

CONCEPT NOTE FOR UPDATING THE POLICY FRAMEWORK FOR INVESTMENT – JULY 2014

The *Policy Framework for Investment* (PFI) is a multilaterally backed tool to mobilise private investment that supports economic growth and sustainable development. Drawing on good practices from OECD and non-OECD countries, the PFI proposes a set of questions for governments to consider in ten policy fields identified in the 2002 UN Monterrey Consensus on Financing for Development as critically important for the quality of a country's environment for investment, including by small enterprises and foreign investors.

As one of the only policy instruments developed by governments to support international investment policy dialogue, co-operation, and reform, the PFI has been extensively used in dozens of countries in all regions of the world. This experience has yielded many lessons on how the PFI could be improved. Furthermore, the global policy landscape has undergone major changes since the PFI was endorsed at the 2006 OECD Ministerial Council Meeting. New forces have reshaped the investment scene, including the economic and financial crisis which started in 2008 and from which many economies have still not fully recovered, the emergence of new major outward investors, the spread of global value chains, and signs that investment protectionism pressures are on the rise. The updated PFI will also provide the most up to date policy options for improving investment climates to contribute to inclusive growth and sustainable development.

This concept note outlines the main principles for carrying out an update of the PFI. The update is an inclusive process: **horizontal** within the OECD, **multilateral** with partner countries and **multi-stakeholder** with business, labour and NGOs. The update process is scheduled for completion in time for the OECD Ministerial Council Meeting in May 2015.

The Policy Framework for Investment and its application

The PFI is by nature horizontal, raising issues for policy makers in ten policy areas including investment, competition, tax, corporate governance, anti-corruption, finance, infrastructure, public governance and other policy domains which affect the business climate. The PFI was developed by a multilateral task force established at the OECD and comprised of representatives from 60 countries, including many developing countries. In the context of OECD *Investment Policy Reviews* (IPRs), the PFI has been or is being used by countries at varying levels of development and across all continents (Botswana, Burkina Faso, Cambodia, Colombia, China, Costa Rica, Egypt, India, Indonesia, Jordan, Kazakhstan, Lao PDR, the Philippines, Malaysia, Mauritius, Morocco, Mozambique, Myanmar, Nigeria, Peru, Russia, Tanzania, Tunisia, Ukraine, Viet Nam and Zambia), as a tool for assessing the business climate and for designing reforms.

The PFI also provides a basis for OECD support on regional investment policy dialogue. Regional economic communities are currently using the PFI to promote peer learning on regional investment policy reform and harmonisation among their members. The Secretariat of the Association of Southeast Asian Nations (ASEAN) has partnered with the OECD in undertaking IPRs of ASEAN countries and regional investment policy dialogues, including capacity building activities and training seminars. In Africa, the 14 member states of the Southern African Development Community (SADC) have collectively decided to collaborate with the OECD on elaborating the SADC Regional Investment Policy Framework by using the PFI to foster regional co-ordination and common standards for investment policy design and implementation. Governments in Southeast Europe and the MENA region have also used the PFI for regional investment policy dialogue.

Using the experience of users to evaluate and update the PFI

Revisiting the PFI and enriching it with the vast experience that partner countries and regions have gathered in their efforts to strengthen their investment policies will serve to ensure its continuing effectiveness and value to users. The process of applying the PFI across different countries has brought to light both the strengths of the instrument as well as certain lacunae. A clear need for evaluating and updating the PFI has emerged, supported by calls from various OECD delegations to undertake such an update in a timely manner. Partner countries engaged in IPRs based on the PFI have themselves volunteered comments and suggestions aimed at better tailoring the PFI to their policy needs. This critical mass of developing country and regional experience with the PFI will help to shape the revision and strengthen the PFI as a framework.

Steps already underway

Based on demand from countries using the PFI, the instrument has already undergone several recent adaptations, so as better to serve its users and to reflect their priorities. In particular:

- PFI-based questionnaires are systematically adapted to specific country/regional contexts;
- A new questionnaire on the infrastructure chapter of the PFI has been developed in cooperation with Tanzania and has since been adapted and used for the IPRs of Mauritius and Myanmar as well;
- Private sector representatives are systematically involved in applying the PFI, notably through the consultation and fact-finding activities of the IPR process;
- Sectoral tools, which could be used as technical annexes, have been derived from the PFI with important policy lessons to enhance the policy framework for investment, namely the *Policy Guidance for Investment in Clean Energy Infrastructure* and the *Policy Framework for Investment in Agriculture*;
- The tax and investment incentives sections of the PFI have undergone technical revisions, in cooperation with the OECD Tax and Development Programme;
- A new questionnaire on green investment has been developed and used for drafting special chapters on green investment in IPRs;
- The PFI is being applied to the local/state government level (e.g. Lagos State, Nigeria) and for industry-specific contexts (extractive industry in Kazakhstan, investment in agriculture in Burkina Faso, Indonesia, Myanmar, Tanzania);
- An SME Policy Index has been developed based on the PFI methodology.

Implementing Partners

- The more than 25 countries that have used the PFI when engaging in investment policy reviews;
- Regional Development Banks (including AfDB, ADB, DBSA and possibly EBRD);
- UN Regional Economic Commissions (including ECA, ECLAC and ESCAP);
- ASEAN (which is partnering with the OECD in undertaking IPRs of ASEAN member states and promoting regional investment policy dialogues and capacity building activities in Southeast Asia);

- SADC and its member states (the SADC Sub-Committee on Investment is the OECD's partner for developing the SADC Regional Investment Policy Framework; and the experiences of individual SADC member states having completed IPRs are also feeding into the project);
- The SADC PPP Network and the Southern African SOE Network (both of which co-operate with OECD and SADC member states on reinforcing and informing regional best-practices for investment policy design, especially as concerns infrastructure development);
- Representatives of the private sector, civil society and academia; and
- International organisations (including the World Bank Group and UN agencies) and development agencies that have used the PFI for their co-operation programmes (aid agencies and other actors can notably support PFI-based efforts towards investment policy reform, and thus enhance the long-term sustainability of reforms resulting from IPRs).

Timeline and update process for 2014-2015

The PFI update actively involves stakeholders, including from emerging and developing countries, through an inclusive process led by a global task force co-chaired by an OECD and non-OECD country:

FINLAND - HE Okko-Pekka Salmimies, Ambassador to the OECD and UNESCO;

MYANMAR - Mr Aung Naing Oo, Director General, Directorate for Investment and Company Administration, Ministry of National Planning and Economic Development.

Myanmar has recently undertaken an OECD *Investment Policy Review* based on the PFI and is the 2014 Chair of ASEAN. Taking advantage of OECD regional investment programmes and initiatives, the update includes regional consultations in Indonesia, South Africa and elsewhere. Regional development banks and other partners, international organisations such as UNCTAD and the World Bank Group, civil society and OECD stakeholders (BIAC, TUAC, OECD Watch), as well as the many OECD committees competent for the specialised PFI chapters, are also participating in these consultations. A list of proposed content revisions (including new chapters or annexes) will be presented based on this comprehensive evaluation.

Regional PFI roundtables are being organised back-to-back with other regional events, in particular in the context of regional programmes. Revised elements of the PFI will be drafted and circulated for feedback. Circulation will be broad and include:

- OECD (horizontally across all relevant Directorates and Committees as they meet, such as Competition, Trade, and Environment);
- Regional and country partners;
- International organisations and regional development banks; and other partners.

Such an inclusive, multi-stakeholder dialogue in support of revising the PFI will further emphasise the OECD's position at the centre of the international discussion on investment and development. The 2012 OECD Ministerial included the PFI evaluation and update as an implementing mechanism of the OECD Strategy on Development. It will thus also bring relevant contributions to the Strategy, notably by strengthening OECD partnerships and mechanisms for knowledge sharing and policy dialogue with developing countries, and by increasing the relevance of the PFI as an instrument for fostering policy coherence for development. Evaluating the PFI strongly supports the Strategy by responding to demands from emerging and developing countries in areas where the OECD has core competences. The updated PFI can contribute to the post-2015 discussion on Sustainable Development Goals and Financing for Development.

Outcomes

In terms of content, the revised PFI should:

- Incorporate country- and region-level experiences, best-practices and feedback on the PFI questionnaire (across different regions);
- Introduce a new chapter on policies to increase investment in support of green growth, building on the green investment chapters included in some IPRs;
- Take account of sector-specific applications of the PFI since its creation, including the *Policy Guidance for Investment in Clean Energy Infrastructure* and the *Policy Framework for Investment in Agriculture*;
- Make use of the insights from applying the PFI at state-level;
- Enhance the relevance of the PFI for addressing gender, the role of SMEs, global value chains and research and innovation;
- Streamline existing chapters (with possible use of annexes or separate related documents) so as to make the PFI a more 'user-friendly' policy tool;
- Update existing chapters to include new developments and tools, such as the revised OECD *Guidelines for Multinational Enterprises* and the *Principles for Private Sector Participation in Infrastructure*;
- Enhance the links across policy areas to improve further policy coherence for development;
- Adopt a stronger dimension on regional investment policy design (notably drawing on the on-going regional applications of the PFI within SADC and ASEAN) and encourage a stronger dimension for the use of the PFI at subnational levels;
- Better address statistics, as well as measuring and assessing investment policy reform;
- Strengthen the focus on development impact of private investment (e.g. how to foster responsible investment and maximise the economic value added and job creation arising from these investments).

In terms of application, the revised PFI should also facilitate:

- Better prioritisation of investment policy issues by country;
- Improved public-private sector dialogue in beneficiary countries;
- An effective feedback loop, based on dedicated structures for mutual learning and knowledge sharing;
- More use of metrics for better investment policy monitoring and benchmarking (including to facilitate comparisons at regional level);
- More action-oriented guidance for policy makers using the PFI at country or regional level to help implement and sustain investment policy reforms.

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