



Developing the PFI User's Toolkit: Working Group 1.1

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APEC and the PFI

- Through 2006, 2007 APEC undertook studies to identify barriers to investment both domestic and FDI
- Barrier identification and measurement is one thing: needed to go further and provide framework for assessing impact of policies on business costs, risks and the conditions of competition
- PFI was seen as a potentially valuable diagnostic tool for developing economies to assist structured “self-assessment”:
 - Primary aim to maximise the role the private sector
 - Process promotes whole-of-government coordinated response demonstrating the importance of policy coherence especially on tackling behind-the border impediments
 - Menu of policy areas for study is self-selection
 - Outcome is mutual and non-binding



Diagnostic approaches to investment reform

- PFI does not have a monopoly
- No one size fits all situations – what works in one economy may not work in others
- Best practices – sharing experience
- Vietnam – good case study for what is already available:
 - World Bank Group – FIAS ICS, Doing Business
 - UNCTAD Investment Policy Reviews
 - Donor coordination based on WTO Implementation



Australian support for the PFI

PFI Assessment Stage	PFI Features
Diagnosis	Host country ownership Flexibility to choose policy areas Different modalities Rationale for policy choices
Plan, priorities, strategy	Policy coherence Creates advocates for change Flexible, practical outcomes
Implementation	Fits with other initiatives Better coordination eg donors Focussed capacity building Long term engagement



PFI Assessment of Vietnam - background

- Australia (through support provided by Ausaid) and Japan in 2007 decided to jointly fund OECD experts to undertake detailed assessment of Vietnam's investment reform efforts – two phases:
 - Jan to April: as preparation for policy dialogue in April 2007
 - July 2007 – March 2008: more detailed phase
- Originally it was hoped to do all ten chapters - subsequently reduced to six chapters: investment policy, investment promotion, trade, tax, competition and financial sector development
- Three missions to Vietnam in Phase II:
 - First – questionnaire, scope, coordination process
 - Second – consider first draft of report, consults, further information
 - Third – consider near final report, discuss reform roadmap, Stakeholder workshop, Donor meetings, discuss final findings



PFI Assessment of Vietnam – investment policy chapter - context

- Investment policy assessment expected to be of crucial importance to Vietnam's reform strategies:
 - Recent accession to WTO had given momentum to major changes to legal framework
 - Particular characteristics of the Vietnam business climate enhanced need for greater transparency and predictability:
 - Central/provincial government nexus
 - Land ownership and land use rights – role of the state
 - Importance of manufacturing sector
 - Significant proportion of SMEs
 - Influence of State Owned enterprises
 - Poor communications infrastructure – information technology
 - Large informal sector



PFI Assessment of Vietnam – investment policy chapter – some important issues

- Big gap between the \$ value of total investment capital and the value of actual implemented capital – a possible proxy for the impact of too much and inefficient regulation:
 - legal framework itself was considered to be appropriate so problems are likely to be in the implementation
 - poor guidance and information management systems especially from central to provincial government
 - extremely variable performance at provincial level probably due to increased decentralisation and lack of administrative capacity
 - has recent reform addressed the earlier causes of regulatory burden and complexity?
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PFI Assessment of Vietnam – investment policy chapter – some important issues

- A further problem was the complex process for investors to acquire land use rights – no private ownership of land is allowed in Vietnam but the state will grant investors rights to use land
- System was acknowledged as lengthy and non-transparent
- IT infrastructure poor making streamlining of registration process difficult
- Planning processes equally complex and lengthy leading to considerable delays in project implementation where land is required (eg tourism, hotel developments)
- Difficulties more pronounced for SMEs and foreign investors may be disadvantaged relative to domestic investors



PFI User's Toolkit

- Essential document providing operational guidance and resources to policy makers pursuing reform
- Not available for Vietnam assessment – it would have been very helpful. Very useful is the focus on the rationale and the policy scrutiny sections plus links to other resources
- Living document – areas being added all the time, refined by experience