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

Task Force on a Policy Framework for Investment

OECD INITIATIVE ON INVESTMENT FOR DEVELOPMENT:

TOWARDS A POLICY FRAMEWORK FOR INVESTMENT

This document introduces the proposed Policy Framework for Investment, one of three inter-related projects of the OECD Initiative on Investment for Development, called for during the 2003 OECD Ministerial and launched at the Global Forum on International Investment in Johannesburg, South Africa, in November 2003. The original version of the document served as background documentation to guide discussion during the first meeting of the Task Force overseeing the development of the Policy Framework for Investment that was held on 17 June 2004 in Paris. This version, revised by the Secretariat in consultation with the Co-Chairs of the Task Force and Bureau members, reflects the main features of the Framework project as discussed during this meeting. This version will also be made available on the Task Force EDG for any further discussion. Pages 2 and 3 of the document will be used for the Policy Framework for Investment web page, which can be found at www.oecd.org/daf/investment.

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THE OECD INITIATIVE ON INVESTMENT FOR DEVELOPMENT: TOWARDS A POLICY FRAMEWORK FOR INVESTMENT

The Monterrey Consensus

1. Investment has proven to be a powerful catalyst for innovation, sustainable growth and poverty reduction. Despite positive trends in the past decade, business investment and enterprise development in non-OECD regions continue to fall short of development needs. The Monterrey Consensus identified private capital, including foreign direct investment, as “vital complements to national and international development efforts” and emphasised the need “to create the necessary domestic and international conditions to facilitate direct investment flows” (for more details on the role ascribed to private investment in the Monterrey Consensus, see Annex 1).

The OECD Initiative on Investment for Development

2. In support of the Monterrey Consensus, the OECD launched the *Initiative on Investment for Development* in 2003 in Johannesburg, South Africa. The *Initiative* includes three closely inter-related projects. These involve: 1) the development of a *Policy Framework for Investment*, described below; 2) drawing lessons on the use of ODA in support of countries’ efforts to mobilise investment for development; and 3) sharing the OECD’s experience with investment policy peer reviews as capacity building mechanisms. The *Initiative on Investment for Development* is inspired by values that underpin the Monterrey Consensus: transparency, accountability and respect for human rights, including the right to development.

3. The OECD has a long history with peer learning, and consensual approaches towards the development of “best practice” across a wide range of policy areas that are relevant from an investment perspective. As such, the OECD is well placed as a forum for countries to share their experiences, to develop common understanding, and to elaborate policy guidance aimed at enhancing the contribution of domestic and foreign investment to development, as called for in the Monterrey Consensus.

The Policy Framework for Investment

4. Within the context of the OECD *Initiative on Investment for Development*, and in keeping with OECD Members’ commitment to the effective implementation of the Monterrey Consensus, the OECD Investment Committee and its partners have initiated work on a *Policy Framework for Investment*. The *Framework* is intended as a non-prescriptive checklist of issues for consideration by any interested governments engaged in domestic reform, regional co-operation or international policy dialogue aimed at creating an environment that is attractive to domestic and foreign investors and that enhances the benefits of investment to society. The *Framework* could also serve as a reference point for investment promotion agencies, donors as they assist recipient country partners in improving the investment climate, and businesses, trade unions, and NGOs in their dialogue with governments. The Policy Framework for

Investment recognises that the needs of countries at different levels of development call for a flexible and non-prescriptive approach that provides constructive policy guidance across a range of areas in order to maximise the contribution of investment to development.

5. While the Policy Framework for Investment is addressed to governments, it is to be seen in the broader context of other converging international initiatives to improve the investment climate, including the OECD Guidelines for Multinational Enterprises.

A partnership process

6. The *Framework* will be developed by a Task Force through a partnership process involving OECD Member and non-Member governments, in co-operation with civil society and other international organisations (for more details on the Task Force, see Annex 2). The first plenary meeting of the Task Force took place at the OECD in Paris on 17 June 2004.

A horizontal policy approach

7. The Task Force agreed that the *Framework* will consist of a comprehensive stocktaking of sources of good policy practice across a range of policy areas that have been identified by international organisations involved in investment and development, and the Monterrey Consensus, as playing an important role when it comes to creating an enabling environment for investment and enterprise development.

8. The Task Force identified a preliminary list of policy building blocks for the *Framework*: investment policy; investment promotion and facilitation; trade policy; competition policy; tax policy; corporate governance and responsibility, and market integrity; human resource development; infrastructure development; and public governance. In addition to host-country policy action, the contribution of international co-operation, including through regional integration, and home-country policy action will also be addressed.

9. The work of the Task Force will be supported by the Investment Committee and other OECD committees with expertise in the policy areas being considered for inclusion in the *Framework* (for more details on OECD work in the areas proposed for inclusion in the *Framework*, see Annex 3).

Next steps

10. The Task Force will take advantage of the OECD Global Forum on International Investment and various regional events organised by the Investment Committee as opportunities to discuss inputs into the *Policy Framework for Investment* in both global and regional contexts. A progress report on the *Initiative on Investment for Development* will be made available by the time of the 2005 OECD Ministerial Meeting, with the aim of completing the work of the Task Force in 2006.

ANNEX 1. THE ROLE ASCRIBED TO INVESTMENT IN THE MONTERREY CONSENSUS

In September 2000 the United Nations adopted the Millennium Development Goals (United Nations, 2000).¹ These goals were elaborated on the basis of various multilateral initiatives developed during the 1990s, including the International Development Goals developed by the OECD's Development Assistance Committee in 1996 (OECD, 1996). In March 2002, heads of state met again in Monterrey, Mexico, for the International Conference on Financing for Development. This conference addressed the "dramatic shortfalls" in the financing required to meet internationally agreed development objectives and, in particular, the Millennium Development Goals (United Nations, 2002, p. 2). The outcome of this conference was a commitment to mobilise the resources necessary to achieve these development objectives – the Monterrey Consensus.

The Monterrey Consensus identified private capital and foreign direct investment in particular as "vital complements to national and international development efforts" and emphasised the need "to create the necessary domestic and international conditions to facilitate direct investment flows" (United Nations, 2002, p. 5). While the role of foreign investment in development has long been recognized, the Monterrey Consensus effectively served to place foreign investment at the heart of the global development agenda by recognising "its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development" (p. 5).

Underpinned by the shared investment values of transparency, investment protection and appropriate assumption of responsibilities by governments and other actors,² the Monterrey Consensus supported the following policy approach:

"To attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a transparent, stable and predictable investment climate, with proper contract enforcement and respect for property rights, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. Special efforts are required in such priority areas as economic policy and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, avoidance of double taxation, corporate governance, accounting standards, and the promotion of a competitive environment. Other mechanisms, such as public/private partnerships and investment agreements, can be important" (Paragraph 21).

1. The Millennium Development Goals committed the world's governments to achieving 7 specific development objectives by 2015 (at the latest), including the halving of extreme poverty and hunger, achieving universal primary education, empowering women and promoting equality, reducing under-five mortality by two-thirds, reducing maternal mortality by three-quarters, reversing the spread of diseases, especially HIV/AIDs and malaria, and ensuring environmental sustainability. In support of these more specific objectives, the Millennium Development Goals also included an eighth, overarching commitment to create a global partnership for development.
2. Upholding the Charter of the United Nations and building upon the values of the Millennium Declaration, the overarching principles on which the Monterrey Consensus was based were the following: "equity, democracy, participation, transparency, accountability and inclusion".

While recognising the diversity of perspectives and circumstances expressed in the preparatory work of Monterrey, these shared values and approaches provide a common basis for OECD and non-OECD governments to work together on enhancing investment for development. In particular, the proposed *Policy Framework for Investment* would allow governments to explore the operational implications of these values and principles in different national contexts and different policy areas.

ANNEX 2. TASK FORCE ON A POLICY FRAMEWORK FOR INVESTMENT TERMS OF REFERENCE

The development of the *Policy Framework for Investment* will be assisted by a Task Force comprised of representatives from Member and Non-Member countries. This annex explains the composition of the Task Force and the modalities according to which it will operate.

Composition of the Task Force

The Task Force is composed of both Members and non-Members. The Task Force is co-chaired by Japan and Chile in 2004. Non-Member government partners include the eight adherents to the OECD Declaration on International Investment and Multinational Enterprises (Argentina, Brazil, Chile, Estonia, Israel, Lithuania, Latvia, and Slovenia), the Russian Federation, China, India, South Africa, Singapore, and representatives of NEPAD, APEC and other intergovernmental initiatives. The World Bank, UNCTAD, and other international organisations are invited to meetings, as well as the Business and Industry and Trade Union Advisory Committees to the OECD (BIAC and TUAC) and NGO partners depending on the agenda items concerned.

On the OECD side, the Investment Committee has oversight responsibility for the project. In addition to Investment Committee delegates' involvement, Members will be expected to arrange their participation in Task Force meetings in such a way to include delegates to Development Assistance Committee and other relevant OECD Committees as required.

Task Force modalities

The work of the Task Force will be undertaken through three channels. First, given the broad composition of the Task Force and, hence, the considerable geographic distances separating Task Force members, electronic discussion arrangements will be used to facilitate both the distribution of *Framework* materials as these are developed and on-going consultation and dialogue. Second, Task Force co-chairs and other members are invited to seize the opportunity of their involvement in OECD and other events held outside Paris to arrange consultations and presentation of the *Framework* as it evolves. In this context, the Task Force will benefit from the network and activities of the OECD Global Forum on International Investment and its regional outreach chapters. Third, the Task Force can hold one annual plenary meeting in Paris, usually in conjunction with regular meetings of the Investment Committee. The work of the Task Force is serviced by the Investment Committee Secretariat.

**ANNEX 3. EXPERTISE AT THE OECD ON POLICY ISSUES PROPOSED FOR INCLUSION IN
THE *POLICY FRAMEWORK FOR INVESTMENT***

Selected Work

The OECD has a long history with peer learning, and consensual approaches towards the development of “best practice” across a wide range of policy areas that are relevant from an investment perspective. As such, the OECD is well placed as a forum for countries to share their experiences, to develop common understanding, and to elaborate policy guidance aimed at enhancing the contribution of domestic and foreign investment to development, as called for in the Monterrey Consensus. The work of the OECD on development and other issues is organised along committee lines. OECD Committees represent policy communities of government officials with responsibility and expertise on particular issues (such as, for example, the Investment Committee for investment issues). Below is a selected list of work that various OECD committees have undertaken on some of the policy areas proposed for coverage in the Framework, as well as work more generally addressed to development issues.

Investment policy

OECD (2000), *The OECD Declaration and Decisions on International Investment and Multinational Enterprises*, Paris.

OECD (2000), *The OECD Guidelines for Multinational Enterprises: Revision 2000* (Ministerial Booklet), Paris.

OECD (2002), *Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs*, Paris.

OECD (2002), *Forty Years' Experience with the OECD Code of Liberalisation of Capital Movements*, Paris.

OECD (2003), *Checklist for Foreign Direct Investment Incentive Policies*, Paris.

OECD/IMF (2003), *Foreign Direct Investment Statistics: How Countries Measure FDI*, Paris and Washington, D.C.

OECD (2003), *OECD Code of Liberalisation of Capital Movements*, Paris.

OECD (2003), *OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations: User's Guide*, Paris.

OECD (2003), *OECD Investment Policy Reviews: China: Progress and Reform Challenges*, Paris (see also the investment policy reviews for the Russian Federation, 2004; Israel, 2002; and Slovenia, 2002).

OECD (2003), *Public Sector Transparency and International Investment Policy*, Paris.

OECD (2004), *Relationships between International Investment Agreements*, Paris.

OECD (2004), *The OECD Guidelines for Multinational Enterprises: Annual Report 2004*, special focus on “Encouraging the Positive Contribution of Business to the Environment”, Paris (see also the 2001, 2002, and 2003 Annual Reports).

Investment promotion and facilitation

OECD (2001), *Corporate Tax Incentives for Foreign Direct Investment*, Paris.

OECD (2002), *Best Practice Investment Promotion Strategies*, South East Europe Compact for Reform, Investment Integrity and Growth.

OECD (2002), *Strategic Investment Promotion: Successful Practice in Building Competitive Strategies*, Paris.

OECD (2003), *Checklist for Foreign Direct Investment Incentive Policies*, Paris.

Trade policy

OECD (1996), *Market Access after the Uruguay Round: Investment, Competition and Technology Perspectives*, Paris.

OECD (2002), *The Relationship between Regional Trade Agreements and the Multilateral Trading System: Investment*, Paris.

OECD (2002), *The Investment Architecture of the WTO*, Paris.

OECD (2002), *The Relationship between Trade and Foreign Direct Investment: A Survey*, Paris.

OECD (2002), *The Impact of Trade-Related Intellectual Property Rights on Trade and Foreign direct Investment in Developing Countries*, Paris.

Competition policy

OECD (1995), *Revised Recommendation of the Council Concerning Co-operation between Member Countries on Anti-Competitive Practices Affecting International Trade*, Paris.

OECD (1998), *Recommendation of the Council Concerning Effective Action Against Hard Core Cartels*, Paris.

OECD/World Bank (1998), *Framework for the Design and Implementation of Competition Law and Policy*, Paris and Washington, D.C.

OECD (1999), *Report on Notification of Transnational Mergers*, Paris.

OECD (2001), *Recommendation of the Council Concerning Structural Separation in Regulated Industries*, Paris.

OECD (2004), *Preventing Market Abuses and Promoting Economic Efficiency, Growth and Opportunity*, Paris.

Tax policy

OECD (2001), *Corporate Tax Incentives for Foreign Direct Investment*, Paris.

OECD (2002), "Taxation in a global environment", *OECD Observer*, 1 March 2002, Paris.

OECD (2003), *OECD Model Memorandum of Understanding for Automatic Exchange of Information for Tax Purposes*, Paris.

OECD (2003), *March 2003 Update on the Implementation of the OECD Recommendation on the Tax Deductibility of Bribes to Foreign Public Officials*, Paris.

OECD (2003), *Model Tax Convention on Income and on Capital*, Paris.

OECD (2004), *Developing Partnerships with non-OECD Economies*, Paris.

OECD (2004), *The Application of Consumption Taxes to the Trade in International Services and Intangibles*, Paris.

OECD (2004), *The OECD's Project on Harmful Tax Practices: The 2004 Progress Report*, Paris.

Corporate governance and responsibility, and market integrity

OECD (1996), *Recommendation of the Council on the Tax Deductibility of Bribes to Foreign Public Officials*, Paris.

OECD (1997), *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, Paris.

OECD (2000), *No Longer Business as Usual: Fighting Bribery and Corruption*, Paris.

OECD (2000), *The OECD Declaration and Decisions on International Investment and Multinational Enterprises*, Paris.

OECD (2000), *The OECD Guidelines for Multinational Enterprises: Revision 2000* (Ministerial Booklet), Paris.

OECD (2001), *Corporate Responsibility: Private Initiatives and Public Goals*, Paris.

OECD (2003), *National Contact Points for the OECD Guidelines for Multinational Enterprises*, Paris.

OECD (2004), *Corporate Governance: A Survey of OECD Countries*, Paris.

OECD (2004), *OECD Principles of Corporate Governance: 2004*, Paris.

OECD (2004), *Steps Taken and Planned Future Actions by Participating Countries to Ratify and Implement the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, Paris.

OECD (2004), *The Review Process for the OECD Principles of Corporate Governance*, Paris.

Human resource development

OECD (1998), *Human Capital Investment: An International Comparison*, Paris.

OECD (2000), *Local Development and Job Creation*, Paris.

OECD (2001), *Labour Market Policies that Work*, Paris.

OECD (2001), *The Well-Being of Nations: the Role of Human and Social Capital*, Paris.

OECD (2004), *OECD Employment Outlook 2004*, Paris.

Infrastructure development

OECD Development Centre (1999), *Infrastructure Development and Regulatory Reform in Sub-Saharan Africa: The Case of Air Transport*, Paris.

OECD (2001), *Bridging the “Digital Divide”: Issues and Policies in OECD Countries*, Paris.

OECD (2003), *Analysis of the Links between Transport and Economic Growth*, Paris.

OECD (2003), *ICT and Economic Growth: Evidence from OECD Countries, Industries and Firms*, Paris.

Public governance

OECD (1995), *Recommendation of the Council of the OECD on Improving the Quality of Government Regulation*, Paris.

OECD (1997), *The OECD Report on Regulatory Reform: Synthesis*, Paris.

OECD (2002), *Improving Policy Coherence and Integration for Sustainable Development: A Checklist*, Paris.

OECD (2003), *Public Sector Transparency and the International Investor*, Paris.

OECD (2003), “Policy coherence: Vital for global development”, *Policy Brief*, July 2003, Paris.

OECD (2003), *Recommendation of the Council on Guidelines for Managing Conflict of Interest in the Public Service*, Paris.

OECD (2004), *Managing Conflict of Interest in the Public Service: OECD Guidelines and Country Experiences*, Paris.

OECD work on development

OECD (1995), *Private Sector Development: A Guide to Donor Support*, Paris.

OECD (1996), *Shaping the 21st Century: The Contribution of Development Co-operation*, Paris.

OECD (2001), *The DAC Guidelines on Poverty Reduction*, Paris.

OECD (2001), *Strategies for Sustainable Development: Practical Guidance for Development Co-operation*, Paris.

OECD (2002), *Official Development Assistance and Private Finance: Attracting Finance and Investment to Developing Countries*, Paris.

OECD (2004), *Security System Reform and Governance: Policy and Good Practice*, DAC Guidelines and Reference Series, Paris.

OECD (2004), *Promoting SMEs for Development*, Istanbul.

For an overview of the OECD's involvement in the Financing for Development initiative, go to www.oecd.org/daf/ffd.