



POLICY FRAMEWORK FOR INVESTMENT: USER'S TOOLKIT – ABOUT THE TOOLKIT

Sessions 1.1. – 1.2. – 1.3. - 1.4.

The PFI User's Toolkit project is in response to a need for specific and practical implementation guidance revealed from the experience of the countries that have undertaken projects using the PFI. Development of the Toolkit entails a process involving government users, co-operation with other organisations, OECD Committees with specialised expertise in the policy areas covered by the PFI and interested stakeholders. This document provides information to the PFI user on the purpose and structure of the Toolkit, the process for its development and how the Toolkit relates to the PFI itself. It is distributed as part of the conference documentation for the relevant session in the programme at the Global Forum on International Investment. The views expressed in this paper do not necessarily represent those of the OECD or its member governments.

POLICY FRAMEWORK FOR INVESTMENT: USER'S TOOLKIT ABOUT THE TOOLKIT

Introduction

Investment is a key driver of economic growth and poverty reduction. Countries and regions with strong policies for investment mobilize capital. Yet in many economies, there are substantial impediments to investment. These impediments to investment come in many guises. But they have one thing in common: they are the unintended result of government policy or, in some cases, the lack of it. This Toolkit outlines a process and guidance for governments using the PFI - the most comprehensive multilaterally backed approach to date for improving investment conditions – to increase competitiveness and investment through the design and implementation of government policies to improve the business climate.

A sound investment climate is not an end in itself, however. This Toolkit explains how and why governments can benefit from using the PFI, and makes clear the economic consequences for investment of existing government policies, laws and regulations. The PFI and this User's Toolkit do not, however, prescribe what the policies for investment should be, because prescriptive policies depend heavily on the country or region's economic circumstances and institutional capabilities; "one size does not fit all". Rather, it is through the process of using the PFI, learning from good practices and the experience of others that a government's preferred investment-climate reform policies and the strategy for their implementation emerges.

What is the purpose of this Toolkit?

The specific purpose of this Toolkit is to offer PFI users detailed guidance:

- Which enables an analysis of where progress is most advanced and where the most significant investment bottlenecks lie and thus the priorities for reform;
- On how to design policy practices which improve the balance between policy objectives and take into account the impact of policy decisions on investment conditions and the wider national interest; and
- A menu of methodologies for measuring progress in improving investment conditions.

What makes this Toolkit different?

To understand how this Toolkit is different from others, it is first necessary to appreciate how the PFI differs from other instruments designed to improve the investment environment. It does so in three important ways:

- First, its scope is not limited to foreign direct investment. Over $\frac{3}{4}$ of the PFI questions are relevant to both foreign and domestic investment.

- Second, the PFI is unique by its comprehensive approach to investment conditions and because it focuses on the interactions and linkages between policy areas, i.e. policy coherence. For example, it is possible that changing one aspect of, say trade policy could worsen the overall investment climate, yet changing at the same time those aspects that interact with other policy fields, like competition policy could improve investment conditions substantially.
- Third, the PFI recognizes that putting in place a sound investment climate is not a one-off event where the obstacles to investment are identified and remedied. Structural shifts, such as new technologies, or changes in other policy settings, including in other countries will frequently bear on the investment climate in ways that are not always anticipated. And sometimes these changes will have implications on policies for investment, necessitating the adoption of different policy practices and regulatory reform. Investment climate reform is a process of continuous improvement and the emphasis in the PFI is on policy governance.

These characteristics create several challenges for using the PFI effectively. For example, the PFI does not examine how to deal with trade-offs, or guide which issues deserve priority. Nor does it explain how to put in place a structured process in order to elicit where the binding impediments to investment lie and how to appraise their economic significance. The Toolkit has been especially designed so that PFI users can manage these challenges. It complements existing specialized diagnostic and capacity building resources in policy areas such as competition, taxation etc.

The Toolkit is divided into four parts:

- *About the Toolkit* overviews the purpose of the Toolkit, its scope, structure and how to use it;
- *Getting Started* explains the rationale for using the PFI, describes the benefits that result from its use, elucidates the ways in which the PFI can be implemented and how to choose between these options, explains the PFI's analytical framework and core principles and outlines the key steps in devising a process for using the PFI;
- *Policy Guidance* offers specific guidance for each of the policy chapters of the PFI on what constitutes good practices, explains how policies, laws and regulations influence investor decisions and identifies the circumstances and the information the PFI user needs to scrutinize in order to make an assessment of how a country performs vis-à-vis good practice. It also provides users with links to websites and references to a wealth of additional information and tools and resources that offer more in-depth policy guidance on specific issues; and
- *Measuring Progress* sets out a menu of methodologies on how to interpret and analyse the facts and information collected from the *Policy Guidance* part of this Toolkit to form an assessment of a country's strengths and weaknesses in its investment climate and thus pinpoint the investment climate policy reform priorities, to benchmark performance and to measure progress.

The Figure below illustrates this structure at a glance. For a detailed sitemap of the various sections available in this Toolkit, see the Contents page.

The PFI User's Toolkit At-A-Glance

ABOUT THE TOOLKIT

Objective of the toolkit, its scope, structure and how to use it

GETTING STARTED

When to use and how to design and implement a PFI application

POLICY GUIDANCE

Guidance on the issues to address and indicators to examine for each PFI question and additional resources.

MEASURING PROGRESS

How to form an overall assessment, develop, initiate and monitor a reform Plan of Action

Who will find this Toolkit useful?

The PFI is a flexible instrument and this Toolkit has, therefore, been designed to meet the needs of multiple PFI applications. These applications may, for instance, include:

- In depth self-assessments of a country or region's policies for investment, co-ordinated from the centre of government, i.e. cabinet office, Prime Ministers department, and Finance and Economics ministries;
- Peer reviews of a country's investment climate at the national or regional level;
- Examination of how policy practices in a selected area bear on the investment climate. For example, the relationship between the design of regulatory policies and their impact on business investment decisions; and
- Thematic-based investment climate assessments. For instance, an evaluation of the investment conditions specific to mobilizing investment by SMEs.

This Toolkit furthermore provides a platform for stakeholder organizations using the PFI to engage and contribute to policy dialogues related to investment climate reform and private sector development. These stakeholders may, for instance, include business organizations, NGOs, trade unions and the media.

This Toolkit can likewise provide useful support to development agencies, bilateral and multilateral, engaged in funding and supporting national and regional governments private sector development and investment climate reform programmes.¹

How to use this Toolkit?

When using this Toolkit, it should be borne in mind that there is no blueprint for mobilizing investment. Each PFI user has to develop their own strategy, based on your institutional capacity and specific economic context, and tailored to your needs and resources.

Given the breadth and diversity of policy practices that impinge on investment conditions it is not possible to address each policy domain in detail. However, users of the Toolkit will find links and references to a wealth of additional tools and resources that provide more in-depth policy guidance in areas such as tax administration, fighting corruption and on issues such as designing an investment promotion agency.

In a sense, therefore, the Toolkit is similar to a knowledge library and should be used accordingly. It is unlikely that PFI applications will necessitate using each part of the Toolkit and every chapter of the policy guidance. For example, countries that use the PFI on a regular basis and have determined where priorities for reform lie are only likely to focus on a few specific areas of the Toolkit's policy guidance. And not every PFI application will wish to score how it is performing (Part 4).

Users should thus not be put off by the Toolkit's length. The modular approach of the Toolkit's design enables users to access only those parts that are necessary to your PFI application. At a minimum, this will typically involve using the guidance related to *Getting Started* and the chosen Policy chapters. The modular approach, however, means there is some repetition in this Toolkit.

¹ The OECD Development Assistance Committee has developed in consultation with a range of stakeholders, including the Investment Committee a set of best practices for donors using Official Development Assistance to mobilise private investment. It is entitled Promoting Private Sector Development: the Role of ODA and can be downloaded from www.oecd.org/dac/guidelines.

What is the relationship between this Toolkit and the PFI?

The OECD in co-operation with non-member countries and in partnership with other international organizations and stakeholders working on investment conditions in support of private sector development have developed, under the auspices of the OECD Investment for Development Initiative, a package of resources specifically designed to meet the needs of policy makers and investment-climate reform practitioners.

The package contains three elements: A Review of Good Practices, providing case studies and the analytical support for the PFI, the second element, which is a checklist of questions and annotations that underpin a sound investment climate. This PFI User's Toolkit is the third element. It supports the implementation of the PFI, offering specific detail on what constitutes good policy practices in the areas that bear on the investment climate, the information that the PFI user needs to scrutinize in order to make an assessment of how their country or region performs vis-à-vis good practice and a menu of methodologies that can be used to benchmark and measure progress.

Depending on your function in a project, you will find different elements of the package relevant to your work. To help you identify the relevant resource, the table below explains the relationship between the PFI products, their content, target audience and how each was developed.

Relationship between PFI products

Level	Content	Target audience	Development process
Review of Good Practices Analytical support for checklist questions	Analytical background material on each of the ten chapters of the PFI.	Investment climate policy experts, donors, NGOs focussed on private sector development and academics in the fields of growth, development economics and policies for investment.	OECD Secretariat experts in each of the Framework's policy areas, under the supervision of relevant specialised OECD Committee. Each chapter was vetted through regional expert meetings.
Policy Framework for Investment Checklist of questions and annotations	A set of questions and annotations in ten policy fields identified in the 2002 UN Monterrey Consensus on Financing for Development as important for the quality of a country's investment environment.	High level representatives and decision-makers in government departments and regulatory bodies, legislators, investment promotion agencies, public and private development agencies, donors and investors.	Developed as a partnership process involving a dedicated task force open to any interested government. Officials from 60 governments were involved, with participation by the World Bank, other international organisations, as well as business, trade union and civil society organisations. Extensively vetted through regional expert meetings and through a web-based public consultation.
PFI User's Toolkit Operational guidance	A set of structured guidelines on how to operationalise the PFI questions, together with references to case studies and existing tools providing in depth treatment of the policy fields covered.	Officials from government departments, especially at centres of government, e.g. Prime Minister's office, as well as practitioners and operational level staff from regulatory bodies, investment promotion agencies, public and private development agencies and donors.	OECD and consultant experts in each of the Framework's policy areas. Draft operational guidance tested and adapted in OECD regional investment programmes. Updated regularly, based on country and policy area experiences from practitioners applying the PFI.

Source: OECD, Investment Division

How is this Toolkit being developed?

This Toolkit is being developed by the OECD Secretariat and consultant policy experts in each of the policy domains covered by the PFI and reviewed by the OECD Investment Committee. Other OECD bodies, with the support of their secretariat, were involved in the policy guidance chapters. These bodies are: the Trade Committee, the Competition Committee, the Committee on Fiscal Affairs, the Public Governance Committee, the Steering Group on Corporate Governance, the Education Committee and the Working Group on Bribery in International Business Transactions.

The Toolkit's development is also benefitting from extensive comments and reactions from pilot users in several international fora, such as the Investment Committee's Global Forum on International Investment and through the *NEPAD-OECD Africa Investment Initiative*. These meetings help to vet the user-friendliness, relevance and practicality of specific parts of the guidance in different economic and geographical contexts. Further events of this sort are planned for those areas of the Toolkit, which have not yet been "road-tested".

Your feedback and how to find out more about the PFI?

We are interested in hearing how your organization is using the PFI and this Toolkit. Your questions, comments and feedback will help us to improve the PFI and how it is used. We also welcome your suggestions for case studies, research papers, data sets, websites and other resources of relevance for investment-climate reform practitioners. All correspondence can be emailed to: pfi@oecd.org, or mailed to:

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France

Your suggestions and ideas will be assimilated and made available in the latest version of the Toolkit, available at the www.oecd.org/investment/pfitoolkit website. Further information on the PFI can also be accessed from the OECD website at: www.oecd.org/daf/investment/pfi.