THE POLICY FRAMEWORK FOR INVESTMENT

What is it and how can it mobilise investment to support economic growth and sustainable development?

2nd OECD-Southeast Asia Regional Forum
Bangkok, 27-28 April 2009

Carolyn Ervin
Director
Directorate for Financial & Enterprise Affairs
OECD
The PFI

- **Origin:** A multilaterally backed instrument to support governments in enhancing the investment climate, based on good practices of OECD and non-OECD countries

- **Objectives:**
  - Identify the obstacles to investment in a coherent manner
  - Formulate sound policies and governance structures to address investment obstacles
  - Enable effective implementation and monitoring of policy reforms

- **Presentation:** a checklist of issues/questions in 10 policy areas critical for a healthy environment for all investors
10 PFI areas

1. Investment policy
2. Investment promotion and facilitation
3. Trade policy
4. Competition policy
5. Tax policy
6. Corporate governance
7. Policies for promoting responsible business conduct
8. Human resource development
9. Infrastructure and financial sector development
10. Public governance
How was the PFI developed?

A cooperative process involving:

- A task force of some 60 governments from OECD and non-member economies
- Inputs from eight specialised OECD Committees
- Business, labour, civil society representatives
- World Bank, UNCTAD and other international organisations
- Meetings in five regions
- Web-based public consultation
What makes the PFI special?

- Non-binding
- Non-prescriptive
  - One size does not fit all
  - Roadmap for reform follows from PFI assessment
- Comprehensive and systematic
  - Domestic and foreign investment
  - Direct and indirect barriers to investment
  - 10 broad policy areas
What makes the PFI special? ctd.

- **Flexible**
  - Modular structure allows for both horizontal and thematic (e.g. sectoral or by type of investor) assessments
  - Promotes tailor-made solutions involving best practice
  - Can be used at different stages of investment climate reform (diagnosis, policy design, implementation and monitoring)

- **Coherent**
  - Relates each policy area to its impact on investment and discusses how policy areas are inter-connected
  - Direct and indirect (behind-the-border) barriers to investment
What makes the PFI special? ctd.

- **Practical**
  - Focus on ‘policy governance’: how to design, implement and evaluate policies
  - Policy assessment is process oriented: reform is not a one-off effort but a dynamic, long-term, multi-disciplinary process
  - Provides a benchmark for comparison across countries

- **Partnership based**
  - Fosters cooperation within and between governments
Core principles of the PFI

- **Policy coherence** to avoid inconsistencies across policy areas which might affect the investment environment
- **Transparency** in the design, implementation and enforcement policies
- **Accountability** of government agencies for their activities to ensure that they exercise their powers responsibly
- **Regular evaluation** of the impact of existing and proposed policies on the investment environment
How has the PFI been used?

- **Horizontal country reviews**: Egypt, Peru, Vietnam and India
- **Regional dialogue**: OECD-NEPAD Investment Initiative, South East Europe, MENA
- **Sub-national reviews**: Mexico (under discussion)
- **Thematic country reviews**: Russia (energy sector), China (responsible business conduct)
- **ODA**: Donor countries (e.g. Finland and Japan) are considering how to use the PFI to advance investment policy reform in recipient countries
- **Capacity building**: APEC
The PFI User’s Toolkit

- To assist users in undertaking an assessment based on the PFI
- Addressed primarily to governments, for self-assessments or peer reviews
- Incorporates ‘good practices’ from a wide range of countries and sectors
- Builds on existing work and indicators
- A living resource, with users offering their own input and providing feedback
- Evolutionary, web-based format
Features of the PFI Toolkit

For each PFI policy chapter, the Toolkit shows:

- How policies, laws and regulations – and their implementation – influence investor decisions
- How to locate the most significant investment bottlenecks in order to establish priorities for reform
- How to benchmark against international good practice
- How to design policies and practices which improve the balance among policy objectives
- How to measure progress
- Where to find useful information and tools that offer more in-depth policy guidance
Toolkit guidance on getting the most out of the PFI

- **Tailor to resources**: discussion by policy area allows flexibility according to institutional capacities and permits multiple uses and users (dividing work/responsibility for different PFI chapters to relevant ministries/agencies)

- **...but be ambitious**: a good assessment takes time and money

- **Create a virtuous circle of reform**: identify what policy actions need to be taken; develop administrative capacity to implement changes; and build a constituency for reform

- **Learn from previous PFI reviews**: the Toolkit will serve as a repository of country and regional experiences with PFI reviews
Toolkit guidance on getting the most out of the PFI, ctd.

- Decide on the type and scope of a PFI assessment:
  - Review existing information on the state of the investment climate (e.g. World Bank, UNCTAD, ICC)
  - Consult with stakeholders (especially private sector) and within government
  - Horizontal or sectoral approach? e.g. manufacturing, export-generating sectors
  - Institutional structure: taskforce or ad hoc group?
  - One-off snapshot or ongoing review? Identify and implement policy reforms or set up a regular process of scrutiny of rules and regulations and evaluate costs and benefits of policy reforms
Expected benefits from using the PFI and User’s Toolkit

- Policy guidance on best practices
- Enhanced whole-of-government sensitivity to investment climate issues
- Better informed decision-making through improved public governance
- Public-private mutual trust through public consultation and greater accountability and transparency
- More effective policies for investment
- More effective aid
- Increased investment (domestic and FDI), growth and development and better integration into the global economy
How the PFI works

PFI assessment

- Policy reform
- Improved public governance

Highlights areas for capacity building

More effective ODA, technical assistance

- Better informed decision making
- Public-private mutual trust
- Whole-of-government sensitivity to investment issues

More effective investment policies

Greater integration into global economy

More and better investment (foreign and domestic)

Growth and development
Thank you

About the Policy Framework for Investment and Toolkit:

www.oecd.org/daf/investment/pfi
www.oecd.org/investment/pfitoolkit