OECD-ASEAN Training on Investment Policy Making

Module 1

The Policy Framework for Investment

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Outline

• The Policy Framework for Investment (PFI)

• The scope of the PFI: which policy areas most affect investment?

• Core principles of the PFI: How can governments help to create a good investment climate?
Policy Framework for Investment: PFI

- A **multilaterally-backed** instrument to improve the investment climate, building on good practices in OECD and non-OECD countries
  - 60 OECD and non-OECD governments
  - Business, labour, civil society representatives
  - World Bank, UNCTAD and other international organisations
  - Eight specialised OECD Committees
  - Meetings in five regions; Web-based consultation
  - Approved in 2006
  - A possible update to the PFI is currently being discussed
Characteristics of the PFI

• Non-binding
  – Policy recommendations to stimulate dialogue within government and with stakeholders

• Non-prescriptive
  – How to reform as much as what to do
  – Doing more and doing less

• Broad whole-of-government approach covering many policy areas
  – Not investment for its own sake

• Business is not a passive actor
  – Provides many key inputs and can help to ensure broader benefits to society
A checklist of questions in 10 policy areas

- Investment policy
- Investment promotion and facilitation
- Trade policy
- Competition policy
- Tax policy
- Corporate governance
- Policies for promoting responsible business conduct
- Human resource development
- Infrastructure and financial sector development
- Public governance, incl. corruption
Why these policy areas?

In different ways, these 10 policy areas all affect one or more of the following:

- Scope for foreign and domestic enterprises to take advantage of investment opportunities
- The supply and quality of capital, labour, infrastructure, technology and other inputs (including imported ones) available to investors
- The broader benefits to society from investment
Each policy area affects the investment climate through multiple channels

- **Investment policy**
  - Market opportunities, risks, exit barriers

- **Investment promotion and facilitation**
  - Transactions costs (red tape), information costs

- **Trade policy**
  - Cost of inputs, size of market, competition

- **Competition policy**
  - Market opportunities, productivity, benefit sharing with workers, consumers

- **Tax policy**
  - Returns to investor, benefit to government
Each policy area affects the investment climate through multiple channels (2)

- Corporate governance, finance
  - Supplying capital, promoting efficiency
- Human resource development
  - Supply and quality of labour
- Infrastructure
- Responsible business conduct
  - Encouraging firms to act responsibly
  - Public governance
  - Policy effectiveness
What is a good investment climate?

- A good investment climate can accommodate a range of policies
- There is no single, uniform approach that will suit all economies at all points in time and under all conditions
- A sound business environment is a process as much as an outcome
- It is not essential to get everything right at once
Policy effectiveness

**Design**: well-designed policies facilitate implementation and evaluation and improve effectiveness.

- What are the views of **stakeholders** (incl. foreign investors and SMEs) and in other parts of government on the policy proposal?
- What are the objectives in introducing a policy and what other **options** might be available?
- What is the assessment of its **regulatory impact**?
- What has worked **elsewhere** (regionally and globally)?
- Does the government have the **capacity** to implement this policy?

**Implementation**: accountability should be clearly assigned, with benchmarks for achieving results

**Evaluation**:
- Has the policy achieved its objectives? Has it been implemented effectively?
### Principles for good policy design and implementation

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<th>Credibility</th>
<th>- Policies will not have the desired effect on investor decisions if they are not credible, in the sense that the government is expected to carry them through and has the <strong>capacity</strong> and <strong>political will</strong> to do so.</th>
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<td>Stability and predictability</td>
<td>- Investors commit resources for the long term and need to know that policies won’t be changed dramatically. In investor surveys, <strong>policy uncertainty</strong> is one of the biggest concerns.</td>
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<td>Transparency</td>
<td>- Investors need to understand the practical implications of rules governing their investment, in terms of the conditions to fulfil, the procedures for a public review and the appeals process in the event of a dispute.</td>
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Turning principles into practice

Options for enhancing credibility, predictability and transparency include:

- Publish **English** versions of all relevant laws
- **Announce** policy changes well in advance, **circulate** draft laws
- Ensure public support through wide **consultations**
- Demonstrate high-level **political commitment** to reforms
- Foster an independent **judiciary**, publish judicial rulings and ensure adequate judicial capacity to settle disputes
- Give autonomy to the **regulator** or agency in charge of implementation to avoid political interference
- Provide constitutional **guarantees** against expropriation
- Consider offering **contractual commitments** (mining, infrastructure)
- Consider signing international or bilateral **agreements**
Thank you

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PFI: www.oecd.org/daf/investment/pfi
PFI Toolkit: www.oecd.org/investment/pfitoolkit