

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
INVESTMENT COMMITTEE**

**STRATEGIC ORIENTATION OF THE INVESTMENT COMMITTEE**

*In 2012, the Investment Committee initiated a reflection on its strategic orientation and set out its core elements in DAF/INV(2012)17. It discussed the document at its meetings in December 2012 as well as in March and June 2013. At its meeting in June 2013, the Committee agreed on some last amendments and concluded these discussions. This revision of the document reflects the last changes that the Committee agreed upon at the meeting in June 2013.*

*The Committee adopted this document under the written procedure on 8 August 2013.*

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## THE STRATEGIC ORIENTATION OF THE INVESTMENT COMMITTEE

### 1. Introduction

1. Multinational enterprises (MNEs) employ nearly 80 million people. Their global sales are roughly double world exports and a third of global trade is intra-firm. International investment is the backbone of global value chains, channeling capital, goods, services, and technology to countries around the world.

2. The global financial and economic crisis has shown that neither international investment nor the benefits it can bring are inevitable. After breaching USD 2 trillion in 2007, foreign direct investment flows collapsed to around USD 1 trillion by 2009. The crisis resulted in the first ever recorded decline in global FDI stocks in 2008, underscoring not only the severity of the crisis but also heralding the onset of a turbulent chapter in investment globalization and fundamental change in the global economy. These changes will continue to have implications for international investment and government policies well beyond the crisis.

3. How have these dramatic changes in the global economy affected the OECD's work on international investment and what are the implications going forward?

4. For over fifty years the OECD, through its Investment Committee, has been the lead international institution in promoting the principles that have underpinned the globalization of investment; openness, transparency, and fairness. The Organisation's success in promoting these principles is reflected today in the way virtually all countries strive to attract investment with open, rules-based investment regimes. By slashing global investment flows, the crisis has reminded countries of the importance of these principles. In this regard, and against the backdrop of ever-present concerns over investment protectionism, the crisis has underscored the importance of the OECD as the lead proponent of the principles that have come to be universally accepted as the basis for sound investment policies.

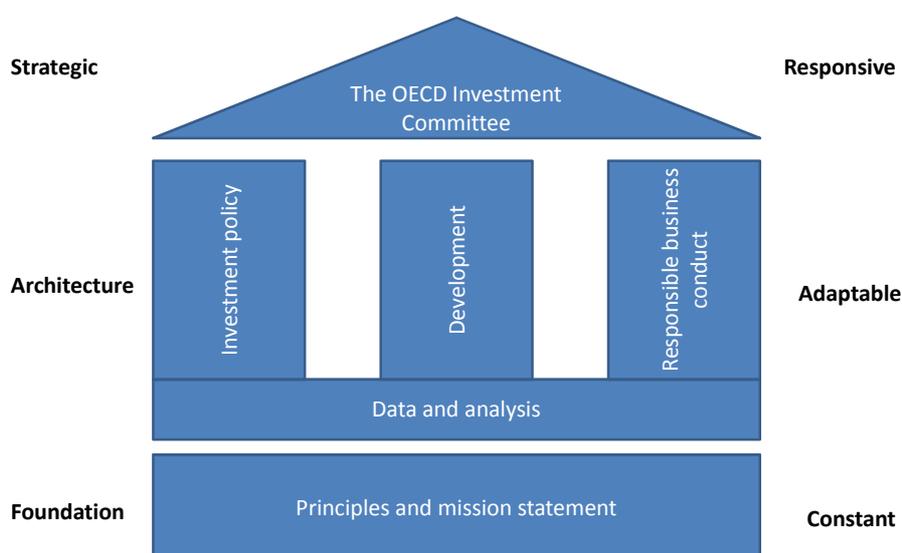
5. The OECD's Investment Committee pursues its mission through three pillars of work: investment policy, development, and responsible business conduct. Work on data and analysis underpins all three pillars and provides the empirical basis for informed policy dialogue and formulation. Together, the three pillars reflect the balance that is needed for international investment to support sustainable development, a balance that combines rights and obligations, and recognizes that the benefits of investment globalization need to be shared.

6. This architecture (Figure 1), designed to support multilateral co-operation and open dialogue on international investment issues, evolves and adapts to changing needs and circumstances. This adaptability has been among the main reasons for the OECD's enduring relevance as a global source of best practice for international investment policy. These qualities owe much to the principles upon which they have been based.

7. This paper describes how the work of the Investment Committee has evolved across the different pillars, how its work in each of these areas has been rendered more open and inclusive through changes to its architecture and working methods, as well as how it has become more results-oriented through its

involvement through the full policy life cycle (described in the next section). The objective of the paper is to identify factors that have been motivating this evolution, as well as factors that are likely to shape the Committee's strategic orientation in the future.

**Figure 1. The architecture of OECD work on investment**



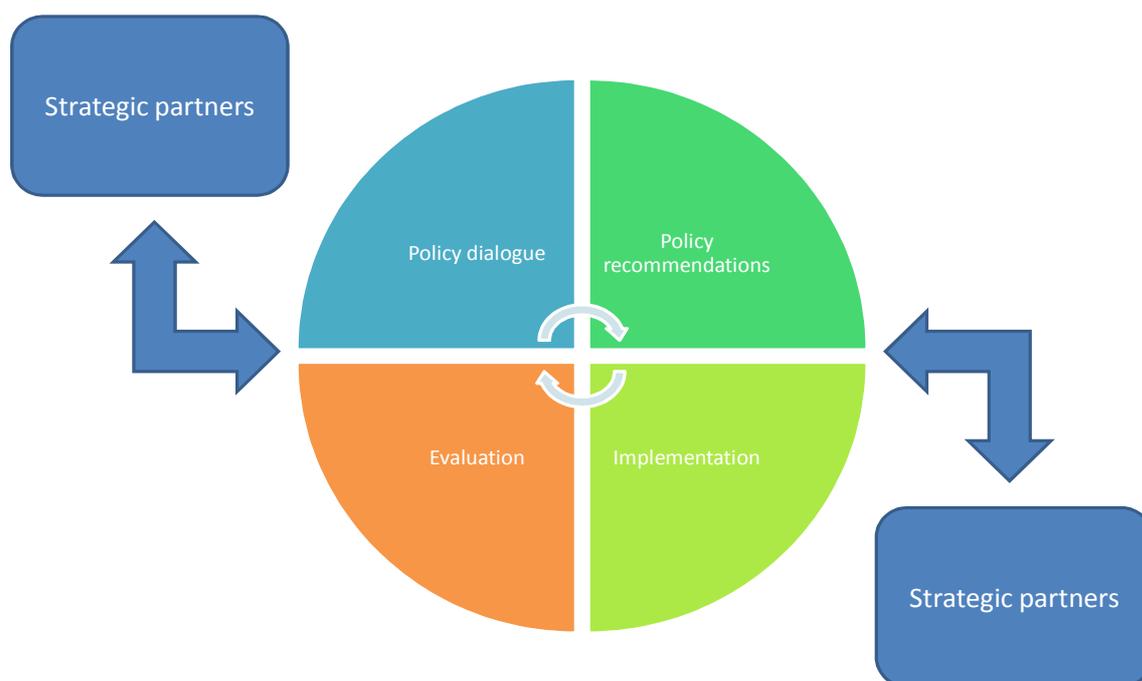
## 2. The strategic outlook for the four work streams of the Investment Committee

8. Across its purpose-built architecture, the Investment Committee supports governments and other stakeholders through the full policy life-cycle (Figure 2). This policy life-cycle usually begins with policy dialogue aimed at addressing a commonly shared challenge (e.g. “how can governments maximize the contribution of private investment to development?”).

9. The objective of policy dialogue is to develop policy recommendations. These can take a wide variety of forms. In some cases recommendations take the form of policy guidance based upon best practices. An example of this would be the Policy Framework for Investment. In other cases they take the form of binding legal instruments, such as the Codes of Liberalisation.

10. Once policy recommendations have been agreed, implementation and evaluation are the next steps in the cycle. The cycle comes full-circle with evaluation, as results and impact of earlier policy reforms come to inform renewed policy dialogue. A recent example of this was the update of the OECD Guidelines for Multinational Enterprises, which resulted in the development of new recommendations on

**Figure 2. The policy life-cycle of the OECD Investment Committee**



human rights and on company responsibility in global value chains. In the same vein, the planned update of the Policy Framework for Investment (PFI) aims to take stock of the lessons learned from its application in support of investment policy reviews conducted in over 20 developing and emerging economies.

11. As described in the introduction, the architecture and working methods of the Investment Committee are geared to support open dialogue at different levels and with a broad range of stake-holders, including BIAC, TUAC and OECD Watch. Within the context of the policy life-cycle, different strategic partners can become involved both across different pillars as well as at different stages of the cycle. For example, UNCTAD is a strategic partner in the investment policy pillar during the implementation and evaluation stages within the context of monitoring of G20 commitments to avoid investment protectionism. In the case of the development pillar, the donor community is a strategic partner in policy dialogue and in the development of policy recommendations.

12. The following sections consider Investment Committee work across each of the three pillars as well as with respect to work on the data and analysis foundation. Each section describes the primary goals of the pillar, flagship policy instruments, strategic partners, and factors that are currently shaping the strategic outlook.

## *i) Investment policy*

### *Objectives*

The main objective of work on investment policy is to promote open, transparent, and fair policy frameworks for international investment. This work covers international agreements, such as bilateral investment treaties, as well as domestic policy frameworks for investment. The philosophy behind this pillar is that fair, predictable, and open approaches will encourage investment, which in turn supports job creation, innovation, and economic growth.

### *The flagship policy instruments*

13. The Committee's work on investment policy is grounded in the Declaration on International Investment and Multinational Enterprises and the Codes of Liberalisation of Capital Movements and of Current Invisible Operations.

14. The Declaration on International Investment and Multinational Enterprises is a political agreement among adhering countries for co-operation on a wide range of investment issues. It contains four related elements: the National Treatment instrument, the Guidelines for Multinational Enterprises, an instrument on incentives and disincentives to international investment, and an instrument on conflicting requirements. All 34 OECD member countries and 10 non-member countries have adhered to the Declaration.

15. The Code of Liberalisation of Capital Movements and the Code of Liberalisation of Current Invisible Operations constitute legally binding rules, stipulating progressive, non-discriminatory liberalisation of capital movements and the right of establishment. In 2012 it was decided to open the Codes to adherence by non-Members.

### *Strategic Partners*

16. Investment Committee work on investment policy covers the full policy cycle depicted in Figure 1 and involves a broad range of strategic partners. Externally, these include the OECD's Key Partners and other emerging economies, and other intergovernmental organizations, in particular UNCTAD, the World Bank, and the IMF.

## **Investment policy Fact sheet**

### **Goal:**

- To promote open, transparent, and fair policy frameworks for international investment

### **Flagship policy instruments:**

- Codes of Liberalisation
- Declaration on International Investment and Multinational Enterprises

### **Implementation:**

- Promoting open and transparent investment regimes
- New adherents to Codes and Declaration
- Reviewing accession countries

### **Responsible bodies:**

- Investment Committee
- Advisory Task Force on the Codes
- Freedom of Investment

### **Strategic partners:**

- UNCTAD
- World Bank
- International Monetary Fund
- G20

### **Strategic outlook:**

- Growing demand to join the OECD Codes of Liberalisation and the Declaration on International Investment and Multinational Enterprises
- Growing interest in new policy frameworks and guidance relating to competitive neutrality
- The need for vigilance against investment protectionism and policies that distort international investment flows
- The growing importance of global value chains in shaping international investment patterns and the implications of fragmented policy frameworks for GVCs

17. With the opening of the Codes to non-Members and the establishment of the Advisory Task Force on the OECD Codes of Liberalisation, strategic partners engaging with the Committee internally will include the Insurance and Private Pensions Committee and the Committee on Financial Markets.

*The strategic outlook*

18. The strategic outlook for Committee work on investment policy is being shaped by the following factors:

- The opening of the Codes to adherence by non-Members: At the level of policy dialogue, the opening of the Codes will require that the Investment Committee begin to evaluate and examine prospective new non-Member adherents. At the level of implementation and monitoring results, it is likely that the opening of the Codes will bring increased attention to the commitments that adherents have made, and heightened attention on implementation and evaluation.
- The threat of investment protectionism: Recent expropriations and fears over the economic and social implications of a rise in investment protectionism will heighten the importance of policy dialogue and monitoring responsibilities of the Committee under the terms of both the Codes and the Declaration on International Investment and Multinational Enterprises. Regular monitoring of G20 commitments to maintaining markets open to investment and trade through the Freedom of Investment process will also take on heightened importance.
- Emerging issues in a changing global economy: The Committee's work on investment agreements, most recently on investor-state dispute settlement, and on policy issues dealing with emerging issues, such as the emergence of global value chains as an important factor shaping international investment patterns and the rapid increase in international investment by state-owned enterprises in the context of competitive neutrality, is an area of work which is currently mainly focused on policy dialogue but which could eventually shift towards the development of new standards and policy tools.

## ii) Investment and Development

### *Objectives*

19. The objective of this pillar is to maximize the contribution that investment makes to development and to strive for an equitable process of globalization. Sharing the benefits of investment globalization is a moral and an economic imperative. Unless the benefits are shared, support for open markets and international investment is unlikely to be sustainable.

### *The flagship policy instruments*

20. The Policy Framework for Investment (PFI) is the overarching facility for addressing investment policy challenges in developing countries. The PFI builds upon the principles developed across the core areas of work on investment in terms of how these can best support investment for development. The PFI complements the FOI process and adherence to the OECD Declaration by helping countries build the domestic conditions that allow them to maximize the development benefits of international investment, as well as to increase their capacity to generate domestic private investment.

21. A number of more specialised policy tools have been derived from the PFI to target specific development needs. Examples of these include the Policy Framework for Investment in Agriculture, the Principles for Private Sector Participation in Infrastructure, the Business Climate Development Strategy, and the Checklist for Public Action to increase private investment in water infrastructure.

### *Strategic partners*

22. The Committee's work on development covers the full policy cycle. A strong focus on implementation and evaluation reflects the importance of capacity building in developing economies. This focus on implementation and evaluation has also influenced the composition of the Committee's strategic partners.

23. Externally, the key strategic partners include the regional development banks, the World Bank, and specialized development agencies such as the ILO, FAO, UNDP, and UNCTAD. An especially important group of external partners for the work on development consists of the donor agencies in OECD countries and, increasingly, in non-OECD countries. Finally, regional inter-governmental organizations such as NEPAD, SADC, ASEAN, and the

## Investment and Development Fact sheet

### Goal:

- to maximize the contribution that investment makes to development and to strive for an equitable process of globalization

### Flagship policy instrument:

- Policy Framework for Investment

### Supporting policy instruments:

- Policy Framework for Investment in Agriculture
- Principles for Private Sector Participation in Infrastructure
- Principles for Private Sector Participation in Water
- Due Diligence Guidance

### Implementation:

- Investment Policy Reviews
- Capacity building through regional programmes

### Responsible bodies:

- Advisory Group on Investment and Development
- Global Forum on International Investment

### Strategic partners:

- World Bank
- International Labour Organisation
- UN FAO
- United Nations Conference on Trade and Development
- Donor agencies
- Development Assistance Committee

### Strategic outlook:

- Growing demand for Investment Policy Reviews
- Growing demand for more downstream policy support and follow-up, including capacity building
- Growing demand for sector-specific guidance in areas such as agriculture, renewable energy, and infrastructure

regional UN offices (ECLAC, ESCAP) serve as key partners in the regional programmes.

24. Internally, the key strategic partners include the DCD and the DAC (with whom the Advisory Group on Investment and Development was jointly formed in 2012), the Development Centre, and other members of the Development Cluster. In addition, given the cross-cutting focus of the PFI, the specialized directorates with expertise in the various chapters of the PFI (e.g. CTPA, TAD, COMP) are regularly consulted.

#### *The strategic outlook*

25. The strategic outlook for Committee work on development is being shaped by the following drivers:

- Implementing and evaluating the PFI: In the five years since the PFI was developed, considerable effort has gone into implementation. While this will continue, the planned evaluation of the PFI starting in 2013 and in preparation for an eventual review will entail an increase in policy dialogue with users of the instrument.
- Implementing the regional programmes: Currently the AGID oversees a multitude of major demand driven regional programmes, which are built on the PFI; the Investment Compact for South East Europe, the MENA-OECD Investment Programme, the Eurasia Competitiveness Programme, the NEPAD-OECD Africa Investment Initiative, the LAC-OECD Investment Initiative, and the ASEAN-OECD Investment Initiative. These programmes have been developed in different ways and are based on a variety of policy tools. As the Committee and its supporting bodies have started to more systematically enter into downstream stages of the policy process, a strategic challenge that has arisen is the need to ensure consistency and coherence in the policy guidance being delivered through these programmes.

## iii) Responsible business conduct

*Objectives*

26. The primary objective of work on responsible business conduct is to ensure that the international investment framework achieves a balance between the rights of investors and the expectations of the societies in which they operate. As in the case of work on development, this pillar aims to ensure continued political and social support for open investment regimes.

*The flagship policy instruments*

27. The OECD Guidelines for Multinational Enterprises are the most comprehensive set of recommendations developed by governments on how multinational enterprises ought to behave in and outside their home jurisdiction, in all major areas of business ethics, including labour and human rights, environment, anti-corruption, responsible supply chains, anti-corruption and taxation. They have been adopted by 44 governments – representing all regions of the world and accounting over 85 percent of foreign direct investments.

28. Two unique features supporting implementation distinguish the Guidelines from other leading international corporate responsibility instruments. First, the existence of National Contact Points in charge of actively promoting the effective implementation of the Guidelines and mediated resolution of issues when issues arise regarding possible non-observance by enterprises. Second, the new multi-stakeholder proactive agenda assists enterprises in meeting corporate responsibility challenges in their global operations and business relationships including supply chains. It does so by encouraging responsible action potentially across entire sectors or industries or with respect to particular products or regions. Central to its potential to effect change on a broad scale is the multi-stakeholder process which gives relevant stakeholders the opportunity to develop strategies to avoid risks of adverse impacts.

29. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas has demonstrated the opportunities and value of the extension of the Guidelines to global supply chains and the development of the proactive agenda, which aims to encourage the positive contributions that multinational enterprises can make to economic, environmental and social progress with a view to achieving sustainable development, and to help them identify and respond to risks of adverse impacts associated with particular products, regions, sectors or industries.

## Responsible business Fact sheet

### Goal:

- to ensure that the international investment framework achieves a balance between the rights of investors and the expectations of the societies in which they operate

### Flagship policy instrument:

- Guidelines for Multinational Enterprises

### Supporting policy instruments:

- Due Diligence Guidance

### Implementation:

- Guidelines implementation
- Activities of NCPs
- Proactive agenda

### Responsible bodies:

- Investment Committee
- Working Party on Responsible Business
- Global Forum on Responsible Business
- National Contact Points

### Strategic partners:

- International Labour Organisation
- Global Compact
- Global Reporting Initiative

### Strategic outlook:

- Meeting high expectations for the implementation of the revised Guidelines for Multinational Enterprises
- Supporting dialogue as interest in promoting responsible business grows in major emerging markets
- Realising the potential of the pro-active agenda

*Strategic partners*

30. As in other areas, the Committee's work has shifted in recent years giving more emphasis to implementation and evaluation. As a result, certain external partners with specific operational capacities have become more involved in the work. These have included the ILO, the Global Compact, and the Global Reporting Initiative, among others.

31. Internally, the strong links between responsible business conduct and development have led to the strengthening of collaboration between the Committee and the DAC in this area, in particular with respect to the Due Diligence Guidance.

*The strategic outlook*

32. The strategic outlook for Committee work on responsible business is being shaped by the following drivers:

- Supporting the proactive agenda. The proactive agenda has the potential to bring about a paradigm shift how the Investment Committee and the broader community of stakeholders approach responsible business. This is an area where the Committee will likely need to move beyond its role as a “guardian” of the Guidelines and intensify its efforts with respect to policy dialogue and potentially with respect to the development of new policy instruments to complement the Guidelines.
- Promoting and Implementing the revised Guidelines. Implementing the revised Guidelines will necessitate improved performance and cooperation among National Contact Points and with the OECD. It will require extensive outreach and collaboration with non-adherents and a serious commitment to the proactive agenda. Multi-stakeholder processes like those which have developed and are implementing the Due Diligence Guidance require a very significant increase in downstream policy capacity.

#### *iv) Data and analysis*

##### *Objectives*

33. Informed policy dialogue, the development of sensible policy recommendations, effective implementation, and ultimately evaluation of results and impact require good data and analysis. This horizontal pillar supports the pillars on investment policy, development, and responsible business. It does so through the collection and analysis of data on international investment and the activities of MNEs.

##### *The flagship policy instruments*

34. The flagship policy instrument in this area is the fourth edition of the OECD Benchmark Definition of FDI. BMD4 implementation involves: (i) revision of national FDI statistics; (ii) reorganisation of OECD's FDI database and data transmission; and (iii) revision of the accompanying metadata; (iv) revision of data dissemination templates. The foundations of the harmonisation exercise are already included in the revised fourth edition of the Benchmark Definition of FDI which, for the first time, includes a chapter devoted to economic activities of multinational enterprises (AMNE). Chapter 8 of BMD4 discusses the intersection between FDI and AMNEs and provides a summary of underlying concepts of the activities of multinational enterprises and describes related economic variables.

##### *Strategic partners*

35. The main external partners of the Committee in its work on promoting best practices for FDI and AMNE statistics as well as data collection and dissemination are the IMF, ECB, Eurostat, the World Bank, and UNCTAD. The Committee has also contributed to the G20 Data Gaps exercise.

##### *The strategic outlook*

36. The strategic outlook for Committee work on data and analysis is being shaped by the following drivers:

- The changing global landscape for international investment. A number of trends are reshaping international investment patterns. Emerging markets have become an increasingly important source of international investment. International investment by SOEs has been growing rapidly. More international investment is going into agriculture than ever before. These new trends are giving rise to new policy challenges. Developing solutions to these will require better data and analysis to support informed policy making.

## Data and analysis Fact sheet

### Goal:

- To support informed policy dialogue, the development of sensible policy recommendations, effective implementation, and ultimately evaluation of results and impact

### Flagship policy instrument:

- Revised Benchmark Definition 4

### Implementation:

- Revision of national FDI statistics
- Reporting FDI data
- Analysis of trends

### Responsible bodies:

- Working Group on International Investment Statistics

### Strategic partners:

- International Monetary Fund
- World Bank
- European Central Bank
- Eurostat
- United Nations Conference on Trade and Development

### Strategic outlook:

- A growing share of FDI generated outside of OECD
- New policy challenges, such as competitive neutrality and global value chains, require new and innovative empirical analysis

- Supporting dialogue aimed at developing new policy recommendations. Committee work on data and analysis is a cross-cutting area insofar as data and analysis supports and underpins work in all other areas (investment policy, development, responsible business conduct). To the extent that the Committee becomes increasingly involved in dialogue in new policy areas (e.g. global value chains, investment in green infrastructure, competitive neutrality) the demand for the kinds of data and analysis needed to support dialogue in these areas will also grow.

#### 4. Looking forward

37. This paper has reviewed the full range of activities that the Investment Committee currently oversees throughout the policy cycle. While not attempting to capture every element that should be included for each stage of the policy cycle across the four pillars, figure 3 provides a synthetic overview of the Investment Committee's work. The paper identifies a number of trends that are shaping the strategic outlook in each of these areas. These can be summarized as follows:

- **New areas of work might lead to policy discussions leading to the updating of existing policy tools or the development of new policy tools.** In addition to its primary role as the 'guardian' of existing instruments, the Committee has in recent years undertaken work on a number of emerging investment policy issues that could lead to the development of new policy instruments with the objective to promote open, transparent, and fair policy frameworks for international investment. These areas include competitive neutrality, the proactive agenda, focused areas of development activity (e.g. agriculture, renewable energy), and global value chains;
- **Demand is growing for more down-stream activities, including capacity building, implementation, and evaluation.** The broadening of the Committee's work to cover more down-stream activities in the policy life-cycle is arising mainly from the intensification of work aimed at addressing the capacity needs of non-Members as these have become more actively involved in the work of the Committee;
- **Deeper engagement with Key Partners and other non-Members.** The role and influence of non-Members in the work of the Committee continues to grow. The number of emerging economies adhering to the Declaration continues to expand, the Codes have been opened to non-Members, the regional programmes span the globe, and certain new initiatives, such as competitive neutrality, can only have meaning with the participation of major emerging markets as equal partners;
- **Emerging new trends in international investment patterns.** Major changes in international investment patterns, including the growing importance of non-OECD countries as sources of international investment, the emergence of global value chains as an important factor in shaping international investment patterns, and the rising importance of SOEs as international investors, have presented policy makers in all countries with new policy challenges. In addition, the global economic crisis has raised concerns over investment protectionism. In support of international dialogue and informed and innovative policy solutions this is giving rise to demand for better data and empirical analysis of emerging new trends such as these.

## A synthesis of IC structures and work programme

