THE OECD INITIATIVE ON INVESTMENT FOR DEVELOPMENT

MEETING OF THE OECD COUNCIL AT MINISTERIAL LEVEL 2006

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- **The Policy Framework for Investment**
- **Policy Guidance for Donors on Using ODA to Promote Private Investment for Development**

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Introduction

On current trends, the Millennium Development Goals may not be achieved in many developing countries, especially in Africa. Despite positive trends in the past decade, business investment and enterprise development in non-OECD regions continue to fall short of development needs. Realisation of this has led to renewed interest in the growth agenda and the importance of private investment for promoting the broad-based and sustained growth that will help drive poverty reduction.

Private investment is a powerful catalyst for innovation, sustainable growth and poverty reduction. The Monterrey Consensus ascribes responsibility to governments for creating the domestic conditions for private investment to flourish, through macroeconomic stability, good public governance and the fight against corruption, equitable and efficient tax systems, human resource development, improved infrastructure and sound financial markets, the protection of property rights and the promotion of good corporate governance, competition and open trade policies. In addition, the Monterrey Consensus emphasises that official development assistance (ODA) "can be critical for improving the environment for private sector activity and can thus pave the way for robust economic growth".

In support of the Monterrey Consensus, the OECD launched the *Initiative on Investment for Development* in 2003 in Johannesburg, South Africa.[1] The *Initiative* includes the development of a *Policy Framework for Investment*. It also draws lessons on the use of ODA in support of countries' efforts to mobilise investment for development. The *Initiative* has also served as an overarching principle for OECD co-operation with non-members, including sharing the OECD's experience with using peer reviews to build capacity for investment policy.

This brochure reports on the outcome of the work to produce a *Policy Framework for Investment* and *Policy Guidance for Donors on using ODA to promote private investment for development*. The Annex reproduces the ten sets of questions from the *Policy Framework for Investment,* without the associated annotations.

The Policy Framework for Investment

The objective of the *Policy Framework for Investment*[2] is to mobilise private investment that supports steady economic growth and sustainable development. It thus aims to contribute to the prosperity of countries and their citizens as well as to support the fight against poverty.

The *Framework* should be seen in the broader context of the United Nations Millennium Declaration and recent multilateral efforts to strengthen the international and national environments in which business is conducted, including the Doha Development Agenda and the Johannesburg Declaration on Sustainable Development. It aims to advance the implementation of the United Nations Monterrey Consensus, which emphasised the vital role of private investment in effective development strategies.

The *Framework* has been designed as a non-prescriptive tool, providing a checklist of questions for governments to consider in ten policy fields identified in the Monterrey Consensus as critically important for the quality of a country's environment for investment, including by small enterprises and foreign investors. These are: investment policy; investment promotion and facilitation; trade; competition; tax; corporate governance; policies for promoting responsible business conduct; human resource development; infrastructure and financial sector development; and public governance (see Annex). The *Framework* also addresses the contribution of international co-operation, including home-country policy initiatives.

The questions for governments proposed by the *Framework* are supported by annotations and complemented by references to selected policy resources. In addition, a *Review of good practices in OECD and non-OECD economies* in the ten policy areas has been assembled to serve as analytical background[3] and will be published in parallel with the *Framework* under the responsibility of the Secretariat.

A partnership process

The work was conducted by an ad hoc Task Force established under the aegis of the Investment Committee, consisting of officials from the 30 OECD and 26 non-OECD member governments[4] and the EC. Japan and Chile chaired jointly the Task Force. In addition to the Investment Committee and nine other OECD bodies,[5] the World Bank, UNCTAD and other international organisations have also participated in the work of the Task Force.

The Task Force held five meetings in Paris, from June 2004 to March 2006, and conducted consultations abroad on the *Framework* under the auspices of the OECD Global Forums on International Investment held in India and Brazil and regional investment initiatives (in Uganda with NEPAD; in Korea with APEC; in Indonesia with ASEAN, UNESCAP and ADB; and the South East Europe Investment Compact).

BIAC, TUAC and representatives of non-governmental organisations were invited to participate in the meetings of the Task Force and made submissions. A broader public consultation was arranged through the OECD's Internet website in January-February 2006.

Future use of the Framework

Examples of avenues for future use of the *Framework* already in train or identified include the following:[6]

Regional investment initiatives

Parties to the NEPAD-OECD Africa Investment Initiative will use the *Framework* as an organising principle for self-evaluations and peer dialogues, as provided for in the strengthened terms of this Initiative [approved by OECD Council in November 2005 – C(2005)139/REV1]. The NEPAD-OECD Africa Investment Initiative also follows up a request of the G8 Gleneagles Summit [ECSS(2005)2/REV1].

The joint APEC/OECD investment seminar held in the context of the APEC summit in Korea in November 2005 gave broad support for using the *Framework* approach in co-operation with the OECD to strengthen APEC work and dialogue on investment. This support was reiterated by actual and future APEC chairs – Australia, Korea and Vietnam – in December 2005. Since then, a proposal for joint work on an APEC-OECD Integrated Framework has been under consideration in APEC.

The Investment Compact for South East Europe has been involved over the past five years in investment reform issues cutting across a broad range of policy areas; pursuant to the call by the June 2005 Investment Compact Ministerial, the governments and the private sector in the region are currently working within the Investment Compact to use the *Framework* in the process of monitoring the results.[7]

Investment policy peer reviews

The *Framework* articulates the many aspects of sound investment regimes covered by the OECD reviews of the investment policy of particular countries. It also provides robust templates for peer dialogue in areas only superficially covered in the past in country and other investment outreach programmes, in particular infrastructure development and government policies to promote recognised concepts and principles for responsible business conduct.

At the OECD, a first test of the *Framework* in a country-specific context will be made in reviews that will be carried out as part of existing China, Russia and other co-operation programmes on investment. It will also be used to assess the investment environments of non-members applying to adhere to the OECD Declaration on International Investment and Multinational Enterprises.

Co-operation with other international organisations

The World Bank has been a key partner within the Task Force in the development of the *Framework*. It contributed background material for the chapter of the *Framework* on infrastructure and financial sector development and on human resources development; it officially co-sponsored the 2005 OECD Global Forum on International Investment entirely devoted to the *Framework*. The OECD will continue to work with the World Bank to implement the above-mentioned regional investment initiatives and, more generally, to co-ordinate work on improving investment climates. The UNCTAD Secretariat has also outlined a wide range of possibilities for co-operation with the OECD, including its desire to conduct joint investment policy reviews of selected economies using the *Framework* as a benchmark.

Looking ahead, the Investment Committee is also considering a proposal for the creation of a web-based *International Investment Dialogue* as a joint initiative of the OECD, World Bank and other interested organisations that would facilitate co-ordination and dissemination of *Framework*-relevant work.

Donor engagement

The joint report by the Development Assistance and Investment Committees on the role of ODA to mobilise investment for development presented to the 2005 OECD Ministerial [C(2005)61] pointed to the need for donors to be more strategic, better co-ordinated and guided by more systematic learning of what works and does not work to address binding constraints at national and sector levels that are holding back investment. More specific policy guidance for donors has since been developed within the DAC [see next section] in consultation with a range of stakeholders including the Investment Committee. DAC highlights the *Framework* as a tool that complements its guidance for identifying such constraints.

The strengthened NEPAD-OECD Africa Investment Initiative in particular has been recognised as an important opportunity to strengthen donor engagement.

Policy Guidance for Donors on Using ODA to Promote Private Investment for Development

The objective of the *Policy Guidance for Donors*[8] is to help DAC members use their official development assistance more effectively to mobilise private investment for development. As in other domains, investment-enhancing ODA should also base itself on general guidance on improving the design, delivery and effectiveness of development co-operation, including that set out in the *Paris Declaration on Aid Effectiveness*. It is also crucial to enhance the coherence of government policies, in both donor and developing countries, that affect the volume of investment and its development impact. To help governments improve their investment climate, developing and other countries can refer to the *Policy Framework for Investment*.

An incremental and inclusive process

Preparation of this *Policy Guidance* has occurred in two phases:

- The first phase, carried out jointly by the Development Assistance and Investment Committees, resulted in the production of an initial set of *Policy Lessons on the Role of ODA in Mobilising Private Investment*. These were presented to the 2005 OECD Ministerial Council Meeting [C(2005)61].
- This current *Policy Guidance*, prepared by the DAC, builds on the Policy Lessons as well as recent work within the DAC on promoting pro-poor growth, including in relation to the key areas of agriculture, infrastructure and private sector development, and on capacity development.[9] The draft *Policy Guidance* has benefited from inputs from the DAC and the Investment Committee. The World Bank, BIAC and TUAC have also provided comments.

The *Policy Guidance* was approved by the DAC at its meeting on 15 March 2006.

Key policy messages

Vigorous and sustained economic growth, fuelled by investment and entrepreneurship, is needed for the private sector to create more jobs and increase incomes of the poor. In turn, this will generate the revenues that governments need to expand access to health, education and infrastructure services and so help improve productivity. But in many developing countries, investment rates are too low, productivity gains are insufficient, incentives for innovation are inadequate, returns on investment are not sufficiently predictable, and not enough secure, safe and adequately paid jobs are being created in the formal economy.

Developing countries and their donor partners consequently need to do much more to address the market failures and structural impediments that are holding back productive investment (both domestic and foreign), and to do it better, for longer periods and in a more strategic way. Developing countries can help foster an investment climate that enables the private sector to flourish and fulfil its role as the main engine of growth. To do so, they can pursue macroeconomic stability, improve the functioning of market regulating institutions and strengthen procedures for contract enforcement and dispute settlement. Developing country governments can also improve the coherence of their policies in a range or areas such as trade, tax, competition and investment promotion – that affect the volume of investment and its development impact.

Box 1 presents key messages for donors from the *Policy Guidance*.

Box 1. **Using ODA to Promote Private Investment for Development: Key Messages for Donors**

A review of past practices by donors with using ODA to mobilise private investment highlights that:

i) Donors are supporting a vast range of activities – at the macroeconomic, enabling environment and enterprise levels that affect investment. They spend around 20% of their aid on these. But little evaluative material on the impact of interventions on mobilising investment is available.

ii) Insufficient attention has been given to enterprise and supply-side capacity development, and to promoting the institutional and policy reforms that lie at the heart of efforts to promote private sector development.

iii) Donors have focussed too much on assisting specific types of firms (*e.g.* certain sizes, activities or sectors). Experience has shown this can lead to market distortions and poor sustainability.

To help developing countries mobilise more productive investment, and improve the effectiveness of interventions that support this objective, development agencies need to:

i) Be more strategic, and their interventions need to be harmonised and guided by more systematic learning of lessons.

ii) Focus on helping to lower the costs of investment, reduce risks, improve competition and develop human and institutional capacities in developing countries.

iii) Give high priority to economic infrastructure investment and financial market development, as key areas for mobilising investment in the near term.

iv) Pay greater attention to the determinants of domestic investment, both formal and informal, and to strengthening the capacities of local firms to respond to new investment opportunities and to expand business relationships with foreign investors.

v) Enhance the contribution of investment to pro-poor growth (*i.e.* increase the impact of growth on poverty reduction) by making labour, land and other markets work better for the poor, tackling constraints to women's entrepreneurship, reducing barriers to formalisation, promoting environmental sustainability, expanding access to knowledge and technology and unleashing the economic potential in rural areas.

vi) Encourage entrepreneurship and innovation by supporting education and vocational training, research and development activities and technology transfers.

vii) Promote responsible business practices in such areas as labour relations, the environment and anti-corruption.

viii) Build on analyses of country and sector-specific constraints, at national and local levels, to private sector development and encourage publication and public debate about the results. Help build up the capacities of developing countries to carry out such assessments.

ix) Seek out reliable, representative and accountable domestic partners who can drive reform programmes and help catalyse change.

x) Use market-based approaches to supporting firms. Targeted assistance should avoid distortions and firms receiving direct support should be selected based on their expected capacity to innovate, create jobs and provide services at local market conditions.

xi) Promote structured and inclusive public-private dialogue, at national and local levels, so as to bring micro and small entrepreneurs and informal firms and workers into consultation and decision-making processes. This will help to build demand for reform and for investments that will improve the investment climate.

xii) Evaluate the cumulative impact of their interventions on mobilising investment and share examples of successful and unsuccessful practices.

Box 1. Using ODA to Promote Private Investment for Development: Key Messages for Donors *(cont.)*

Reforming the investment climate requires political will, drive and leadership to take on entrenched interests and inertia. Development agencies need to stay the course and support "change agents" within the public and private sectors and civil society.

Development agencies also need to change the way they do business. They need to have access, individually or collectively, to an appropriate range of aid instruments. Their internal systems should not work against staff pursuing longer-term and riskier interventions. Staff working on the range of subjects relevant for mobilising investment should be well co-ordinated. More of the goods and services that development agencies procure can be sourced on competitive terms in developing countries, to support local private sector development. Finally, public sector partners in developing countries can be encouraged to engage more with the private sector, such as through public-private partnerships.

Future use of the Policy Guidance

The *Policy Guidance* should help staff in development agencies, both in headquarters and the field, to pursue a more strategic and co-ordinated approach to designing and delivering investment-enhancing ODA. The *Policy Guidance* will also serve as a point of reference during the periodic peer reviews of DAC members' development co-operation policies and programmes.

Work on implementation of the *Policy Guidance* and an exchange and assessment of experiences among donors, partner countries and the private sector with using ODA to mobilise private investment is proposed as part of the DAC's Programme of Work and Budget for 2007-2008.

Notes

1. The OECD Initiative on Investment for Development was proposed at the 2003 Ministerial Council Meeting [C(2003)205]. Work on the Initiative received renewed support from the 2005 OECD Ministerial Statement to the Follow-up of the UN Millennium Declaration and Monterrey Consensus [C/MIN(2005)2].
2. The report on the *Framework* [DAF/INV(2006)2] was revised and approved on 11 April 2006 by the OECD Investment Committee, which also agreed to transmit it to Council [C(2006)68].
3. DAF/INV/TF(2006)2/REV1.
4. Non-OECD economies that participated in Task Force meetings at the OECD include: Argentina, Bahrain, Brazil, Chile, China, Chinese Taipei, Egypt, Estonia, India, Indonesia, Israel, Jordan, Latvia, Lithuania, Malaysia, Morocco, Mozambique, Pakistan, Philippines, Romania, Russia, Senegal, Slovenia, South Africa, Tanzania and Vietnam. The Task Force was open to any interested non-members.
5. These were: Development Assistance Committee, Trade Committee, Competition Committee, Committee on Fiscal Affairs, Steering Group on Corporate Governance, Education Committee, Employment, Labour and Social Affairs Committee, Working Group on Bribery in International Business Transactions, and Public Governance Committee.
6. These examples do not constitute a new work programme proposal that would commit the budget of the Organisation or substitute for existing OECD bodies' country reviews and other co-operation programmes. Any implications for follow-up work after completion of the *Framework*, which have not have been factored in output results already agreed by OECD Council, will be taken up in the

context of the Investment Committee's work programme submission as part of the normal process of preparation for the OECD's PWB 2007-2008.

7. Other proposed regional contexts for using the *Framework* have included ASEAN, CAFTA, the MENA-OECD Investment Programme, and UNESCAP.
8. *Using ODA to Promote Private Investment for Development: Policy Guidance for Donors* was approved by the DAC on 15 March 2006 [DCD/DAC(2006)5/FINAL].
9. For policy guidance on promoting pro-poor growth, see: DCD/DAC(2006)22, on agriculture see: DCD/DAC(2006)23, on infrastructure see: DCD/DAC(2006)1, on private sector development see: DCD/DAC(2006)9 and on capacity development see: DCD/DAC/GOVNET(2005)5/REV1.

ANNEX

EXCERPTS FROM THE POLICY FRAMEWORK FOR INVESTMENT

Preamble and Part I of the Policy Framework for Investment, *as approved by the Investment Committee on 11 April 2006. This Annex does not reproduce the annotations included in Part II.*

Preamble

The objective of the *Policy Framework for Investment* is to mobilise private investment that supports steady economic growth and sustainable development, and thus contribute to the prosperity of countries and their citizens and the fight against poverty.

The economic and social benefits of private investment, both domestic and international and in its many forms, from physical assets to intellectual capital are widely recognised. Private investment expands an economy's productive capacity, drives job creation and income growth, and in the case of international investment, is a conduit for the local diffusion of technological and enterprise expertise and spurs domestic investment, including through the creation of local supplier linkages. Such benefits can act as a powerful force for development and poverty eradication. Yet, while many countries have succeeded in achieving high rates of domestic private investment and attracting substantial international investment as an integral part of their development strategy, others have not been as successful in realising the benefits of investment. The benefits of investment do not necessarily accrue automatically or evenly across countries, sectors and local communities. Countries' continuous efforts to strengthen national policies and public institutions, and international co-operation, to create sound investment environments matter most.

The *Policy Framework for Investment* is a tool, providing a checklist of important policy issues for consideration by any government interested in creating an environment that is attractive to all investors and in enhancing the development benefits of investment to society, especially the poor. In this way, the Framework aims to advance the implementation of the United Nations Monterrey Consensus, which emphasised the vital role of private investment in effective development strategies.

The *Framework* should be seen in the broad context of the United Nations Millennium Declaration and recent multilateral efforts to strengthen the international and national environments in which business is conducted, including the Doha Development Agenda and the Johannesburg Declaration on Sustainable Development. In common with those initiatives, it promotes transparency and appropriate roles and responsibilities for governments, business and others with a stake in promoting development and poverty reduction, and builds on universally shared values of democratic society and respect for human rights, including property rights.

The *Framework* is not a volume of ready-made prescriptions, nor is it binding. Rather, it is a flexible tool with which to frame and evaluate the important policy challenges countries face in pursuit of development. Its core purpose is to encourage policy makers to ask appropriate questions about their economy, their institutions and their policy settings in order to identify their priorities, to develop an effective set of policies and to evaluate progress.

A task force of government officials from about 60 OECD and non-OECD economies decided and developed the *Framework's* content and structure, with the partnership of the World Bank, the United Nations and other international institutions and informed by regional consultations in Africa, Asia, Latin America and South East Europe. Business, labour and other civil society organisations also contributed their perspectives to the development of the Framework. Apart from macroeconomic stability, political predictability, social cohesion and upholding the rule of law, which are pre-conditions for sustainable development, the task force selected ten policy domains, based on an assessment of the strength of the linkages between each policy field and the investment environment. The ten chapters draw on good practices from OECD and non-OECD experiences and cover: investment policy; investment promotion and facilitation; trade policy; competition policy; tax policy; corporate governance; policies for promoting responsible business conduct; human resource development; infrastructure and financial sector development; and public governance.

The *Framework* is comprehensive, but does not claim to be exhaustive. Other policy areas, such as the environment, energy, rural development, innovation, women entrepreneurship and gender balance bear on the business environment as well. While the *Framework* does not identify these topics as stand-alone chapters, many questions explicitly capture their importance on the investment environment and for economic development.

The *Framework*, by fostering an informed process of policy formulation and implementation at all levels of government, can be used in a variety of ways as part of their national development strategies. Self-evaluation, peer reviews, regional co-operation and multilateral discussions can all benefit from the insights offered in the *Framework* and will contribute to identify where to prioritise investment policy reforms. It also provides a reference point for international organisations' capacity building programmes, for investment promotion agencies, for donors as they assist developing country partners in improving the investment environment and for business, labour and other non-governmental organisations in their dialogue with governments. Its various elements can be flexibly adapted to the particular economic, social, legal and cultural circumstances and needs in economies at different stages of development. The *Framework* also addresses the potential contribution that governments can make by international co-operation, including through regional integration and home-country policy initiatives.

The OECD, working with non-members, partner organisations, donors and stakeholders, will assist in methodologies, including indicators of progress, and institutional capacity building for the effective use of the Framework in light of different circumstances and needs.

The *Framework* is a component of the OECD Initiative on Investment for Development, launched in Johannesburg in November 2003, which received support at OECD Ministerial level. The *Framework* builds on the OECD's experience and instruments dealing with the different policy areas that are covered and its Committees' global and regional dialogue with non-member economies. It complements recent OECD initiatives directed to governments and the business sector, including the *OECD Guidelines for Multinational Enterprises* revised in 2000, and can work in synergy with the OECD Development Assistance Committee's *Policy Guidance for Donors on using ODA to Promote Private Investment for Development*, which is another component of the OECD Initiative.

The Framework and its scope will be reviewed by the OECD and its non-member partners and stakeholders in light of experience with its use, to strengthen its effectiveness over time.

The Policy Framework for Investment

This Part of the *Framework* brings together ten sets of questions covering the main policy domains selected by the task force and similarly identified in the Monterrey Consensus as having the strongest impact on the investment environment. The technique of using questions is intended to facilitate flexible approaches to self-assessment and to priority setting by governments in accordance with their own circumstances, development agendas and institutional arrangements. The questions also help to define the respective responsibilities of government, business and other stakeholders, and to pinpoint areas where international co-operation can most effectively redress weaknesses in the investment environment

The questions are accompanied by annotations, which provide context and information from an investment perspective in Part II. The documents referenced and policy resources listed in each chapter provide additional analytical background and practical policy guidance, including examples of country experience with the issue at hand. In addition, the companion volume *Policy Framework for Investment: A Review of Good Practices in OECD and Non-OECD Economies* brings together analytical background material for each of the ten policy domains.

Three principles apply throughout the *Framework*. The first is policy coherence, with the questions in each chapter following an integrated approach to the interaction between various policy areas and the investment environment. For example, standards for investment protection and openness are of wide applicability to international as well as domestic investors including small- and medium-sized enterprises (SMEs); effective competition and tax policies are important to ensure that investment, in particular in small businesses, is not deterred by unnecessary barriers to entry, dissuasive taxation, and poor legal compliance; and open trade policies contribute to realising the benefits of an open investment policy. The public governance chapter focuses on the conditions for a sound regulatory framework within and across policy domains.

The second principle is the importance of a transparent approach to policy formulation and implementation, with government agencies accountable for their activities. Transparency reduces uncertainty and risk for investors and the transaction costs associated with making an investment, and facilitates public-private dialogue. Accountability reassures investors that government agencies are exercising their powers responsibly. How transparency and accountability in specific public policy domains fosters an environment where investment flourishes is thus a theme taken up in the questions in each of the chapters.

Regular evaluation of the impact of existing and proposed policies on the investment environment is the third principle that applies across the *Framework*. In this regard, the questions seek to help evaluate how well government policies uphold established good practices in terms of fair treatment for all investors (foreign or domestic based, small or large in size) and opening opportunities to invest, taking into account the wider interests of the community in which investors operate. The questions attach a particular emphasis to the adaptability of the institutional framework and the role of periodic evaluations so as to identify early on new challenges and to be able to respond quickly to them.

1. Investment policy

The quality of investment policies directly influences the decisions of all investors, be they small or large, domestic or foreign. Transparency, property protection and non-discrimination are investment policy principles that underpin efforts to create a sound investment environment for all.

1.1. What steps has the government taken to ensure that the laws and regulations dealing with investments and investors, including small and medium sized enterprises, and their implementation and enforcement are clear, transparent, readily accessible and do not impose unnecessary burdens?

1.2. What steps has the government taken towards the progressive establishment of timely, secure and effective methods of ownership registration for land and other forms of property?

1.3. Has the government implemented laws and regulations for the protection of intellectual property rights and effective enforcement mechanisms? Does the level of protection encourage innovation and investment by domestic and foreign firms? What steps has the government taken to develop strategies, policies and programs to meet the intellectual property needs of SMEs?

1.4. Is the system of contract enforcement effective and widely accessible to all investors? What alternative systems of dispute settlement has the government established to ensure the widest possible scope of protection at a reasonable cost?

1.5. Does the government maintain a policy of timely, adequate, and effective compensation for expropriation also consistent with its obligations under international law? What explicit and well-defined limits on the ability to expropriate has the government established? What independent channels exist for reviewing the exercise of this power or for contesting it?

1.6. Has the government taken steps to establish non-discrimination as a general principle underpinning laws and regulations governing investment? In the exercise of its right to regulate and to deliver public services, does the government have mechanisms in place to ensure transparency of remaining discriminatory restrictions on international investment and to periodically review their costs against their intended public purpose? Has the government reviewed restrictions affecting the free transfer of capital and profits and their effect on attracting international investment?

1.7. Are investment policy authorities working with their counterparts in other economies to expand international treaties on the promotion and protection of investment? Has the government reviewed existing international treaties and commitments periodically to determine whether their provisions create a more attractive environment for investment? What measures exist to ensure effective compliance with the country's commitments under its international investment agreements?

1.8. Has the government ratified and implemented binding international arbitration instruments for the settlement of investment disputes?

2. Investment promotion and facilitation

Investment promotion and facilitation measures, including incentives, can be effective instruments to attract investment provided they aim to correct for market failures and are developed in a way that can leverage the strong points of a country's investment environment.

2.1. Does the government have a strategy for developing a sound, broad-based business environment and within this strategy, what role is given to investment promotion and facilitation measures?

2.2. Has the government established an investment promotion agency (IPA)? To what extent has the structure, mission, and legal status of the IPA been informed by and benchmarked against international good practices?

2.3. Is the IPA adequately funded and is its performance in terms of attracting investment regularly reviewed? What indicators have been established for monitoring the performance of the agency?

2.4. How has the government sought to streamline administrative procedures to quicken and to reduce the cost of establishing a new investment? In its capacity as a facilitator for investors, does the IPA take full advantage of information on the problems encountered from established investors?

2.5. To what extent does the IPA promote and maintain dialogue mechanisms with investors? Does the government consult with the IPA on matters having an impact on investment?

2.6. What mechanisms has the government established for the evaluation of the costs and benefits of investment incentives, their appropriate duration, their transparency, and their impact on the economic interests of other countries?

2.7. What steps has the government taken to promote investment linkages between businesses, especially between foreign affiliates and local enterprises? What measures has the government put in place to address the specific investment obstacles faced by SMEs?

2.8. Has the government made use of international and regional initiatives aimed at building investment promotion expertise, such as those offered by the World Bank and other intergovernmental organisations? Has the IPA joined regional and international networks?

2.9. To what extent has the government taken advantage of information exchange networks for promoting investment?

3. Trade policy

Policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting productivity and rates of return on investment.

3.1. What recent efforts has the government undertaken to reduce the compliance costs of customs, regulatory and administrative procedures at the border?

3.2. What steps has the government taken to reduce trade policy uncertainty and to increase trade policy predictability for investors? Are investors and other interested parties consulted on planned changes to trade policy?

3.3. How actively is the government increasing investment opportunities through market-expanding international trade agreements and through the implementation of its WTO commitments?

3.4. How are trade policies that favour investment in some industries and discourage it in others reviewed with a view to reducing the costs associated with these distortions?

3.5. To what extent do trade policies raise the cost of inputs of goods and services, thereby discouraging investment in industries that depend upon sourcing at competitive world prices?

3.6. If a country's trade policy has a negative effect on developing country exports, what alternative means of accomplishing public policy objectives has the government considered, taking into account the dampening effect that such a restrictive trade policy also has on investment?

3.7. To what extent does trade policy support and attract investment through measures that address sectoral weaknesses in developing countries (*e.g.* export finance and import insurance)?

4. Competition policy

Competition policy favours innovation and contributes to conditions conductive to new investment. Sound competition policy also helps to transmit the wider benefits of investment to society.

4.1. Are the competition laws and their application clear, transparent, and non-discriminatory? What measures do the competition authorities use (*e.g.* publishing decisions and explanations on the approach used to enforce the laws) to help investors understand and comply with the competition laws and to communicate changes in the laws and regulations?

4.2. Do the competition authorities have adequate resources, political support and independence to implement effectively competition laws?

4.3. To what extent, and how, have the competition authorities addressed anti-competitive practices by incumbent enterprises, including state-owned enterprises, that inhibit investment?

4.4. Do the competition authorities have the capacity to evaluate the impact of other policies on the ability of investors to enter the market? What channels of communication and co-operation have been established between competition authorities and other relevant government agencies?

4.5. Does the competition authority periodically evaluate the costs and benefits of industrial policies and take into consideration their impact on the investment environment?

4.6. What is the role of the competition authorities in case of privatizations? Have competition considerations having a bearing on investment opportunities, such as not permitting market exclusivity clauses, been adequately addressed?

4.7. To what extent are competition authorities working with their counterparts in other countries to co-operate on international competition issues, such as cross-border mergers and acquisitions, bearing on the investment environment?

4.8. Policies relating to trade in goods and services can support more and better quality investment by expanding opportunities to reap scale economies and by facilitating integration into global supply chains, boosting product.

5. Tax policy

To fulfil their functions, all governments require taxation revenue. However, the level of the tax burden and the design of tax policy, including how it is administered, directly influence business costs and returns on investment. Sound tax policy enables governments to achieve public policy objectives while also supporting a favourable investment environment.

5.1. Has the government evaluated the level of tax burden that would be consistent with its broader development objectives and its investment attraction strategy? Is this level consistent with the actual tax burden?

5.2. What is the average tax burden on domestic profits, taking into account statutory provisions, tax-planning opportunities and compliance costs?

5.3. Is the tax burden on the business enterprises of investors appropriate with reference to the policy goals and objectives of the tax system?

5.4. If framework conditions and market characteristics for investors are weak, has the government evaluated the limitations of using tax policy alone to influence favourably investment decisions?

5.5. Where the tax burden on business income differs by firm size, age of the business entity, ownership structure, industrial sector or location, can these differences be justified? Is the tax system neutral in its treatment of foreign and domestic investors?

5.6. Are rules for the determination of corporate taxable income formulated with reference to a benchmark income definition (*e.g.* comprehensive income), and are the main tax provisions generally consistent with international norms?

5.7. Have targeted tax incentives for investors and others created unintended tax-planning opportunities? Are these opportunities and other problems associated with targeted tax incentives evaluated and taken into account in assessing their cost-effectiveness?

5.8. Are tax expenditure accounts reported and sunset clauses used to inform and manage the budget process?

5.9. Are tax policy and tax administration officials working with their counterparts in other countries to expand their tax treaty network and to counter abusive cross-border tax planning strategies?

6. Corporate governance

The degree to which corporations observe basic principles of sound corporate governance is a determinant of investment decisions, influencing the confidence of investors, the cost of capital, the overall functioning of financial markets and ultimately the development of more sustainable sources of financing. These questions provide a brief introduction to some of the key corporate governance issues that policy-makers and others should address to promote a sounder environment for investment. For a more complete assessment, policy-makers should turn to the OECD Principles of Corporate Governance and the assessment methodology developed by the OECD Steering Group on Corporate Governance, and if possible ask the World Bank for an assessment under the programme of the Reports on Observance of Standards and Codes (ROSC) for Corporate Governance.

6.1. What steps have been taken to ensure the basis for a corporate governance framework that promotes overall economic performance and transparent and efficient markets? Has this been translated into a coherent and consistent regulatory framework, backed by effective enforcement?

6.2. How does the corporate governance framework ensure the equitable treatment of shareholders?

6.3. What are the procedures and institutional structures for legal redress in cases of violation of shareholder rights? Do they function as a credible deterrent to such violations? What measures are in place to monitor and prevent corporate insiders and controlling owners from extracting private benefits?

6.4. What procedures and institutions are in place to ensure that shareholders have the ability to influence significantly the company?

6.5. By what standards and procedures do companies meet the market demand for timely, reliable and relevant disclosure, including information about the company's ownership and control structure?

6.6. How does the corporate governance framework ensure the board plays a central role in the strategic guidance of the company, the effective monitoring of management, and that the board is accountable to the company and its shareholders? Does the framework also recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises?

6.7. What has been done, and what more should be done in terms of voluntary initiatives and training to encourage and develop a good corporate governance culture in the private sector?

6.8. Has a review been undertaken of the national corporate governance system against the OECD Principles of Corporate Governance? Has the result of that review been made public?

6.9. How is the ownership function of state-owned enterprises (SOEs) structured to ensure a level playing field, competitive market conditions, and independent regulation? What are the processes in place to ensure the state does not interfere in day-to-day management of SOEs and that board members may effectively carry out their role of strategic oversight, rather than to serve as a conduit for undue political pressure? How are SOEs effectively held accountable to the government, the public, and to other shareholders (if any)?

7. Policies for promoting responsible business conduct

Public policies promoting recognised concepts and principles for responsible business conduct, such as those recommended in the OECD Guidelines for Multinational Enterprises, help attract investments that contribute to sustainable development. Such policies include: providing an enabling environment which clearly defines respective roles of government and business; promoting dialogue on norms for business conduct; supporting private initiatives for responsible business conduct; and participating in international co-operation in support of responsible business conduct.

7.1. How does the government make clear for investors the distinction between its own role and responsibilities and those ascribed to the business sector? Does it actively assume its responsibilities (*e.g.* by effectively enforcing laws on respecting human rights, environmental protection, labour relations and financial accountability)?

7.2. What steps does the government take to promote communication on expected responsible business conduct to investors? How does the government endeavour to protect the rights framework that underpins effective communication?

7.3. Does the government ensure that an adequate framework is in place to support the financial and non-financial disclosure that companies make about their business activities? Is this framework flexible enough to allow scope for innovation, for tailoring practices to the needs of investors and their stakeholders?

7.4. How can the government support companies' efforts to comply with the law?

7.5. How does the government through partnership (*e.g.* by participating in the development of standards that lower costs of adopting responsible business policies) and through promotion (*e.g.* by improving the information on responsible business practices to customers and the public) help to strengthen the business case for responsible business conduct?

7.6. Does the government participate in inter-governmental co-operation in order to promote international concepts and principles for responsible business conduct, such as the *OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policies* and *the United Nations Global Compact?*

8. Human resource development

Human resource development is a prerequisite needed to identify and to seize investment opportunities, yet many countries under-invest in human resource development due in part to a range of market failures. Policies that develop and maintain a skilled, adaptable and healthy population, and ensure the full and productive deployment of human resources, thus support a favourable investment environment.

8.1. Has the government established a coherent and comprehensive human resource development (HRD) policy framework consistent with its broader development and investment strategy and its implementation capacity? Is the HRD policy framework periodically reviewed to ensure that it is responsive to new economic developments and engages the main stakeholders?

8.2. What steps has the government taken to increase participation in basic schooling and to improve the quality of instruction so as to leverage human resource assets to attract and to seize investment opportunities?

8.3. Is the economic incentive sufficient to encourage individuals to invest in higher education and life-long learning, supporting the improvement in the investment environment that flows from better human resources? What measures are being taken to ensure the full benefit of a countries' investment in its own human resources accrues, including the attraction of nationals who have completed their studies abroad? What mechanisms exist to promote closer co-operation between education institutions and business and to anticipate future labour force skill requirements?

8.4. To what extent does the government promote training programmes and has it adopted practices that evaluate their effectiveness and their impact on the investment environment? What mechanisms are used to encourage businesses to offer training to employees and to play a larger role in co-financing training?

8.5. Does the government have a coherent strategy to tackle the spread of pandemic diseases and procedures to evaluate public health expenditures aimed at improving public health outcomes and, through inter-linkages, the investment environment?

8.6. What mechanisms are being put in place to promote and enforce core labour standards?

8.7. To what extent do labour market regulations support job creation and the government's investment attraction strategy? What initiatives have been introduced that support policy coordination, balancing social objectives, the goal of a competitive workforce and the incentives for business to invest?

8.8. Do laws and regulations restrict the deployment of skilled workers from an enterprise investing in the host country? What steps have been taken to unwind unduly restrictive practices covering the deployment of workers from the investing enterprise and to reduce delays in granting work visas?

8.9. Does the government support programmes designed to assist large-scale labour adjustment and indirectly the investment environment by better positioning firms to seize investment opportunities? Do the incentive mechanisms in these schemes encourage broad support for change? What role is business encouraged to play in easing the transition costs associated with labour adjustment?

8.10. What steps are being taken to ensure that labour market regulations support an adaptable workforce and maintain the ability of enterprises to modify their operations and investment planning?

9. Infrastructure and financial sector development

Sound infrastructure development policies ensure scarce resources are channelled to the most promising projects and address bottlenecks limiting private investment. Effective financial sector policies facilitate enterprises and entrepreneurs to realise their investment ideas within a stable environment.

9.1. What processes does the government use to evaluate its infrastructure investment needs? Does the national government work in cooperation with local and regional governments to establish infrastructure investment priorities? Does the government have clear guidelines and transparent procedures for the disbursement of public monies funding infrastructure projects? Are the regulatory agencies that oversee infrastructure investment and the operations of enterprises with infrastructure investments independent from undue political interference?

9.2. What measures has the government adopted to uphold the principle of transparency and procedural fairness for all investors bidding for infrastructure contracts, to protect investors' rights from unilateral changes to contract terms and conditions? What steps have been taken to attract investors to supply infrastructure at fair and reasonable prices, to ensure that investor-state contracts serve the public interest and to maintain public support for private involvement infrastructure?

9.3. In the telecommunications sector, does the government assess market access for potential investors and the extent of competition among operators? Does the government evaluate whether telecommunication pricing policies are competitive, favouring investment in industries that depend on reliable and affordable telecommunications?

9.4. Has the government developed a strategy to ensure reliable access to electricity services by users, and economic incentives to invest and supply electricity? What programmes exist to ensure on a least-cost basis access to electricity services by a wide range of users? Are these programmes time-bound and based upon clear performance targets?

9.5. What processes are followed to inform decisions on the development of new transport facilities, as well as the maintenance of existing investment in transport infrastructure? Are the requirements for all modes of transport regularly reviewed, taking into consideration investor needs and the links between different modes of transport infrastructure?

9.6. Has the government evaluated the investment needs in water required to support its development goals? To what extent is the private sector involved in water management, supply and infrastructure financing?

9.7. What process does the government use to evaluate the capacity of the financial sector, including the quality of its regulatory framework, to support effectively enterprise development? What steps has the government taken to remove obstacles, including restrictions on participation by foreign institutions, to private investment in the development of the financial sector?

9.8. What laws and regulations are in place to protect the rights of borrowers and creditors and are these rights adequately balanced? Is a registry system in place to support the use of property as collateral and to expand business access to external sources of credit? What data protection and credit reporting laws have been enacted to facilitate the flow of information and improve financial sector stability, thereby enhancing the investment environment?

10. Public governance

Regulatory quality and public sector integrity are two dimensions of public governance that critically matter for the confidence and decisions of all investors and for reaping the development benefits of investment. While there is no single model for good public governance, there are commonly accepted standards of public governance to assist governments in assuming their roles effectively.

10.1. Has the government established and implemented a coherent and comprehensive regulatory reform framework, consistent with its broader development and investment strategy?

10.2. What mechanisms are in place for managing and co-ordinating regulatory reform across different levels of government to ensure consistent and transparent application of regulations and clear standards for regulatory quality?

10.3. To what extent are regulatory impact assessments used to evaluate the consequences of economic regulations on the investment environment? Are the results of these assessments made public on a timely basis?

10.4. What public consultation mechanisms and procedures, including prior notification, have been established to improve regulatory quality, thereby enhancing the investment environment? Are the consultation mechanisms open to all concerned stakeholders?

10.5. To what extent are the administrative burdens on investors measured and quantified? What government procedures exist to identify and to reduce unnecessary administrative burdens, including those on investors? How widely are information and communication technologies used to promote administrative simplification, quality services, transparency and accountability?

10.6. To what extent have international anti-corruption and integrity standards been implemented in national legislation and regulations? Do penal, administrative and civil law provisions provide an effective legislative and regulatory framework for fighting corruption, including bribe solicitation and extortion as well as promoting integrity, thereby reducing uncertainty and improving business conditions for all investors?

10.7. Do institutions and procedures ensure transparent, effective and consistent application and enforcement of laws and regulations on anti-corruption, including bribe solicitation and extortion, and integrity in the public service? Have standards of conduct by public officials been established and made transparent? What measures are used to assist public officials and to ensure the expected standards are met? Are civil society organisations and the media free to scrutinize the conduct of public officials' duties? Are "whistle-blower" protections in place?

10.8. Do review mechanisms exist to assess the performance of laws and regulations on anti-corruption and integrity?

10.9. Is the government a party to international initiatives aimed at fighting corruption and improving public sector integrity? What mechanisms are in place to ensure timely and effective implementation of anti-corruption conventions? Do these mechanisms monitor the application and enforcement of the anti-corruption laws implementing the conventions?

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