

Putting the Policy Framework Into Action: Next Steps

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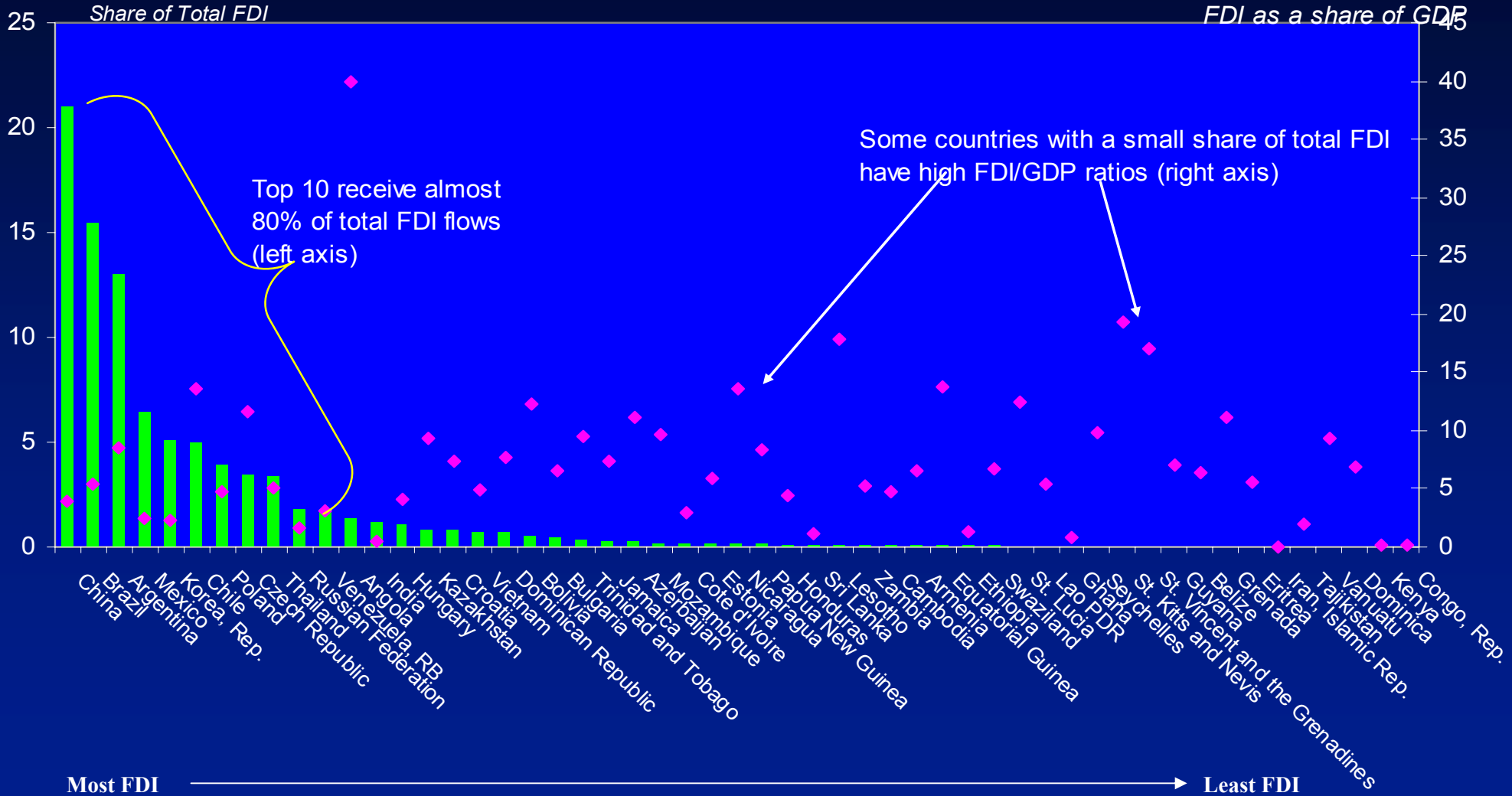
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Policy Framework for Investment

- **What is it?: 10 questions in 10 policy domains**
 - Investment, promotion, trade, competition, tax, corporate governance, CSR, human resources, infrastructure, and public governance
- **How can governments use PFI?**
 - Self evaluation
 - Peer review
 - Regional arrangements
- **Question: How does the government set priorities among various domains? Are all questions are not equally important in attracting investment**
 - Investment restrictions > competition policy?
 - Within area, questions can be much deeper
 - Short term (IPA) > long-term (education)?

Countries have quite different strategic requirements... but small countries can do well

Countries sorted by share of Total FDI, 19



PFI: From checklist to strategy

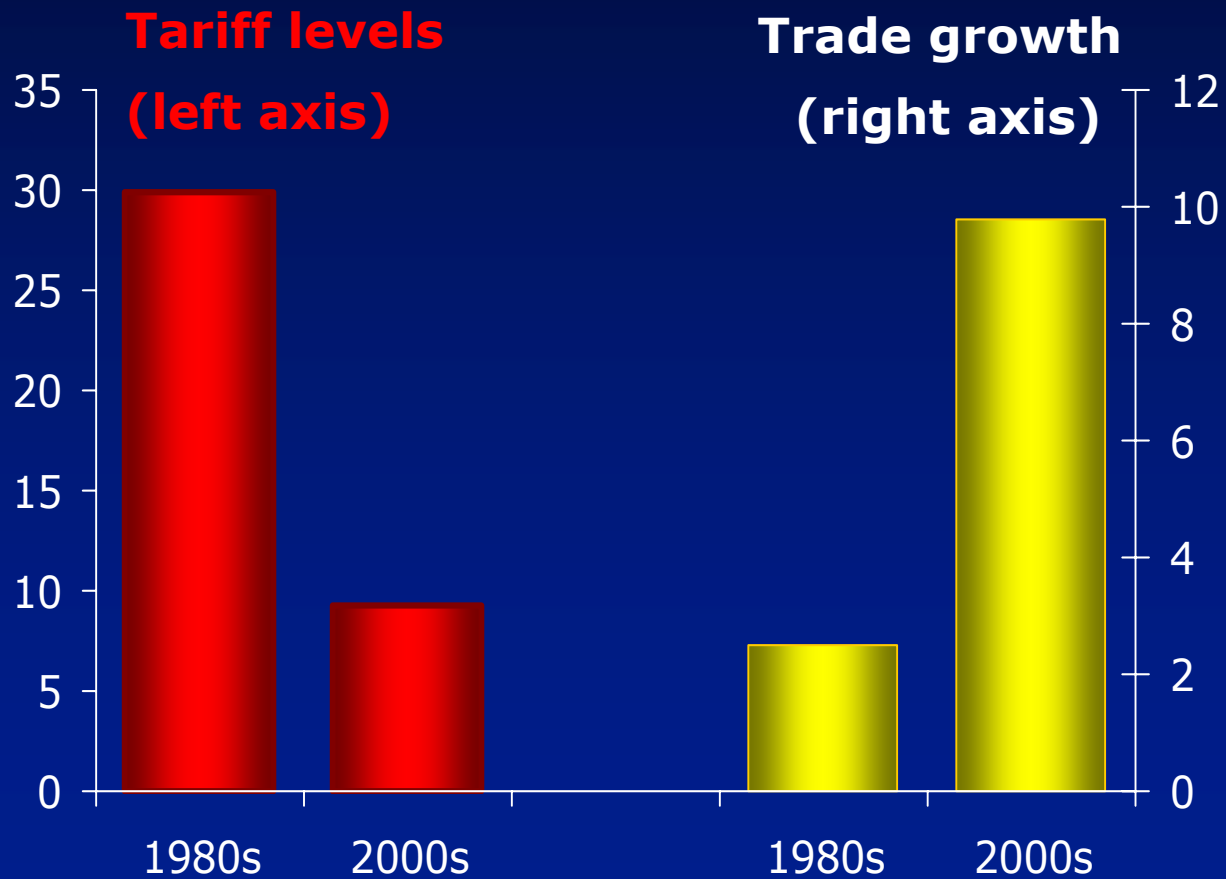
- **Requires embedding in a strategy**
 - **Establish investment objectives**
 - **Speed growth (Tech, productivity)?**
 - **Expand exports?**
 - **Expand employment?**
 - **Relieve infrastructure constraints?**
 - **Regional development?**
- **Assess assets and impediments to investment**
 - **Assets: Labor, resources, location?**
 - **What are the binding constraints to investment?**
- **Realism: Take account of capacity to implement**

Generic priorities: Getting the most FDI ... and getting the most (TFP) from FDI

- **Stable macro policies (e.g. Gastanaga, et al 1998)**
- **Create positive investment climate (infrastructure, property rights, intellectual property, corruption) (Daude-Stein, 2001)**
- **Removing policy-induced barriers to entry and competition (e.g., tariffs, entry restrictions, tax policies)**

Reducing trade barriers increases competition

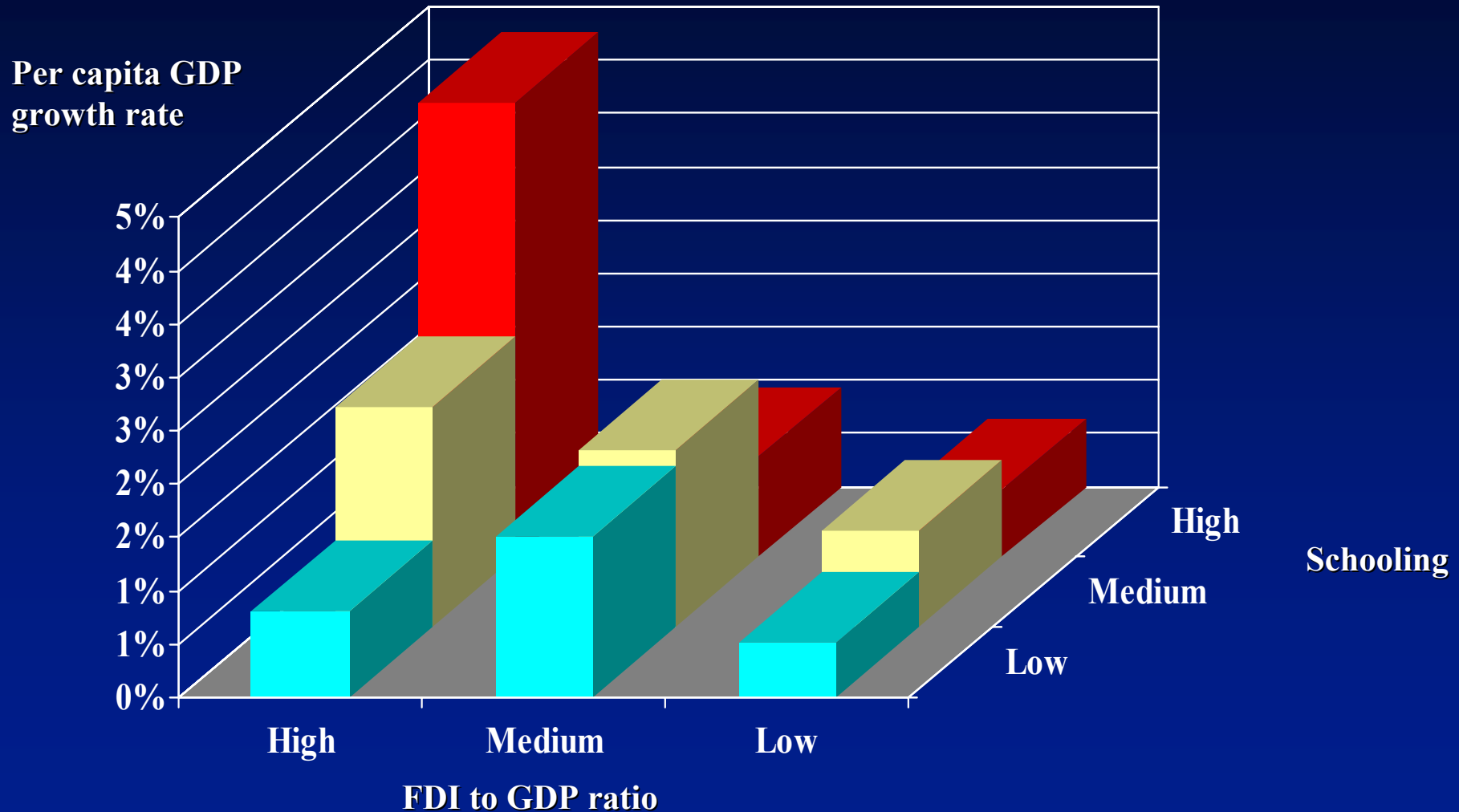
Per cent level of tariffs, annual
per cent growth in trade



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- **Create positive investment climate (infrastructure, property rights, intellectual property, corruption) (Daudestein, 2001)**
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- **Invest in education (Borenszstein, et al 1997, Dunning 1998)**

Education raises the productivity of FDI, leading to higher growth...



Note: The low, medium, and high categories for FDI to GDP ratio are below 0.01%, 0.01%-0.2%, and over 0.2% respectively. For the schooling variable, the low, medium, and high categories are below 0.4, 0.4-1.0, and over 1.0, respectively

Source: Borensztein et al (1998)

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- **Invest in education (Borenszstein, et al 1997, Dunning 1998)**
- **Pro-active policies (promotion, linkage creation, technology networks)**

PFI: Next steps

- **Possible to advise on ways to set priorities?**
 - **Context manual**
 - **Analyzing binding constraints**
- **Possible to categorize by level of capacity to implement?**
 - **Low income countries need to answer different questions (property protection) than middle income countries**
 - **Different investments require differing type of regulatory capacities: e.g., retail services v. power**
- **Pilots to test PFI... How to create dialogue?**
 - **Within governments**
 - **With governments**
 - **Between governments**

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