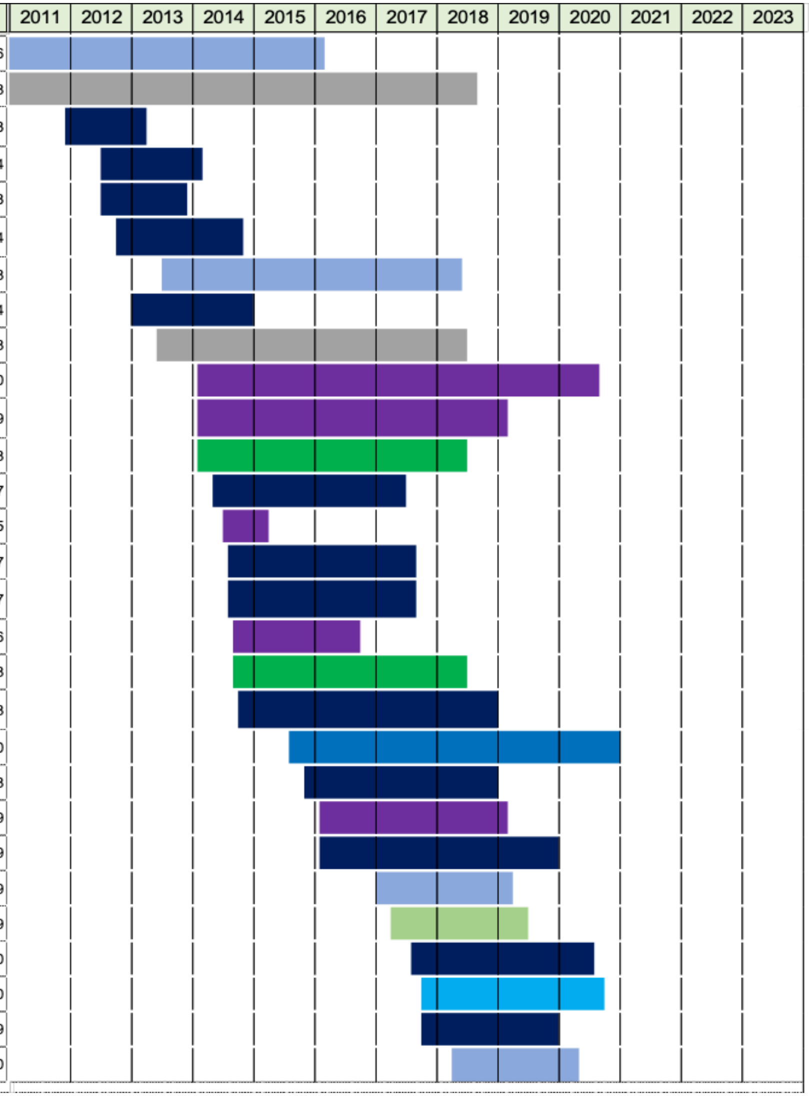
Table on Ethiopia: Support Programmes for BER and Investment Promotion by Agency (Cont.)

Functional Areas	**FAO**	**USAid**	**ILO**	**EU**	**The Netherlands**
a. Simplifying business registration and licensing procedures					
b. Improving tax policies and administration					
c. Enabling better access to finance					
d. Improving labour laws and administration			Improving Industrial Relations for Decent Work and Sustainable Development of Textiles and Garment Industries in Ethiopia - Promotes compliance of labour and social standards.		
e. Improving the overall quality of regulatory governance					
f. Land titles, registers and administration					
g. Simplifying and speeding up access to commercial courts and to alternative dispute-resolution mechanisms					
h. Broadening public-private dialogue process with a particular focus on including informal operators, especially women					
i. Other	Integrated Agro Industrial Parks Initiative - Seventeen IAIPs will be constructed with four pilots already under construction; Business Plans Specific Crops; Gender Sensitive Value Chain Development.	East Africa Trade and Investment Hub - Facilitates new investments to promote trade with global markets, especially under African Growth and Opportunity Act (AGOA).		Transformation Triggering Facility - supports investment promotion and export promotion; Trade Enhancement an Facilitation Programme - supports customs capacity building and supports negotiations for membership with EPA and WTO.	Ethiopia-Netherlands Trade for Agricultural Growth - supports horticulture and agro processing; Dutich Good Growth Fund - supports Dutch SMEs and local firms in Ethiopia.

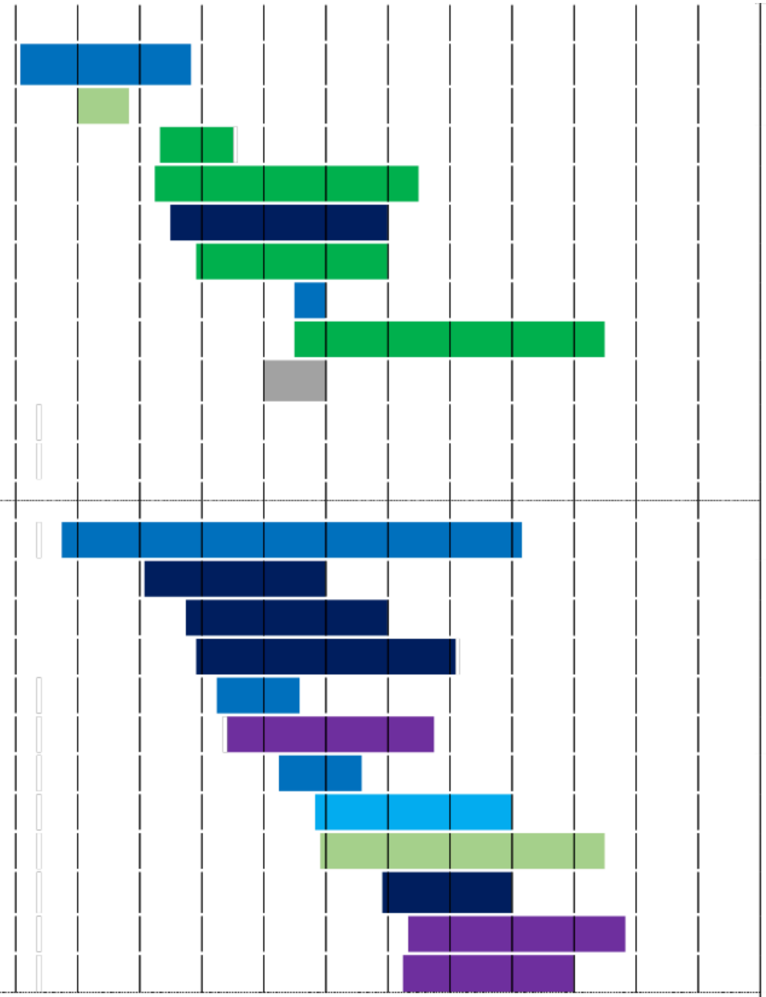
Source: Compiled by consultant team with data from the donors’ website

Annex 2: Myanmar – Timeframes of BER Support Programmes by Policy Area and Agency

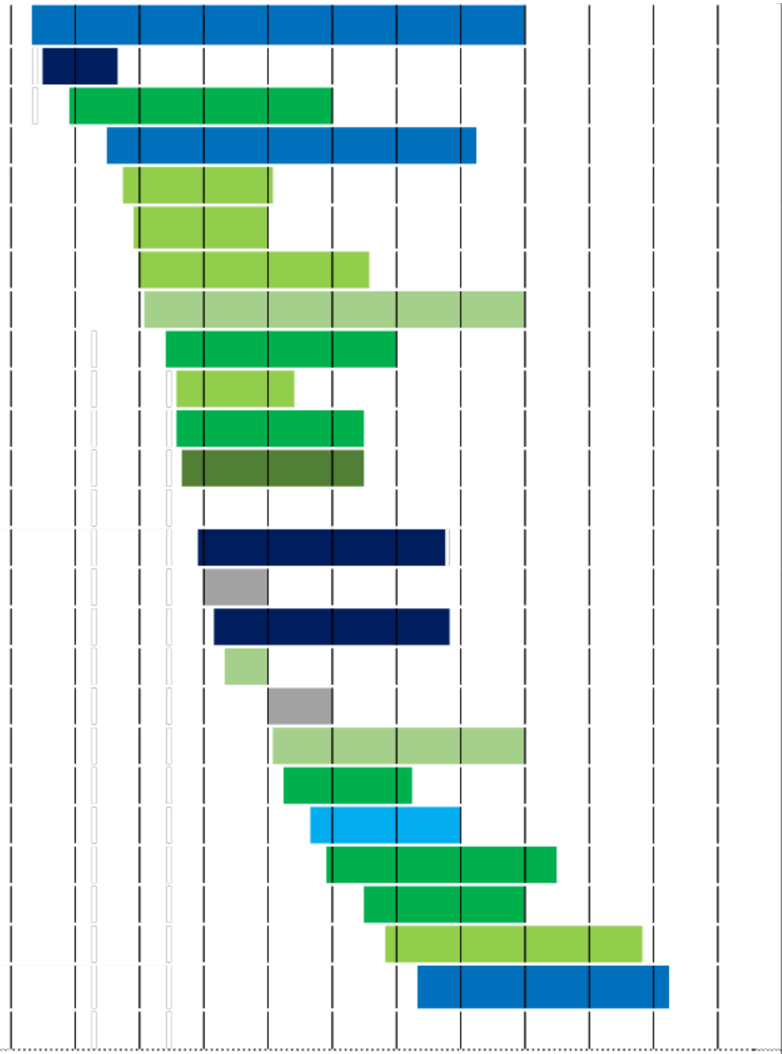
1	2	4	5	6
Policy related Projects	8 UNDP	Dfid Support to Policy Unit	Dec-2005	Feb-2016
	9 USAID	ASEAN Single Window (ASW)	Feb-2008	Aug-2018
	1 ADB	45326-001: Support for Regional Multisector Investment Framework for Greater Mekong Subregion Development (Phase 1)	Dec-2011	Mar-2013
	1 ADB	46276-001: Support for Improving the Business Climate	Jul-2012	Feb-2014
	1 ADB	46275-001: Support for Trade Policy Development	Jul-2012	Nov-2013
	1 ADB	46269-001: Trade Facilitation Support for ASEAN Economic Community Blueprint Implementation (Myanmar)	Oct-2012	Oct-2014
	8 UNDP	Development Effectiveness	Jan-2013	May-2018
	1 ADB	46372-001: Support for Myanmar's Reforms for Inclusive Growth	Jan-2013	Dec-2014
	9 USAID	AEAN Connectivity Through Trade & Investment (ACTI)	Jun-2013	Jun-2018
	7 JICA	Project for Modernizing the Funds Payment and Securities Settlement Systems in Myanmar	Feb-2014	Aug-2020
	7 JICA	Project of Capacity Development for National Single Window and Customs Modernization by Introducing Automated Cargo Clearance System in Myanmar	Feb-2014	Feb-2019
	4 IFC	Investment Policy	Feb-2014	Jun-2018
	1 ADB	47268-001: Strengthening Institutions for a Better Investment Climate	May-2014	Jun-2017
	7 JPN	Study on Industtrial Promotion Support Plan in Myanmar (unofficial translation)	Jul-2014	Mar-2015
	1 ADB	46191-001: Strengthening Trade Facilitation in the GMS through Partnerships with the Private Sector	Aug-2014	Aug-2017
	1 ADB	46192-001: Strengthening Institutional Knowledge and Capacity of Customs Administrations for Trade Facilitation within the Association of Southeast Asian Nations	Aug-2014	Aug-2017
	7 JICA	The project for capacity building of Thilawa Special Economic Zone Management Committee	Sep-2014	Sep-2016
	4 IFC	Investment Climate	Sep-2014	Jun-2018
	1 ADB	44174-032: Support for Implementing the Action Plan for Transport and Trade Facilitation in the Greater Mekong Subregion (Subproject 2)	Oct-2014	Dec-2018
	2 DFID	Business for Shared Prosperity in Burma	Aug-2015	Dec-2020
	1 ADB	48122-001: Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas	Nov-2015	Dec-2018
	7 JICA	Project for Strengthening of Industrial Promotion Functions	Feb-2016	Feb-2019
	1 ADB	49287-001: Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate	Feb-2016	Dec-2019
	8 UNDP	Joint Monitoring Committee Support Platform	Jan-2017	Mar-2019
	10 WB	First Macroeconomic Stability and Fiscal Resilience DPO	Apr-2017	Jun-2019
	1 ADB	50173-001: Support for Strengthening Business Climate	Aug-2017	Jul-2020
	3 GIZ	Capacity Building for the Implementation of Sustainable Development Goals	Oct-2017	Sep-2020
	1 ADB	51178-001: Sustaining the Gains of Regional Cooperation in the Greater Mekong Subregion	Oct-2017	Dec-2019
	8 UNDP	Corporation Partners' Group (CPG) Secretariat	Apr-2018	Apr-2020



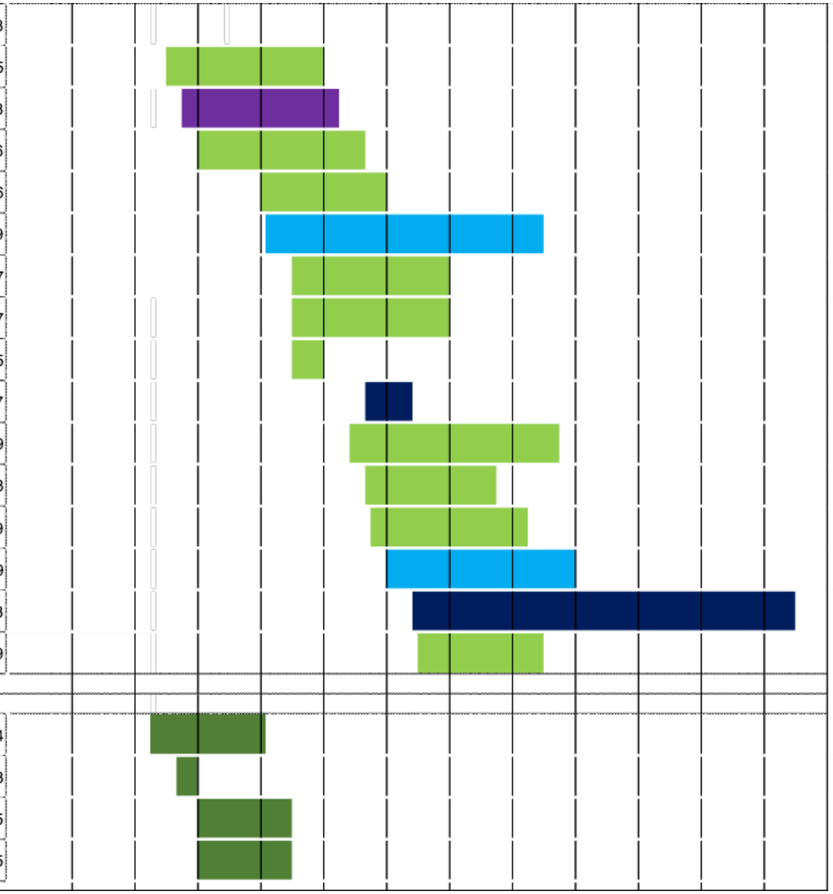
Gov.Admi.	7 JICA	Strengthening the Capacity of Central Statistical Organization of the Union of Myanmar	Oct-2005	Oct-2007
	2 DFID	Support to the International Financial Institutions to conduct work on the economic opportunities and challenges for Burma	Feb-2012	Oct-2014
	10 WB	MM-Reengagement and Reform Support Program	Jan-2013	Oct-2013
	4 IFC	Myingyan IPP	Mar-2014	Jun-2015
	4 IFC	A2F - Myanmar CB	Apr-2014	Jun-2018
	1 ADB	47267-001: Support for Public-Private Partnership Framework Development	Jul-2014	Dec-2017
	4 IFC	Myanmar MF	Dec-2014	Dec-2017
	2 DFID	Delivering good governance in Burma's financial sector through the launch of a good governance toolkit	Jul-2016	Dec-2016
	4 IFC	Secured Transactions Framework	Jul-2016	Jun-2021
	9 USAID	Inter-Agency Agreement (IAA) with the U.S. Department of Commerce for Commercial Law Development Program (CLDP) activities	na	
	9 USAID	IAA between the Department of Treasury and USAID	na	
	9 USAID	Policy Environment for Micro and Small Enterprises	na	
Financial	2 DFID	Accelerated Reform Facility (ARF)	Oct-2012	Feb-2020
	1 ADB	47159-001: Financial Sector Reforms	Feb-2014	Dec-2016
	1 ADB	48191-001: Strengthening Financial Management in Asia and the Pacific	Oct-2014	Dec-2017
	1 ADB	47291-001: Enhancing Roles of Supreme Audit Institutions in Selected Association of Southeast Asian Nations Countries	Dec-2014	Jan-2019
	2 DFID	Develop Burma's financial sector	Apr-2015	Jul-2016
	7 JICA	Project for the Development of Finance for Small and Medium-sized Enterprises	Jun-2015	Sep-2018
	2 DFID	Encouraging the liberalisation of the insurance sector in Burma	Apr-2016	Mar-2017
	3 GIZ	Banking and Financial Systems Development	Nov-2016	Dec-2019
	10 WB	Myanmar Financial Sector Development Project	Dec-2016	Jun-2021
	1 ADB	51253-001: Capacity Building Support to the Association of Southeast Asian Nations Financial Integration: Phase II	Dec-2017	Dec-2019
	7 JICA	Project for the Development of Finance for Small and Medium-sized Enterprises	Mar-2018	Oct-2021
	7 JICA	The Project on the Development of the Insurance Sector	Apr-2018	Dec-2019



Priv. Sector Dev.	2 DFID	PIDG Core Support to Private Infrastructure Development Group	Mar-2012	Dec-2019
	1 ADB	46271-001: Myanmar Tourism Master Plan	Jul-2012	Aug-2013
	4 IFC	ACLEDA MFI Myanmar	Dec-2012	Dec-2016
	2 DFID	Business Innovation Facility in Burma	Jul-2013	Mar-2019
	5 ILO	Promoting Freedom of Association in Myanmar	Oct-2013	Jan-2016
	5 ILO	Reinforcing capacities of the Government and social partners to build a Garment Sector industry development strategy	Dec-2013	Dec-2015
	5 ILO	Supporting Tourism in Myanmar through Business Management Training	Jan-2014	Jun-2017
	10 WB	MM: Telecommunications Sector Reform	Feb-2014	Dec-2019
	4 IFC	Fullerton MF	Jun-2014	Dec-2017
	5 ILO	Responsible Industry Development in the Garment and Fisheries Sectors in Myanmar	Aug-2014	May-2016
	4 IFC	Yoma	Aug-2014	Jun-2017
	6 ITC	NTF III Myanmar - Inclusive Tourism Focussing on Kayah State	Sep-2014	Jun-2017
	7 JICA	Project for Establishment of the Pilot Model for Regional Tourism Development	Nov-2014	May-2018
	1 ADB	48270-001: Mekong Business Initiative (MBI)	Dec-2014	Sep-2018
	9 USAID	Value Chains for Rural Development	Jan-2015	Dec-2015
	1 ADB	52108-001: Mekong Tourism Innovation	Mar-2015	Oct-2018
	10 WB	Myanmar EITI Implementation Grant	May-2015	Dec-2015
	9 USAID	The Private Sector Development Activity (PSD)	Jan-2016	Dec-2016
	10 WB	Myanmar EITI Implementation Project	Feb-2016	Dec-2019
	4 IFC	Myanmar Oriental Bank	Apr-2016	Mar-2018
	3 GIZ	Capacity Development for Private Sector Development	Sep-2016	Dec-2018
	4 IFC	Ag Input Reforms	Dec-2016	Jun-2020
	4 IFC	Get2Equal Myan	Jul-2017	Dec-2019
	5 ILO	Myanmar Entrepreneurship and Micro, Small & Medium Enterprise (MSME) Support	Nov-2017	Oct-2021
	2 DFID	PIDG (Phase II) Second phase of DFID's Support to the Private Infrastructure Development Group (PIDG).	May-2018	Mar-2022
	9 USAID	Transport Services		



Labor/ TVET	7 JICA	Project of Myanmar-Japan Center for Human Resources Development	Sep-2003	Aug-2008
	5 ILO	Improving Labour Market Data Sources in Myanmar thought support to the National Labour Force, Child Labour and School-to-Work Transition Survey	Jul-2013	Dec-2015
	7 JICA	Project of Myanmar-Japan Center for Human Resources Development (phase II)	Oct-2013	Mar-2018
	5 ILO	Developing the capacity of Employer organizations in Myanmar to promote Decent Work principles and sustainable enterprises	Jan-2014	Aug-2016
	5 ILO	Scaling Up: Skills For Trade & Economic Diversification (STED) Myanmar	Jan-2015	Dec-2016
	3 GIZ	Social and lobour standards in the textile and garment sector in Asia	Feb-2015	Jun-2019
	5 ILO	Supporting the Improvement of the Legal and Institutional Framework on Occupational Safety and Health in Myanmar	Jul-2015	Dec-2017
	5 ILO	Supporting the Implementation of Sustainable Social Protection Floors for Workers and their Families in ASEAN	Jul-2015	Dec-2017
	5 ILO	Towards a Mutual Recognition of Skills in CLM (Cambodia, Lao People's Democratic Republic and Myanmar) Countries for AEC2015 and Beyond	Jul-2015	Dec-2015
	1 ADB	48431-002: Preparing Youth for the Workplace Sector Development Program	Sep-2015	May-2017
	5 ILO	Improving Labour Relations for Decent Work and Sustainable Development in the Myanmar Garment Industry (ILO – GIP)	Jun-2016	Sep-2019
	5 ILO	Legal and Institutional Reforms for Improved Labour Market Governance (Myanmar Labour Market Governance Programme)	Sep-2016	Sep-2018
	5 ILO	Youth 4 OSH: OSH for Young Workers and Young Employers in Global Supply Chains—Building a Culture of Prevention	Oct-2016	Mar-2019
	3 GIZ	Strengthening the Vocational Training System	Jan-2017	Dec-2019
	1 ADB	48431-003: Equipping Youth for Employment Project	Jun-2017	Jun-2023
	5 ILO	Skills for Improvement of Livelihoods, Economic Opportunities and Security	Jul-2017	Jun-2019
Study	6 ITC	Needs assessment and project design: Piloting the methodology and boosting the project pipeline	Apr-2013	Dec-2014
	6 ITC	Project development: Enhancing export capacities of Asian LDCs	Sep-2013	Dec-2013
	6 ITC	Project Development: Myanmar Country Programme: Accelerating inclusive and sustainable export-led gr(1)	Jan-2014	Jun-2015
	6 ITC	Project development: Myanmar Country Programme: Accelerating inclusive and sustainable export-led growth	Jan-2014	Jun-2015



Source: Agency project files

Legend:

		Number of Projects Plotted
1 ADB		24
2 DFID		9
3 GIZ		5
4 IFC		12
5 ILO[*1]		15
6 ITC		4
7 JICA		12
8 UNDP		4
9 USAID		8
10 WB		6

[*1]: including co-finance of Norwegian Gov., SECO, Denmark, Korea SIDA, EU

Annex 3: Terms of Reference

DONOR COMMITTEE FOR ENTERPRISE DEVELOPMENT BUSINESS ENVIRONMENT WORKING GROUP

Business Environment Reform and Investment Promotion
Preparation of a Scoping Report
Terms of Reference

Introduction

Established by the Donor Committee for Enterprise Development (DCED) in 2002, the Business Environment Working Group (BEWG) serves as a platform for professional peers to share information and knowledge on donor-supported business environment reform in developing countries and to identify, promote and support good practices in this field. The BEWG strives to help agencies and their programme partners to strategically and effectively position business environment reform as a part of an integrated private sector development strategy and to enhance the synergies between these reforms and broader development objectives. While the BEWG primarily serves the interests of member agencies working in this field, it also endeavours to reach out to programme partners (i.e., developing country governments, business membership organizations and other civil society organizations), to directly learn from and contribute to the work of these actors.

The mission of the BEWG is to serve as a multi-donor platform for sharing knowledge, experience, and best practices in supporting business environment reforms. The BEWG supports its members in their efforts to deal with the political and technical challenges they experience in designing, managing, financing, and measuring business environment reform programmes.

Background

Developing country governments undertake business environment reform (BER) in order to grow their economy through increases in private investment flows. Often, these reforms are conducted in tandem with specific measures that envision the attraction of more private investment. This would include local (i.e., domestic) private investment and foreign direct investment (FDI). However, the links between BER and investment promotion, and the ways these interventions can be used to support and complement each other, have been under-explored. The BEWG will seek to understand these dynamics better, by reviewing donor and development agencies' efforts to support BER and promote private investment.

There are many publications on investment climate assessment and investment policy review, but they do not necessarily explore the link between BER and investment promotion in a systematic manner. Surprisingly, the large majority of empirical literature often presents a rather simplified nexus between the improvement of macro-level investment determinants in terms of overall business environment and the increase or absence of ensuing investment flows. In this sense, looking at investment promotion solely through macro-economic lenses may not do justice to the complex and intertwined nature of foreign and domestic investments and its respective contribution to social and economic development through its various meso- and firm-level impact channels. In this context, BER may also have to be seen in a new light, for example by incorporating spatial and agglomeration dimensions particularly in relation to the micro-level investment climate offered by industrial and, export processing zones as well as industrial corridors. Finally, the issue of often unreliable data on both domestic and foreign investments is a matter that cannot be ignored when analyzing the nexus between business climate reforms and the successes or failures of investment promotion.[32]

This report is expected to add value in this sense. The report will deal with FDI as well as domestic investment, which plays an important role but is often neglected. The report will also pursue how the

[32] For example, see Jerven, M. (2013). *Poor Numbers: How We Are Misled by African Development Statistics and What to Do about It*. Ithaca and London: Cornell University Press.

donor and development agency activities in this field contribute to improve the quality of investment and give proper impact on a recipient country's development.The DCED-BEWG will engage the services of a consultant to produce a report to map and assess the role of donors and development agencies in the area of BER and investment promotion in developing economies.

Objectives

The objectives of the study is to:

1. Map the range of donor and development agency support for BER which specifically seeks to increase foreign and domestic private investment in developing economies;
2. Assess the focus of BER and investment promotion support and instruments used for this purpose;
3. Review the ways in which donor and development agencies have endeavoured to measure the impact of BER and investment promotion on private investment levels and impact channels.
4. Develop case studies on good practices for donors and countries in their effort to attract, retain and expand FDI (DDI)

Recipient

The recipient of this work will be the BEWG and its members. Other donor agencies, development practitioners and governments interested in business environment reform and investment promotion may also benefit indirectly.

Activities

1. Consult (via email, Skype, telephone and face-to-face interview) with DCED member agencies on their efforts to promote private investment through BER;
2. Review programme documents, technical reports, policy papers, and any other relevant literature[33] on how BER and investment promotion have been used to supporting increased private investment;
3. Prepare a draft report for consideration by the BEWG;
4. Review the draft report based on comments received, and submit a final version.
5. Conduct a workshop (alongside a BEWG meeting) to disseminate the outcomes of the study and discuss the way forward.

Methodology and approach

The consultant will mostly base this report on a desk-based literature review, supplemented through email, telephone and Skype exchanges, as well as through face-to-face interviews with practitioners, donor agencies, and other stakeholders or researchers.

Output

The final report will contain the following:

- Executive summary;
- Introduction to the topic, overview and background, highlighting the key concerns for donor and development agencies and linking BER with investment promotion (including domestic and foreign investment);
- Contribution (i.e., evidence) of how BER has been used to support domestic and foreign investment promotion in host countries' development;
- Overview of the chronological evolution (i.e., mapping) of interventions by the DCED-donor community in this field;
- Classification of type of past and on-going interventions in this field;

[33] The consultant must consider literatures such as: Harding and Javorcik(2013) *Investment Promotion and FDI Inflows: Quality Matters*, CESifo Economic Studies; Harding and Javorcik (2011) *Roll out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows*, Economic Journal; Javorcik, B. S. (2014). *Does FDI Bring Good Jobs to Host Countries?* Policy Research Working Paper No. 6936, Washington D.C., World Bank Group; and Meyer, K. E. and Sinani, E. (2009) 'When and where does foreign direct investment generate positive spillovers? A meta-analysis'. *Journal of International Business Studies*, 40(7), 1075-1094.

- Mapping of donor and development agency activities (all DCED members) and identifying possible areas of collaboration, if any;
- Further detailed review for selected agencies (i.e. Task Team agencies);
- Analysis of methods and tools used;
- Analysis of the availability and quality of available databases to study the link between BER and investment promotion
- Review of results measurement used to capture BER and investment outcomes;
- Success factors and lessons learned;
- Recommendations for improving donor and development agency programmes;
- Annex (including donor activity matrix).

The report should be written in English and be at least 35 pages excluding Annex and Bibliography (12 point font). A set of power point presentation slides to deliver key points of the Report should be also submitted.

Timeframe and deliverables

Consultant contracted:	By the end of December 2017
First Draft Report (Inception report) submitted:	By mid-January 2018
Draft Final Report submitted:	By mid-May 2018
Consultation workshop:[34]	June 2018
Final Report submitted:	By the end of September 2018

Inputs and payment

The call for proposals is open to individual consultants as well as consulting firms. Financial offers should specify the number of workdays needed for completing the exercise as well as costs associated with the dissemination workshop.

Selection and contracting procedure

The consultants will be managed by the BEWG Task Team dealing with this work item.
The primary point of contact will be: Mr Toru Homma (JICA): Homma.Toru@jica.go.jp
JICA will select and contract the consultant, who will be covered by the JICA budget.
The workshop will be covered by the DCED Trust Fund.

Selection criteria

- Postgraduate qualification in economic, politics or social sciences;
- At least 10 years experience in designing, managing or reviewing donor-supported programmes in private sector development or business environment reform;
- Substantial experience in managing and presenting high-level research projects.

[34] Alongside BEWG meeting and the DCED Annual Meeting. These details are still to be determined.

Annex 4: Questionnaire and Donor Interview Responses

A Synoptic View of Donor Strategies and Support Programmes

Questionnaire and Donor Interview Responses

The questionnaire survey has been sent to nineteen agencies and there were eight questionnaires completed including two in their own formats. Along with the questionnaire survey the consultant team conducted ten donor interviews via skype/telephone.

Respondents:

1. Food and Agriculture Organisation (FAO)
2. German Technical Cooperation (GIZ)
3. Global Affairs Canada
4. International Labour Organisation (ILO)
5. Japan International Cooperation Agency (JICA)
6. Swiss State Secretariat for Economic Affairs (SECO)
7. United Kingdom Department for International Development (DFID)
8. World Bank Group
9. United States Agency for International Development (USAID)
10. Swedish Agency for International Development (SIDA)
11. United Nations Conference on Trade and Development (UNCTAD)
12. International Trade Center (ITC)
13. Organisation for Economic Cooperation and Development (OECD)

1. Strategy and Approach

Please give us a synoptic view of your agency's support programmes for business environment and investment climate reforms, covering scale, design, collabouration prioritization with respect to regions, themes, or sector.[35]

- ***UNCTAD*** estimates an annual investment gap of USD 2.5 trillion in developing countries in order to meet the SDGs. There is a strong role for private sector investment to play. Under SDG 8, job creation, skills development, and technology transfer through increased linkages forward and backward with MNEs and local (SME) enterprises are critical to ***ILO*** priorities. ILO has been working with IPOs, MNEs, and partner institutions over several years now, but the results are still not in. ***UNIDO*** designs and implements holistic interventions that are tailored for specified country needs, thereby offering integrated services to enhance investment promotion, industrial competitiveness and innovation for market access, economic growth and job creation. Typical interventions include complementary services from across the following six strategic thematic areas:
    - Improving the business environment;
    - Industrial modernization and SME clustering;
    - Mobilizing responsible investment and sustainable technology;

[35] These notes, compiled with excerpts from the agency responses to the questionnaire, interview outcomes, and reports and project documents, are summarized in a consultants' perspective. As such they are not meant to be exhaustive representations of the agencies' BER support programmes.

- Boosting innovation;
- Promoting quality and standards;
- Facilitating trade

- ***GIZ*** takes a systemic approach to BER and investment promotion aiming at development-oriented investment. Current investment incentive schemes are not sufficiently linked to a comprehensive investment strategy, aiming at employment generation, learning spillovers, and ensuring sustainability once the incentives expire. Moreover, incentive schemes do not sufficiently take into account negative externalities on environment and also often resulted in creating enclaves of traditional products reinforcing the traditional production structures. GIZ is in the process of defining the new approach to investment promotion under the Compact with Africa, re-evaluating the leverage, instruments, best practices of the reform countries. The above effort will build on the current systemic approach where BER and investment climate reforms are accompanied by meso and micro level support for value chains, cluster, promoting entrepreneurships and start-ups.

- ***DFID***'s Business Environment Reform Diagnostic (BERD) Process Guidelines indicate donors' many diagnostic tools do not reflect the current approaches and best practices, e.g. inclusive economic growth and targeting specific sectors with high job creation potentials are seen as critical priorities in many countries BER initiatives still take a conventional approach of top down perspective, i.e. horizontal reforms affecting all firms and rely on broad economy wide data. In contextualizing the BER programming one must first identify underlying policy goals, e.g. inclusive growth creation at national or subnational levels, formalization and strengthening of MSMEs, increased FDI, compliance with trade agreements and treaties, or improving DBR.

  It is difficult to trace results of overall investment promotion. Outcome indicators are project specific within the context of the log frames. The cases are narrowly focused and good outcomes for BER, but the links to broader perspectives are unclear. In other words, the above guidelines are not fully operationalized. DFID may try to achieve better and narrower targeting concentrating on limited markets, or it can broaden its perspectives more in line with the BERD guidelines. If it chooses the former path it needs to find ways to leverage the micro achievements to economy-wide outcomes.

- ***JICA*** is cognizant of the importance of private investment in the context of SDGs, and hence the challenges to the support programmes for BER and investment promotion. JICA operations in this area are guided by the principles enshrined in its "Operational Guidelines on Trade and Investment 2013."[36] Its budget for BER and investment promotion more than doubled in the last five years compared with the preceding period of as many years. Its support programmes, consisting both of technical assistance and loans and grants, find themselves in the areas of policy development (industrial development policy, M/P development, and trade and investment policies), institutional infrastructure (financial system, standards, and statistics), economic infrastructure (SEZs), and capacity building for investment promotion. A notable increase was observed in the last five years in the technical support programmes for investment and trade promotion. JICA is in search of ways to better align the support programmes for BER and investment promotion with SDGs.

- ***IFC*** has an innovative approach to investment and private sector development issues around investment lifecycle and three key ideas, i.e. connecting domestic investment and FDI through global value chains, foreign investment is not a transaction, it is a relationship, and

[36] JICA (2017b)

different investments require different policies. The projects usually start with an Investment Reform Map (IRM) accompanied in some cases by an Investment Competitiveness Diagnosis (ICD). IRM provides an overview of current FDI in the country, highlights areas of potential growth, and sets out options for enhancing FDI through reforms. Its purpose is to help the government to set priorities, assign responsibilities, identify opportunities for collaboration, and define the intended impacts of investment policy reform. ICD relies on a combination of economic data analysis, legal and regulatory review, and feedback from stakeholders to identify barriers to private investment and business growth.

  - Through the country diagnostics WBG helps the government with identifying reforms for Investment promotion, investment entry, investment incentives, and investment protection and expansion. Investment promotion: advising IPA design or upgrading or strengthening (marketing, information, assistance, aftercare and advocacy services), help develop a national FDI vision and strategy.
  - Investment entry: laws and regulations, solution design and implementation
  - Investment incentives: tax and financial incentives
  - Investment protection and expansion: legal and regulatory framework investor guarantees

- ***SECO*** aggregates its BER projects with regard to two standard indicators: 1) “Compliance Cost Savings” and 2) “Investment Generated”. In the future it hopes to be able to capture “Jobs Created and Retained” as well as “Productivity Gains.” SECO partners with IFC, the latter as the implementer of its support programmes. Going forward, beginning Jan 2017 SECO consolidated most of BER in a programmatic approach called Multi Country Investment Climate Programme. The approach, which attempts to open up markets and to generate investment for growth and poverty reduction in partnership with IFC, will involve a comprehensive set of activities led by diagnostics of investment climate reforms followed by FDI attraction, support for prioritized sectors (agribusiness, manufacturing, and tourism), competition policy, and subnational reforms. _Eligible recipient countries include many Eastern European countries followed by African and Asian countries.

- ***SIDA*** adopts a contextualized and holistic/systemic approach to BER investment climate principled on gender, environment, poverty and conflict sensitivity. However, this approach gives rise to an implementation challenge; given a large development space even a multi donor platform is challenged to provide support on a large enough scale to exercise real impacts. Recipient countries of about seven current BER programmes are Middle Eastern, African, and Balkan. In addition, SIDA supports a Global Fund for Investment Climate Advisory Services in collaboration with FIAS, which is considered a good practice case with FIAS knowledge and experiences. Other good practices include Liberia’s institutional and market development and Ethiopia’s contextualized and holistic approach on a multi donor platform.

- ***ITC*** is focused on institutional improvement of the IPAs as well as on direct assistance to investors in promoting investment and facilitating access to relevant institutions and stakeholders in the target countries. Good practice cases include Supporting Indian Trade and Investment for Africa involving five East African countries, Partnership for Investment and Growth for Africa intended for Chinese investments in selected African countries, and Trade and Investment Support Institutions Strengthening, a global programme.

2. Scale of Support Programmes and Budgets

To what extent does your agency support business environment reforms and investment promotion?

- The proportion of BER and investment promotion budget to total assistance budget is relatively small at around 10 percent for most agencies with the exception of one major donor with a 50 percent proportion.

What is the proportion of supporting programmes of BER and those of investment promotion?

- The responses varied from agencies with a high BER proportion (75 to 100 percent) to those with a high proportion of BER/investment promotion combined (90 percent). Still others found it difficult to separate BER and investment promotion presumably because they are embedded in the same programmes.

What is the total budgeted amount for "all" the supporting programmes for previous past 5 years (from 2012 to 2017)?

- Most agencies' total BER and investment promotion budgets in the five years to 2017 cluster around US$50 million with the exception of one major donor with a budget close to US$500 million.

Please aggregate number and budgeted amount for the BER supporting programmes from starting/ending in 2012 to starting/ending in 2017 by following functional area. If possible, break them down according to the schemes indicated in the table as follows.

- The budget data on functional area basis were not available from most donors, rendering the panoramic mapping exercises moot.
- The questionnaire used the functional areas as defined by DCED 2008 (*ibid*). All agencies appear to use own taxonomies for classification purposes.
- Alternatively, this study conducted a mapping exercise in the country case studies based on supplementary donor interviews and a review of relevant reports and project documents.

3. Good Practices

Please list notable (generally perceived as) "good practice" cases of BER/investment promotion supporting programmes in your agency between starting/ending in 2012 and starting/ending in 2017.

- Good practice cases are found mostly in Africa and to a lesser extent in Asia in addition to a number of global funds. The budgets average relatively high at around US$50 million.
- African good practices cited include Liberia for institutional and market development, Ethiopia for a holistic/systemic approach on a multi-donor platform, Morocco for an SME focused investment environment reform, Rwanda for establishment of a network of PPD, Nigeria for focusing on growth centers as well as SME and business environment.
- Global Fund for Investment Climate Advisory Services is cited as a good practice for effective FIAS implementation based on its knowledge and experiences.
- There are good practices of matching efforts as in Supporting Indian Trade and Investment for Africa and Partnership for Investment and Growth for Africa intended for Chinese investments in selected African countries.
- The rationale for the choice of good practice cases include measured impacts on new investments, new company registrations and formalizations, compliance cost reduction, and

jobs created, improvements in Doing Business Ranking by the World Bank, administrative process improvement such as online regulation and registration, a national and local network of PPD for continuous sectoral and thematic dialogue, good recipient country counterparts, and effective implementing agencies in partnership.

4. Specific Issues

What are the ways in which your agency measures the impact of BER and investment promotion on private investment levels and impact channels? Please elabourate the methodologies and/or approaches, if any, with specific definition, indicators, indexes, and/or criteria.

- Impact measurement is context specific. For instance, a logical framework approach that is specific to each project is an effective tool.
- World Bank's Doing Business Ranking is a useful indicator. But, there are cases where countries improve their ranking without impacts on new investment.
- Measurements are made in terms of compliance cost saving and investment generation. In future jobs created and retained and productivity gains will be measured.
- Reform progress is measured by numbers of reforms implemented including laws and regulations.
- New investments are estimated by tracking down all relevant firms for information gathering.

What are the major challenges, risks and lessons learned in the experiences of your agency where BER and investment promotion supporting programmes actually contributed to the growth of FDI and DDI?

- Tracking the impacts of BER support programmes on reforms and growth is a major challenge.
- Finding the right balance in the trade-off between supporting rules (BER) and supporting deals (direct support to firms).
- Measurement of impacts, time lags, interlinkages of FDI and SME promotion are challenges.
- Job creation may not result if investment is not in labour intensive sectors.
- Too much of a standardized approach even based on good practices. The solutions must be context specific. Too little of a holistic approach, including gender, environment, and conflict sensitivity.
- Coping with vested interests and a shifting political economy.
- Lack of capacity renders reform efforts difficult. Local ownership is key.

Does your institution approach the support for BER as a subset of a broader framework of investment climate, investment promotion, and investment facilitation, intended to increase investment, both domestic investment and FDI?

- BER is a subset of work around market development/private sector development. As such it requires a systemic approach.
- Country offices structure BER programmes as part of their economic development policy designed specifically for that country context.

Does your agency have any analysis/evidence/data on how its support programmes for BER contribute to investment promotion (causal relationship)?

- There does not appear to be any definitive views on the causality of economy wide impacts substantiated by evidence-based analysis.
- However, a number of programmes are deemed hopeful in generating broader impacts with time lags.
- Some agencies are actively searching for a new paradigm of BER support with a systemic and contextualized approach that would be more effective in generating economy wide impacts.

How do your agency's projects and programmes fit into the recipient countries' BER and investment policy framework? Who are your counterpart government agencies in the recipient countries? Do you engage in the dialogue with the private sector investors?

- Programmes are aligned with country specific conditions including dialogue with private sector.
- For some agencies PPD is critically important.
- A sensitive approach is needed as private sector has different priorities depending on whether SMEs or large companies or capital intensive or rural companies are concerned.
- Chambers of Commerce are important counterparts for PPD. Some agencies work closely with investors and IPAs.