

Towards an improved business climate



2022

OECD Investment Policy Reviews

An *OECD Investment Policy Review* (IPR) is a country-specific report conducted by the OECD Secretariat in partnership with the government of the country under review. IPRs have been used by over 30 countries, at varying levels of development and across all continents, as a tool for assessing investment and business climates, and for designing reforms to improve them. Recently published IPRs include Egypt, Indonesia, Thailand and Viet Nam.

Since 2006, reviews have used the *Policy Framework for Investment* (PFI) which takes a comprehensive, whole-of-government approach to investment climate reform. The PFI was updated in 2015 and is the most comprehensive and systematic multilateral-backed approach for improving investment conditions ever developed. By fostering an enabling environment for foreign and domestic investment alike, the PFI also plays an important role in delivering on the 2030 Development Agenda and in achieving the Sustainable Development Goals.

The objective of the PFI is to mobilise private investment that supports steady economic growth and sustainable development, contributing to economic and social well-being around the world. It is non-prescriptive and emphasises policy coherence. It eschews one-size-fits-all solutions and encourages policy makers to ask appropriate questions about their economy, their institutions and their policy settings. The PFI is a flexible instrument and its resulting policy advice is tailored to both the domestic and international context. In the current context of the COVID-19 outbreak, the world economy is experiencing a severe recession affecting virtually all countries' development outlooks. While global foreign direct investment (FDI) flows are expected to plummet by 30-40% in 2020 according to OECD projections, governments have to take strategic decisions to face the crisis. As such, the analysis and recommendations in the IPRs help governments to adopt sound and transparent investment policies that support a resilient, sustainable and inclusive economic recovery from the COVID-19 crisis.

The PFI addresses 12 policy areas and includes many aspects of good governance. All IPRs include chapters on the entry, regulation and protection of investment, investment promotion and facilitation, and responsible business conduct. Other policy areas can include: competition, trade, tax, corporate governance, human resource development, finance, infrastructure, public governance and channelling investment into areas that promote green growth. The choice depends largely on the wishes of the government undertaking the review.

Building on the PFI, the IPRs take advantage of on-going investment work at the OECD to deepen the analysis and strengthen policy recommendations. These include:

- [OECD FDI Regulatory Restrictiveness Index](#) to measure statutory discrimination against foreign investors in more than 80 countries worldwide. For countries with relatively few statutory barriers to FDI, this could give a boost to investment promotion efforts by providing an objective external assessment of a country's openness. The Index would also provide an estimate of the potential impact from further reforms on FDI inflows and overall competitiveness.

- [IPA survey](#). The OECD has conducted a comprehensive stocktaking of over 60 investment promotion agencies (IPAs) worldwide over the past years, based on an extensive survey covering IPA budgets, personnel, offices, activities, prioritisation strategies, monitoring and evaluation, institutional interaction and perceptions on FDI. Participating in the survey as part of the IPR can help a country's IPA to explore its investment promotion and facilitation dynamics and characteristics. The results can be used to present a detailed analysis of the IPA, compare it with other agencies in the world, highlight its strengths and provide tailored advice to improve its functioning and performance where necessary. In light of the COVID-19 crisis, this benchmarking exercise will help IPAs to make the most appropriate strategic choices to prepare for the future.
- **Investment incentives database and analysis** benchmarking how incentives in the country under review compare with other developing countries in terms of their impact on average effective tax rates and also the extent to which they are targeted towards specific outcomes: training, supplier development, R&D, etc. This analysis will provide the basis for further assessing the impact of incentives on specific investment activities and policy objectives to provide tailored guidance on how to improve the effectiveness of incentives.
- [FDI Qualities indicators and policy toolkit](#) address the impact of FDI in terms of inclusive and sustainable development and provide advice on how governments can enhance the contribution of FDI to meeting the Sustainable Development Goals. This work on FDI Qualities takes as a starting point the observation that realising the potential benefits from FDI is not a given: among countries receiving FDI, some have benefited more than others and, within countries, some segments of the population have been left behind. Outcomes depend on private sector incentives as well as home and host country policies. The FDI Qualities indicators measure the sustainable development impacts of FDI in host countries along five clusters derived from the SDGs: productivity and innovation; employment and job quality; skills; gender equality; and, the carbon footprint. Using a variety of data sources, the IPR will examine how FDI contributes to several aspects of sustainable development in the country under review. It will support the government to better identify the country's competitive edge and re-think its investment promotion strategy to increase the impact of inward FDI.
- Building on the OECD [Guidelines for Multinational Enterprises and Due Diligence Guidance](#), the IPR also helps policymakers to promote and enable **responsible business conduct** and, as such, pave the way to attract and retain quality investment and to ensure that business activity contributes to broader value creation and sustainable development.

Reviews can also include a chapter with a sectoral focus, such as agriculture or tourism or some other sector with a significant role in inclusive development.

Parallel to the IPR, the OECD secretariat is exploring joint work between the Investment Committee and the Development Assistance Committee of the OECD to provide recommendations to donors to assist reform implementation in countries undertaking an IPR.

The process

The *Policy Framework for Investment* is a public good and hence it is possible for a country to undertake its own self-assessment. But in practice the combination of part self-assessment by an inter-ministerial task force and part external assessment by the OECD has proven to be a good formula. On the one hand, governments benefit from action-oriented guidance based on OECD good practice and expertise. On the other hand, the review process encourages the creation of national taskforces to bring together ministries and government agencies involved in the creation of policies to improve the investment climate. This whole-of-government approach promotes inter-ministerial dialogue and co-operation

The PFI process builds on the priorities of the government undertaking the review and is designed to develop a systematic approach to investment climate reform. According to our counterparts in the over 30 IPRs worldwide using the PFI, the review helps to:

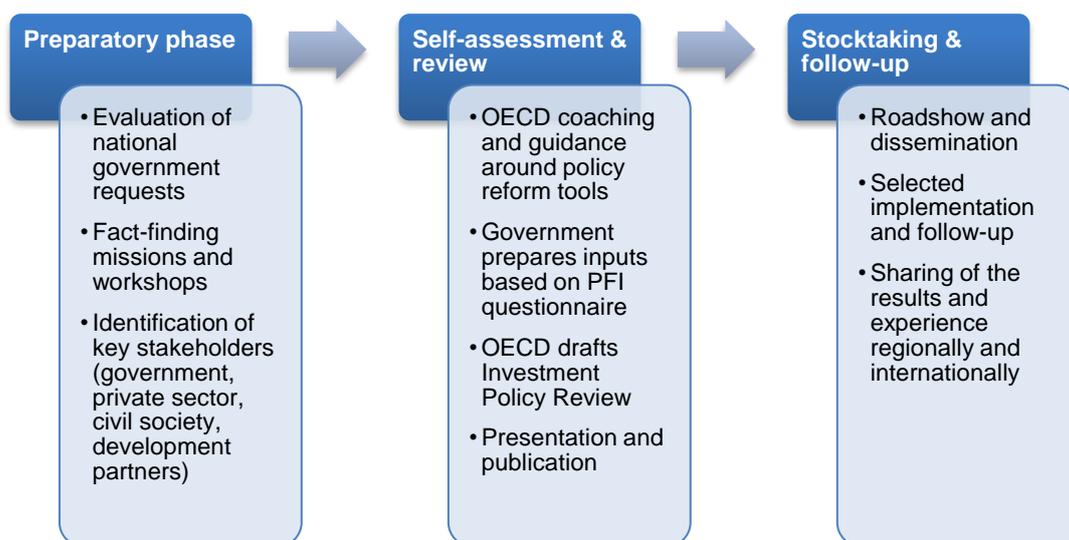
- Strengthen **the process of investment policy formulation**;
- Raise awareness of **best practices to address investment-related challenges**;
- **Enhance inter-agency collaboration**;
- **Facilitate reforms** by providing a credible reference and developing groups of officials with the capacity to push for reforms;
- **Improve stakeholder engagement**, including with the private sector;
- **Raise donor interest** in supporting reforms;
- Deepen and broaden **cross-country linkages**;
- **Showcase reform efforts**.

OECD IPR OF CAMBODIA, 2018

"I really count on this IPR which I consider as an exercise to bring other colleagues to consider the same issues that we at the CDC as investment promotion agency are thinking about, but on our own. For us, investment is not CDC's role only: it is the business of everybody."

H.E. Sok Chenda Sophea,
Minister attached to the
Prime Minister and
Secretary-General of the
Council for the Development
of Cambodia

The process takes roughly one year from start to finish although can be longer depending on circumstances. Below are the main steps of the process:



The impact

By helping to create an enabling environment for responsible investment and build country-level capacity, IPRs can mobilise private resources for development and support the implementation of the Sustainable Development Goals. IPRs address the issue of sustainable and inclusive development through the lens of investment and private sector-led development. The focus on the investment climate allows for a coherent and comprehensive approach to addressing the challenges of growth and development, providing an understanding of how policies for investment and development interact.

Experience in undertaking these reviews has led to improvements, both in the process itself and in implementing the recommendations. Over time, the reviews have become more comprehensive and with more impact on the ground. The growing number of IPRs allows for the increasing participation of experts from many parts of the OECD Secretariat. Furthermore, by relying mostly on OECD Secretariat expertise, an in-house repository of country experience with investment policy reforms and investment climate improvements has been developed. The most relevant reform experiences for emerging economies are often likely to involve other emerging economies. The IPRs are as much about sharing this experience across countries and regions as they are about disseminating OECD good practice.

OECD IPR Myanmar, 2014

“The recommendations are candid, objective and highly practical...The Investment Policy Review was the mother of investment policy reforms in Myanmar.”

U Aung Naing Oo, Permanent Secretary, Ministry of Investment and Foreign Economic Relations, Myanmar

“In our due diligence, we are asked to look at challenges and gaps...which are well documented in the OECD report. I recommend this report to everybody because our experience...is very confirming of the findings. It is a very good study.”

Ed Potter, Director, Global Workplace Rights, Coca-Cola

OECD IPR OF THE PHILIPPINES, 2016

“We joined the IPR to learn more about the OECD best practices, diagnosis and benchmarking. One of the challenges was trying to put all of the implementing agencies under one roof and having the same mindset on the need for reform and improved competition. There were so many inter-agency meetings and follow-ups as the nature of a review require full co-operation to make it happen. The takeaway was that we now have a common goal because of IPR. The key agencies that participated now have a full understanding of the investment environment of the country. Now we work as one to make the reform happen. The OECD IPR review stimulated a dialogue between the government and relevant stakeholders.”

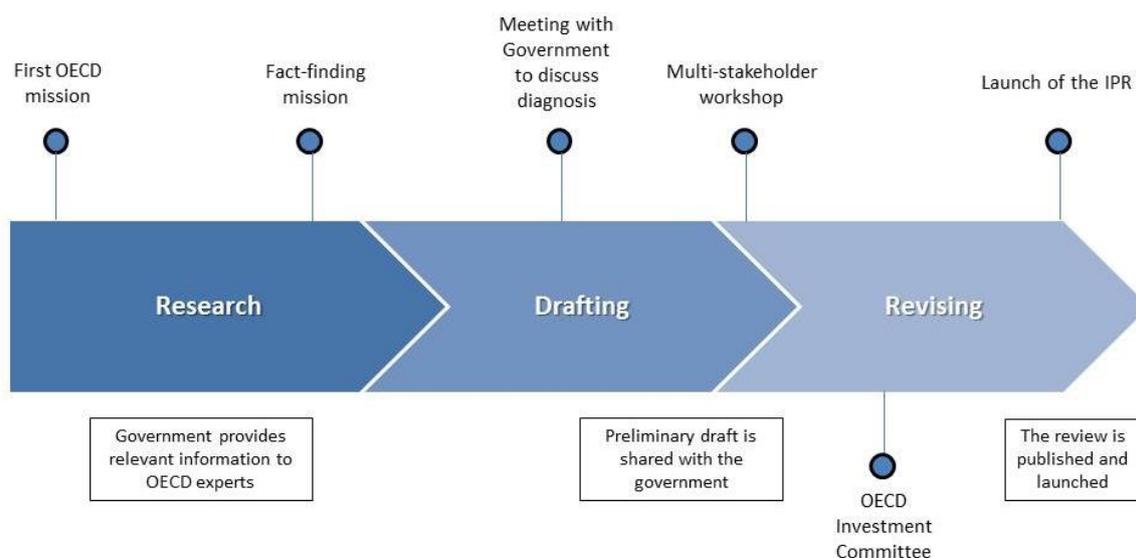
Atty. Marjorie O. Ramos-Samaniego, member of the Board of Governors of the Philippine Board of Investments; the Philippine Investment Lead Negotiator for Investment Agreements

The OECD Secretariat can also be involved in the organisation of follow-up activities to support reform implementation based on the recommendations of the IPRs. Depending on a country's needs, support to legal reforms (e.g. revision of investment laws and regulations), the promotion of responsible business conduct and revisions to the investment promotion strategy can also be organised as follow-up activities, either targeted policy advice or capacity building workshops, or both.

OECD Investment Policy Review indicative timeline: 12-18 months

• Official, high-level request in letter to OECD Secretary-General
• OECD discusses with government or development partners to secure funding for IPR
• OECD mission* to present PFI, select specific policy areas, establish inter-ministerial Task Force
• Background research and preliminary drafting
• OECD research mission* to discuss responses to PFI questions and related issues with relevant agencies, either in a joint meeting or separately. Meetings with other stakeholders (investors, chambers of commerce, research institutes, regional development banks and other international organisations, NGOs).
• OECD prepares preliminary draft of key chapters of the report and shares with government
• Third OECD mission* to meet with the Task Force to discuss diagnosis and preliminary recommendations
• Revision and completion of preliminary draft which is shared with the government; relevant ministries/agencies provide written comments on the draft chapters.
• The OECD Secretariat and the government jointly hold a multi-stakeholder seminar with all relevant agencies and stakeholders to discuss the full draft.
• The government sends a high-level delegation to the OECD Investment Committee in Paris to attend a peer dialogue with OECD members and other participants based on the draft review.
• The draft is further revised and recirculated to government, OECD members and stakeholders
• The review is published, with high-level launch to the media and stakeholders.

*some missions may now be handled virtually



List of IPRs based on the PFI

- Botswana 2014
- Bulgaria 2022*
- Cambodia 2018
- China 2008
- Colombia 2012
- Costa Rica 2013
- Croatia 2019
- Egypt 2007 | 2020
- Georgia 2020
- India 2009
- Indonesia 2010 | 2020
- Jordan 2013
- Lao PDR 2017
- Kazakhstan 2012 | 2016
- Malaysia 2013
- Mauritius 2014
- Morocco 2010 | 2022*
- Mozambique 2013
- Myanmar 2014 | 2020
- Nigeria 2014
- Peru 2008
- Philippines 2016
- Russia 2008
- Tanzania 2013
- Thailand 2021
- Tunisia 2012
- Ukraine 2011 | 2016
- Uruguay 2021
- Viet Nam 2009 | 2018
- Zambia 2012

*forthcoming



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Policy Framework for Investment: www.oecd.org/daf/investment/pfi

OECD Investment Policy Reviews: www.oecd.org/daf/investment/countryreviews

Investment Policy for Sustainable Development in the AANZFTA Region (an external assessment of the impact of OECD IPRs): www.aanzfta.asean.org/aecsp

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