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OECD-ASEAN Training on Investment Policy Making

Module 1

The Policy Framework for Investment

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BETTER POLICIES FOR BETTER LIVES

Outline

- The Policy Framework for Investment (PFI)
- The scope of the PFI: which policy areas most affect investment?
- Core principles of the PFI: How can governments help to create a good investment climate?

Policy Framework for Investment : PFI

- A **multilaterally-backed** instrument to improve the investment climate, building on good practices in OECD and non-OECD countries
    - 60 OECD and non-OECD governments
    - Business, labour, civil society representatives
    - World Bank, UNCTAD and other international organisations
    - Eight specialised OECD Committees
    - Meetings in five regions; Web-based consultation
    - Approved in 2006
    - A possible update to the PFI is currently being discussed

Characteristics of the PFI

- Non-binding
  - Policy recommendations to stimulate dialogue within government and with stakeholders
- Non-prescriptive
  - How to reform as much as what to do
  - Doing more and doing less
- Broad whole-of-government approach covering many policy areas
  - Not investment for its own sake
- Business is not a passive actor
  - Provides many key inputs and can help to ensure broader benefits to society

A checklist of questions in 10 policy areas

- 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
- Public governance, incl. corruption

Why these policy areas?

In different ways, these 10 policy areas all affect one or more of the following:

- Scope for foreign and domestic enterprises to take advantage of investment opportunities
- The supply and quality of capital, labour, infrastructure, technology and other inputs (including imported ones) available to investors
- The broader benefits to society from investment

Each policy area affects the investment climate through multiple channels

- Investment policy
  - Market opportunities, risks, exit barriers
- Investment promotion and facilitation
  - Transactions costs (red tape), information costs
- Trade policy
  - Cost of inputs, size of market, competition
- Competition policy
  - Market opportunities, productivity, benefit sharing with workers, consumers
- Tax policy
  - Returns to investor, benefit to government

Each policy area affects the investment climate through multiple channels (2)

- Corporate governance, finance
  - Supplying capital, promoting efficiency
- Human resource development
  - Supply and quality of labour
- Infrastructure
- Responsible business conduct
  - Encouraging firms to act responsibly
  - Public governance
  - Policy effectiveness

What is a good investment climate?

- A good investment climate can accommodate a range of policies
- There is **no single, uniform approach** that will suit all economies at all points in time and under all conditions
- A sound business environment is a **process** as much as an outcome
- It is not essential to get everything right at once

Policy effectiveness

Design: well-designed policies facilitate implementation and evaluation and improve effectiveness.

- What are the views of **stakeholders** (incl. foreign investors and SMEs) and in other parts of government on the policy proposal?
- What are the objectives in introducing a policy and what other **options** might be available?
- What is the assessment of its **regulatory impact**?
- What has worked **elsewhere** (regionally and globally)?
- Does the government have the **capacity** to implement this policy?

Implementation: accountability should be clearly assigned, with benchmarks for achieving results

Evaluation:

- Has the policy achieved its objectives? Has it been implemented effectively?

Principles for good policy design and implementation

Credibility	➢ Policies will not have the desired effect on investor decisions if they are not credible, in the sense that the government is expected to carry them through and has the **capacity** and **political will** to do so.
Stability and predictability	➢ Investors commit resources for the long term and need to know that policies won’t be changed dramatically. In investor surveys, **policy uncertainty** is one of the biggest concerns.
Transparency	➢ Investors need to understand the practical implications of rules governing their investment, in terms of the conditions to fulfil, the procedures for a public review and the appeals process in the event of a dispute.

Turning principles into practice

Options for enhancing credibility, predictability and transparency include:

- Publish **English** versions of all relevant laws
- **Announce** policy changes well in advance, **circulate** draft laws
- Ensure public support through wide **consultations**
- Demonstrate high-level **political commitment** to reforms
- Foster an independent **judiciary**, publish judicial rulings and ensure adequate judicial capacity to settle disputes
- Give autonomy to the **regulator** or agency in charge of implementation to avoid political interference
- Provide constitutional **guarantees** against expropriation
- Consider offering **contractual commitments** (mining, infrastructure)
- Consider signing international or bilateral **agreements**

Thank you

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PFI : www.oecd.org/daf/investment/pfi

PFI Toolkit: www.oecd.org/investment/pfitoolkit

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