ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
DIRECTORATE FOR FINANCIAL FISCAL AND ENTERPRISE AFFAIRS

THE CARIBBEAN RIM INVESTMENT INITIATIVE (CRII): AN INNOVATIVE APPROACH TOWARDS INTERNATIONAL COOPERATION

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1. BACKGROUND AND JUSTIFICATION

The Caribbean Rim Investment Initiative (CRII) responds to the needs identified by the OECD to promote a creative and pragmatic cooperative approach between countries of Central America and the Caribbean and international organizations with a view to enhancing investment opportunities in the region.

The origins of the CRII can be traced back to two workshops held in the Dominican Republic in April 2000 and in Curaçao in April 2001, where government officials from Caribbean Basin countries, private sector participants, and representatives of the OECD and other international organizations exchanged views on how these economies could improve their investment climate. The CRII is a concrete and tangible exercise to support Caribbean and Central American countries in their efforts to improve their investment climate, attract increasing flows of investment --both foreign and domestic-- and maximize the benefits that such flows may have in their economies.

Several reasons justify the focus of the CRII on the countries of the Caribbean Basin. In addition to constituting a distinct geographic area, this region comprises more than half of the countries of the Americas and practically all of the smallest economies existing in the Hemisphere. Despite these common elements – most of them defined in terms of the other countries of Latin America rather than on intrinsic features of these economies-- the region can be defined as being economically and politically heterogeneous. With countries with just a few thousand inhabitants to others with cities of several million, from societies with relatively high human development achievements to others with the worst living conditions on the continent, from strong democracies to extremely weak political institutions, most of the striking contrasts in the Americas can be found in this region. The fact that the Caribbean Basin represents such a mosaic of economic, political and social diversity explains in part why this region has been less studied relatively to other regions of Latin America. However, this reality also points to the need to promote initiatives specifically tailored to address the complex realities of these countries.

Despite their heterogeneity, the economies of the Caribbean Basin have an important common feature, that is, their dependence on increasing flows of investment to foster economic development. Furthermore, recent statistical data demonstrates a qualitative difference between foreign direct investment (FDI) flows going into the countries of the Caribbean Basin and other larger Latin American economies. While in South American countries most FDI flows tend to be “market-seeking” and “natural

resource-seeking," in the relatively smaller economies participating in the CRII most FDI are "efficiency-seeking" in nature. These "efficiency-seeking" flows tend to be greenfield. They are geared towards labor-intensive activities and are essentially export-oriented. It is important to note that these efficiency-seeking investments have had a significant impact in gradually shifting the export supply of the Caribbean Basin countries from primary products towards manufactures.

Despite the very positive impact of FDI on the economies of the Caribbean Basin, due to their intrinsic characteristics, these economies will remain relatively vulnerable to external shocks unless sound policies are implemented within the framework of market-oriented reforms and a sound macroeconomic policy. Furthermore, policy coherence among the different levels of government becomes a key element not only to reach such objective, but also to promote an adequate environment for investment attraction.

Within this context, sectors which domestically advocate reform of their economy could benefit from international cooperation initiatives, not only to assess the relative position of their country in an increasingly competitive international investment market, but also in providing a source of external validation vis-à-vis other domestic government instances in the difficult task of generating an environment capable of attracting larger investment flows. This is the setting where the CRII is being implemented.

The CRII was launched after a Plenary meeting held in April 2001 in Curaçao, where all participating countries, donors and international institutions involved in the region were invited to participate in a Steering Group that would be in charge of implementing the program. The CRII Steering Group held its first meeting in Miami on 30-31 August 2001, where an initial pilot program involving three countries of the region, i.e. Costa Rica, the Dominican Republic and Jamaica, was launched. This pilot program, which is already in an advanced stage of implementation, entails two concrete projects as a starting point for the CRII.

The first project is a business environment report for each participating country, whereas the second is an inventory of legal measures that do not conform with the principles of national treatment, most-favored-nation treatment and measures which also prevent, on a non-discriminatory basis, the establishment of foreign investment in particular sectors of the economy. These two projects combined represent an **initial phase of diagnosis** of the economic, political and legal variables affecting the investment climate in each country participating in the pilot program. The CRII envisages **two additional stages**, i.e. the elaboration of an **investment policy reform agenda** –on the basis of the two components of the diagnosis of the investment climate--, and a third phase of **monitoring** of compliance of that agenda – using the Steering Group and Plenary Meetings as fora where participating countries and international organizations can evaluate the concrete results in complying with each country's agenda.

2. THE CRII CONCEPT

The CRII concept is rooted on two basic premises. First, the need to establish a **dialogue mechanism** between interested international organizations and national governments in order to elaborate concrete investment policy recommendations in priority areas on the basis of a **"bottom up" rather than a "top down" approach**. That is, rather than having international institutions dictating policy recommendations to the countries involved, the CRII purports to enable participating countries to build

an investment policy reform agenda of their own, on the basis of a well-informed, objective and comprehensive assessment of the economic, political and legal variables affecting the investment climate in each particular country, taking into consideration the business perspectives on this matter.
Within this context, the role of the OECD and other international institutions involved will then be to assist the participating countries in implementing their own agenda in order to reach a positive impact on the investment environment.

The second premise at the base of the CRII is to **avoid duplication** of work already been conducted by governments or international organizations involved in the region. For this purpose, the CRII attempts to **create synergies** among other existing cooperation initiatives and serve as a forum to allow other efforts to converge towards fulfilling the objectives identified by the participating countries.

3. DESCRIPTION OF THE PROJECT

To reach its objectives, the CRII envisages three phases:

1. An initial diagnosis of variables affecting the investment climate, focusing on projects which although useful as a basis for fostering reform have an intrinsic value and serve as a contribution to other efforts undertaken by participating countries.

2. An elaboration of an investment policy reform agenda, based on an objective appraisal of the data and conclusions obtained in the first phase, and

3. A monitoring process using the CRII Plenary and Steering Committee framework to enable peer pressure and external validation for national authorities interested in complying with the investment policy reform agenda elaborated in the second phase.

3.1. First Phase: A Comprehensive Diagnosis of the Investment Climate

The initial phase of diagnosis of investment climate consists of two concrete projects. The first project is a business environment report, and the second is an inventory of legal measures that do not conform with the principles of national treatment, most-favored- nation treatment and measures that also prevent, on a non-discriminatory basis, the establishment of foreign investment in particular sectors of the economy.

Although used as a basis for the other two stages of the program, these projects represent a significant contribution in their own right. The Business Environment Report provides national authorities as well as investors with a synthesis of the investment climate prevailing in the country concerned. To have such data available is undoubtedly a useful tool for Investment Promotion Agencies and investors in their everyday activities.

The inventory of non-conforming measures is, in addition to being a precise and concrete diagnosis of the legal impediments affecting FDI in a particular country, a necessary tool to pursue negotiation of any international investment agreement. In this regard, providing the CRII countries with such inventory will definitively enable them to be prepared for the ongoing negotiations of the Free Trade Area of the Americas (FTAA), where a chapter on investment is being negotiated.

3.1.1. Business Environment Report (BER)

3.1.1.1. Objective

The main objective of this study is to produce an overall factual assessment of investment conditions (including advantages and weaknesses) existing in each CRII country. The purpose of such factual assessment is to serve as a basis for the countries involved to prepare an investment policy reform agenda, and benefit from any co-operative effort (including external validation) that the CRII and the OECD could provide to assist the country involved in implementing those reforms.

3.1.1.2. Methodology

The project will be undertaken by a national contact point who will be based in the country subject to review and two expert consultants (one legal expert and one economist) who will draft the BER. The national contact point shall appoint and organize a team of assistants who, under his guidance, will collect and process the data required to prepare the BER. For such purpose, each national team will respond to the questionnaire prepared by the OECD consultants. Such questionnaire will cover each of the variables identified in the table of contents attached as Annex 1.

Once the questionnaire is completed in accordance with a pre-established calendar, the information will be forwarded to the OECD consultants who will then revise the data and, on the basis of the information provided by national teams, prepare the preliminary drafts of the reports. Each national contact point will be charged with the task of ensuring that the questionnaires are duly and timely completed using the most current and accurate information available locally and internationally.

Each BER will have three Sections. The first section will assess main trends in FDI flows in the country concerned, the second will contain a profile of the political, legal and economic variables affecting business in that country. The third section will focus on the perceptions of the private sector on the quality of the business environment in that country.

In order to prepare the third section of the report, each national contact point will coordinate the distribution and collection of a questionnaire specifically targeted to business operating in the country concerned (hereinafter the “business questionnaire”, which is attached as Annex 2). In addition to circulating the business questionnaire, the responsible contact point will also conduct direct interviews with the top 20 foreign investors in the country and collect their views on the issues contained in the business questionnaire. The results of this survey will then be forwarded by the national contact point to the OECD consultants, who will analyze the data and prepare the draft of this section of the BER.

3.1.2. Inventory of Non-Conforming Measures

3.1.2.1. General Objective

The main objective of this component is to prepare an inventory of non-conforming measures with respect to national treatment and MFN treatment in the CRII participating countries. The inventory will also contain a list of non-discriminatory restrictions to establishment of foreign investment, listing the domestic agencies in charge of implementing these laws and regulations and an explanation of the policy rationale for maintaining such restrictions to investment.

3.1.2.2. Methodology

The inventory will be prepared on the basis of the U.N. Central Product Classification (CPC), attempting to cover all sectors on which non-conforming measures exist. The teams will be set up by the national contact point in each country. An OECD consultant will act as general coordinator to guide the work of national lawyers undertaking the compilation of the legislation. For this purpose, cooperation with law schools and legal associations in the respective countries will be sought. The national teams undertaking the effort to compile and processing the inventories will be trained by the OECD consultants in their home countries.

3.2. Second Phase: Elaboration of an Investment Policy Reform Agenda

3.2.1. Assessment of the BER and Inventory by the Steering Committee

A general project coordinator will monitor the progress made in the elaboration of the BER and the inventory of non-conforming measures. Once the preliminary drafts have been prepared, the documents will be then forwarded to the Steering Group which will then meet to discuss the preliminary results of the studies. At this meeting, each national contact point will also submit for the consideration of the Steering Group a list of policy objectives that will comprise the agenda for domestic reform. On this basis, the Steering Group will explore ways in which the CRII can become instrumental in assisting that CRII country to effectively implement those reforms.

3.2.2. Identification of Policy Objectives and Preparation of an Action Plan

Based on the findings of the BER and the inventory of non-conforming measures, each country will identify key concrete policy objectives to improve the investment climate in a joint co-operative effort with the CRII and the OECD. For such purpose, each country will submit an action plan to the CRII Steering Group, containing specific ideas and proposals on how the OECD and other international organizations could assist the competent authorities in undertaking such action plan.

3.2.3. Mechanisms to Comply with the Action Plan

Each country will be responsible to identify concrete means to achieve the objectives of the Action Plan. The objective of this exercise would be to encourage each country to coordinate existing international cooperation initiatives and gear them towards the issues identified in the Action Plan. In this manner, the CRII would then become a useful channel to coordinate the various existing investment-related cooperation programs within a single and coherent policy direction.

3.3. Third Phase: The Monitoring Process

The identification of policy objectives and means to achieve them will determine the investment policy reform agenda. Such agenda will be discussed in the CRII Steering Group and once proposed by each country will constitute a “pact” between the latter and the CRII. The monitoring of this investment policy reform “pact” will be conducted through periodic reports containing the following elements for each policy objective:

- Concrete planned actions;
- Activities performed to that date;
- Particular indications to implement that policy objective;
- Agency in charge of implementing each action and
- Target date for completion of each action.

The general coordinator of the project shall be in contact with each national contact point in order to oversee the progress of the Investment Reform Pact and prepare a periodic report on the status of implementation to be submitted by each country to the CRII Steering Group and to the Annual CRII Plenary Meeting. These two instances will form the main fora where the progress in the implementation of the Investment Reform Pact will be assessed. For this purpose, the country review will be simultaneously undertaken on a set of three countries on a pre-established date, attempting to take advantage from the peer pressure which could developed within the Steering Group and Plenary Meeting and the external validation the CRII could provide to the national authorities responsible of implementing the Investment Reform Pact.

4. PROGRAM OF ACTIVITIES FOR 2002/ 2003

4.1. Conclusion of the First Stage of the CRII for Countries Participating in the Pilot Program

Currently the CRII is undertaking a pilot program involving three countries: Costa Rica, the Dominican Republic and Jamaica. The first stage of the program effectively began in November 2001 and is expected to be concluded, at least at a draft level, by May 2002. During that month the CRII Steering Group will meet in Montego Bay, Jamaica to evaluate the progress reached to that date, to discuss the investment policy reform agendas proposed by each of the three countries participating in the pilot program and to agree on the Investment Reform Pacts. The results of this meeting and the progress reached in the first year of the CRII program will then be discussed in the CRII Plenary Meeting which will be held at the same venue immediately after the working session of the CRII Steering Group. On that occasion the calendar for compliance with the Investment Reform Pacts will be agreed to.

4.2. Conclusion of the Second and Third Stages of the CRII for Countries Participating in the Pilot Program

During the second semester of 2002 and the first semester of 2003 Costa Rica, the Dominican Republic and Jamaica will be involved in the monitoring process. The particular calendars for compliance will be tailored to the specific Investment Reform Pacts agreed for each country in the Steering Group meeting in May 2002.

4.3. Expansion of the CRII to Other Countries

During the first semester of 2002, a second set of countries for the CRII program will be selected.

4.4. Evaluation of the results: Steering Group Meeting, December 2002

By the end of the second semester of 2002 the CRII program will be in implementation in at least six countries of the Caribbean Basin. By that date, it will be necessary not only to oversee any potential difficulty the first tier of countries may be having in the implementation of their Investment Reform Pacts, but also, to examine the progress the second tier of countries may have reached in preparing the two projects comprising the first diagnostic state of the project, that is the Business Environment Report and the Inventory of Non-Conforming Measures. The meeting of the Steering Group to be held in December 2002 will address these two items in its agenda.

CRII CALENDAR

Activity	**Month 1= May 2002**											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Steering Group and CRII Plenary Meeting. Investment Policy Reform Pacts with Jamaica, Dominican Republic and Costa Rica	X											
Conclusion of BER report and Inventory of Non-Conforming Measures for Countries participating in Pilot Program	X	X										
Monitoring of compliance with Investment Policy Reform Pacts	X	X	X	X	X	X	X	X	X	X	X	X
Steering Group Meeting to address current progress in implementation of CRII program								X				
SECOND TIER OF COUNTRIES FOR THE CRII PROGRAM												
Distribution of questionnaires to national contact points to start BER report for second tier of countries	X											
Deadline to submit to OECD consultants complete information on Sections 1 and 2 of the BER report				X								
Deadline to collect business questionnaire and conclude direct interviews for BER report						X						
Selection of national teams to prepare inventory of non-conforming measures	X											
Training session to national teams		X										
Monitor of progress by Steering Committee								X				
2002 CRII Plenary Session												X

THE CRII PROGRAM IN A NUTSHELL

GENERAL OBJECTIVE: To assist the countries of Central America and the Caribbean in their efforts to improve their investment climate, attract increasing flows of investment and maximize the benefits of those flows.

SPECIFIC OBJECTIVES: To establish a mechanism that can allow CRII countries and interested International Organizations to jointly achieve the effective implementation of an investment policy reform agenda, based on an comprehensive and objective assessment of the economic, political and legal variables affecting the investment climate in each particular country.

PRINCIPLES: Avoid overlapping with other cooperation initiatives

- Joint cooperation among international organizations and national teams
- Joint ownership of policy priorities
- External validation strengthening domestic reformist forces

DECISION MAKING:

CRII PLENARY MEETING
CRII countries, Donors and interested International Organizations

STEERING GROUP
Voluntary CRII countries, Donors and interested International Organizations

EXECUTION:

OECD
Directorate for Fiscal Financial and Enterprise Affairs

CRII Program Director

National Contact Points

National Teams

PHASES: First Phase: Comprehensive Diagnosis of the Investment Climate
Components: 1. Business Environment Report
2. Inventory of Non-Conforming Measures

Second Phase: Elaboration of an Investment Policy Reform Agenda
Components: 1. Country's identification of policy objectives
2. Action Plan

Third Phase: Monitoring Process