



**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

**DAC Network on Poverty Reduction**

**ROOM DOCUMENT No. 2 for its meeting on 19-20 June 2003**

**OECD STRATEGY ON INVESTMENT FOR DEVELOPMENT**

*The attached note, referred to in the draft POVNET programme of work [DCD/DAC/POVNET(2003)1], was prepared for the OECD Council meeting on 28 May 2003.*

**JT00146086**

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

## **OECD STRATEGY ON INVESTMENT FOR DEVELOPMENT**

### **Following up on the 2003 OECD Ministerial**

1. In her summary of this year's OECD Ministerial Council Meeting, the Chair noted that "at Doha, Monterrey and Johannesburg, OECD Members affirmed their commitment to promoting sustainable economic growth, achieving the United Nations Millennium Development Goals, and lifting many millions of people out of poverty" and in this context that "there was wide support for the OECD Council to look at a proposal from Japan for additional work on a strategy to promote investment in developing countries". Japan's proposal includes the development of policy guidelines for attracting investment; the launching of a project on strengthening co-ordination between ODA and FDI; and work on transferring OECD know-how on investment peer reviews, to NEPAD among others.

2. This Note outlines an integrated approach to promoting investment for development (the Strategy) referring as appropriate to committee work available already; identifies new outputs which can be developed in the coming cycle of work as part of the Strategy consistent with Japan's proposal; and considers organisational modalities and resources needed for their effective delivery. While the proposal is broad-ranging in its approach, the attempt is made to build on the existing programme of work and commitments to the extent possible so that requirements for new resources would be relatively modest.

### **Objectives of the Strategy**

3. The ultimate goal of the Strategy is to promote a shared view among OECD and non-OECD governments and business of what constitutes "good policies" in the range of areas bearing on investment, and how to implement them effectively. Specifically, its ambition is to develop, with the full and active participation of non-Member partners and the business community, two complementary courses of action: an integrated policy framework for creating an "enabling environment" for investment; and a strengthened process for co-operating with non-Member partners and building capacities to implement the framework and monitor progress. The Strategy is designed to be adaptable to regional and individual country needs, recognising that the "good policies" for attracting investment can only bear fruit in the context of broader country and regional development.

4. The OECD is already making a distinctive contribution to promoting investment for development. The Organisation, whose Member countries are the source of the bulk of international investment and ODA, has 40 years of experience with the development of shared policy values and "rules of the game" on FDI and other investment matters, with peer review-based co-operation for enhancing implementation, and with development co-operation efforts to promote investment and enterprise development. The OECD's multidisciplinary approach is also an added comparative advantage to adequately address the horizontal dimension of investment policies. Finally, the OECD has established solid partnerships with non-Members with observer or participant status in committees and through Global Forums and other outreach programmes relevant to investment, together with a tradition of consultation with business, trade unions and other stakeholders from civil society as well as effective co-operation with other international organisations.

## **The OECD's approach to promoting investment in developing countries**

5. The OECD approach encourages the development of a comprehensive framework which would help host countries devise and implement policies to create a positive investment environment and to strengthen the ability of the private sector to respond to investment opportunities. This framework would cover areas such as macroeconomic policies, transparency and public governance, regulatory and judiciary systems, taxation, competition, anti-corruption, corporate governance and responsibility, trade, financial markets, human capital, environment and labour relations. The OECD approach is also a balanced one. While the primary responsibility for attracting and mobilising investment and reaping its full benefits rests with the host countries, the policies of developed countries and businesses also play a critical role. Annex I provides more details on the elements of this framework, including relevant on-going OECD work. Annex II sets out the role that development co-operation strategies can play in promoting investment for development.

### **Proposed new outputs**

6. Three concrete, inter-connected outputs as part of this Strategy could be delivered in the coming period:

#### ***i) Framework for Investment Policy***

The integrated and balanced approach outlined above and in Annex I could be translated into a set of policy building blocks of broad application – the “Framework for Investment Policy”. Transparency would be a core element, taking advantage of CIME, PUMA and other committees’ work. Building on OECD best practices, successful policy experiences in developing countries and work with non-Member partners already undertaken under the auspices of CCNM, the Framework would aim to become an internationally accepted voluntary benchmark, which would be adaptable to regional and individual circumstances and used by other international organisations in the course of their own policy assistance activities, as is the case with the OECD Principles of Corporate Governance. Governments’ support for the Framework would signal adherence to a policy community that shares similar goals and values, without prejudice to negotiations in WTO or other contexts. The OECD should also work closely with the World Bank and UNCTAD to ensure that this initiative is complementary to their own ongoing country-specific work on investment in developing countries.

#### ***ii) OECD Members’ assistance in promoting investment for development***

A number of ongoing OECD projects encourage developed countries’ policy coherence for development (see Annexes I and II). In particular, developed countries’ actions should include strengthening ODA support for the full range of measures necessary to improve the environment for domestic and foreign investment. CIME is launching, in close co-operation with DAC, a project aimed at exploiting synergies between FDI and ODA.

#### ***iii) Enhanced peer review-based mechanism for building capacities***

OECD’s experience with investment and other peer reviews of OECD and non-OECD economies could contribute to the policy dialogue with non-Members as part of OECD investment initiatives with Africa and other interested regional groupings. This could support OECD’s efforts to help NEPAD develop its own peer review mechanisms.

### **Co-operation modalities**

7. Work modalities will be based on the principles of partnership, ownership and horizontal co-operation.

#### ***Partnership: non-Members' involvement and ownership***

8. Introduced and discussed at the coming 2003 annual conference of the Global Forum on International Investment proposed to be held in South Africa, the proposed initiative on the Framework for Investment Policy would be developed in steps in close co-operation with non-Member partners from the outset. An ad hoc Global Forum Task Force (GFTF) would be established to this effect with OECD and non-OECD governments acting as equal partners, and with the participation of interested international organisations as well as BIAC, TUAC and relevant NGOs. The final draft of the Framework would be endorsed at a next annual conference of the Global Forum or another high-level occasion involving non-Member partners. Enhanced involvement of non-Member partners in steering the work of the Global Forum and the Task Force will be part and parcel of the Strategy.

9. Regional applications and adaptation of the Strategy will reinforce its impact. The OECD Investment Initiative for Growth and Development in Africa [DAFFE/IME/RD(2003)4] could be a pilot project, building on the Dakar Conference on trade and investment and launched in a separate event in association with the next Global Forum.

#### ***Horizontal co-operation***

10. Close co-operation among committees served by DAF, DCD, GOV and other relevant directorates would be important.

### **Timing and Resources**

11. Work on the proposed Framework for Investment Policy remains largely unfunded. While it will draw on existing material and committee input, this work involves complex drafting and task force meetings and deserves to be serviced on its own right. The equivalent of an additional 18 months of an A4 is the minimum needed if a robust draft of the Global Forum Task Force were to be delivered in 2005. Associated non-staff costs would also need to be taken into account.

12. On the other hand, the other outputs proposed have already been factored into the OECD Programme of Work and Budget for 2003-2004, whether financed from regular Part 1 resources, including CCNM, or voluntary contributions at hand. Additional voluntary contributions would however be welcome to deepen individual components of the project or bring forward planned results.

## ANNEX I: COMPONENTS OF AN INTEGRATED STRATEGY ON INVESTMENT FOR DEVELOPMENT

1. **Host countries action.** Areas for host government action affecting the enabling environment for investment and commonly agreed to be important for enhancing the scope for and benefiting from investment, whether foreign or domestic, include:<sup>1</sup>

- *Macroeconomic stability.* Fiscal discipline, price stability-oriented monetary policy and appropriate exchange rate regimes contribute to establishing a climate favourable to investment.
- *Policy Transparency.* Public sector transparency is key to investors, foreign and domestic alike. New work in the area of investment policy transparency is being undertaken by DAFFE and GOV. This work could serve as a starting point for the identification of “good practices”. Promoting private-sector transparency is a necessary complement of public sector effort.
- *Public governance.* In addition to securing institutional and political stability, improving the investment climate requires building an effective regulatory framework for investment, a committed public administration, appropriate ethical codes of conduct for civil servants and effective tools to manage conflicts of interest between the public and private sectors.
- *Market access and non-discrimination.* The principle of non-discrimination between domestic and foreign investors (“national treatment” in investment treaty parlance) and among classes of foreign investors (“MFN treatment”) is one of the most important policy issues pertaining to investment in the international context. Barriers to entry are covered by the Code of Liberalisation of Capital Movements, to which all Member countries subscribe. The OECD Declaration on International Investment, which is open to non-Members, includes a national treatment commitment.
- *Protection of investors’ rights.* This is another critical element of international investment agreements and of any effective enabling environment for investment more generally. It is also a controversial one in respect of regulatory “taking”, indirect expropriation and sovereign governments’ right to regulate.
- *Corporate taxation.* Work has already been undertaken in the area of tax policy as a means of subsidising direct investment and taxation of portfolio investment. This work could be built upon with the purpose of identifying good tax practices improving an economy’s ability to attract international investment. It could also include work on domestic tax regimes that support and encourage entrepreneurship, business start-ups and investment.
- *Corporate governance.* The OECD Principles of Corporate Governance, which are in the process of being reviewed, have been extensively promoted in countries outside the OECD. In addition to fostering their role as catalysts for supporting domestic investment, the Principles could be built upon with the purpose of identifying points of particular importance to international direct investment.

---

<sup>1</sup> This list below does not pretend to be comprehensive but covers the main areas in which work is currently underway within the Organisation.

- *Competition policy.* Investors are generally attracted to host locations with sound practices for dealing with anti-competitive behaviour. Benefits of investment for the host economy are magnified in a competitive environment. On top of this, competition policies have a direct impact on FDI *via* rules on mergers and acquisitions and *inter alia* due to increasing foreign participation in privatisation, via regulatory practices vis-à-vis the utilities sector. This work would benefit from ongoing work in the Global Forum on Competition and the OECD Regulatory Reform Programme.
- *Investment promotion.* Investment promotion has become an important policy tool for attracting FDI. Policies aimed at attracting FDI have ranged from general promotion schemes to much more aggressive targeting of foreign investors combined with the use of investment incentives. Effort in this area could build on OECD's Best Practices Guidelines for Investment Promotion that were developed in the context of the Investment Compact for South East Europe. The Guiding Principles for Policies toward Attracting FDI and the Checklist on Assessing FDI Incentives Policies are also to be used in this area.
- *Human capital enhancement.* The importance of raising the levels of health and education of national workforces for attracting and benefiting from investment should be factored into the project.
- *Promoting Private Sector Growth.* The OECD has carried out a range of work to promote private sector growth in developing countries, which is a critical factor in attracting both foreign and domestic investment. Examples include DAC Guidelines in Support of Private Sector Development, work to promote public-private partnerships including for infrastructure projects, policies toward local small and medium-sized enterprises, encouraging entrepreneurship by women, trade and investment capacity building, e-business, measures for enhancing domestic securities markets and other financial intermediation, and regional trade and other initiatives impacting on investment.

2. **Developed countries action.** Developed countries can take action to assist developing countries in attracting investment and reaping its benefits. Examples include:

- Strengthening co-ordination between ODA policies and measures to improve host countries' enabling environment for investment. CIME is launching in co-operation with DAC a project aimed at exploiting synergies between FDI and ODA.
- Removing those trade barriers in developed countries that hinder the export of goods and services from investors in developing countries, and effectively discourage foreign companies from establishing production sites in developing countries also contributes to policy coherence. Work in this area is contemplated by CIME and the Trade Committee and could form the basis for the identification of commonly agreed "good practices".
- Promoting the positive contribution to sustainable development of multinational enterprises by encouraging them not to lower their corporate responsibility standards as they invest in developing countries, and minimising recourse to special tax and other incentives which could unduly distort location decisions to the detriment of less developed countries. The work under the OECD Guidelines for Multinational Enterprises could be drawn upon in this regard.

3. **Positive contribution of responsible business to development.** In her summary of this year's OECD Ministerial Council Meeting, the Chair noted that "business must also be partners in the development process. The OECD Guidelines for Multinational Enterprises have encouraged businesses to

take into account not only economic and financial factors, but also the developmental, social and environmental implications of their undertakings”. Experiences of adhering countries with the implementation of the Guidelines in non-adhering countries will be reviewed and input will be provided into a study commissioned by the World Bank, in co-operation with OECD, ILO and the UN Global Compact, on the options to strengthen corporate responsibility among suppliers in developing countries.

## **ANNEX II: DEVELOPMENT CO-OPERATION STRATEGIES FOR INVESTMENT AND DEVELOPMENT**

1. Development co-operation strategies and efforts to promote investment and development, carried out through DCD/DAC, are based on three interconnected aspects:

- Efforts with partner countries to strengthen the basic framework conditions for sustained economic growth and investment, e.g. peace and stability, good governance and good policies, human development – the lack of which has been referred to as “investment killers”.
- Policies to remove supply side barriers and build supply side capacities so that enterprises can benefit from the opportunities offered by an improved enabling environment.
- Bringing growth, and the determinants of growth more centrally into donor and partner country strategies, where issues such as productivity, competitiveness, entrepreneurship, diversification, the functioning of markets and the engines of growth (private sector investment and trade) are underrepresented.

2. Within this framework, work in DCD/DAC to promote investment for development will be moved forward over 2003 and 2004 in the newly tasked DAC Network on poverty Reduction (POVNET) and will focus on the following areas:

### **Enterprise development**

3. The enterprise is central to wealth creation, development and poverty reduction. The 1994 *DAC Orientations on Private Sector Development* continue to provide helpful guidance to donor strategies in support of creating a competitive and viable private sector. It is proposed to update this work, and to bring in issues such as globalisation, trade, the MDGs and the poverty reduction strategy process.

### **SMEs and development**

4. SMEs are the backbone of the private sector in developing countries. As part of the “Bologna Process” to enhance the competitiveness of SMEs in the global economy, DCD/DAC is preparing a segment of the June 2004 *Istanbul Conference on Promoting Entrepreneurship in a Global Economy* on the theme, SMEs and Development. Building on its private sector development work and on the 2001 *DAC Guidelines on Strengthening Trade Capacity Building*, the particular focus of that segment is on supply side capacity building for investment and trade – how to make SMEs better local partners for foreign investors and how SMEs can better exploit the opportunities from expanding regional and international trade.

### **ODA/FDI synergies**

5. FDI and ODA represent the two major external sources of financing for development, but they could have greater impacts if better connected to each other. The DAC is collaborating with CIME on ways and means to better connect up ODA and FDI in order to increase the flow of FDI to developing countries and to strengthen its benefits to the local economy. The particular thrusts of this work have yet to



be decided, but they could cover areas such as the enabling environment, institutional and supply side capacity building, governance (corporate and public) or infrastructure financing and provision.

### **Infrastructure for investment and trade**

6. The renewed recognition of the importance of infrastructure for growth, enterprise development, investment and trade has to be seen alongside the fact that financing from all sources (private/public, domestic/foreign) has slumped. Current investment falls far short of needs. There are major financing and governance issues. Johannesburg and Kyoto have emphasised the need for more and better public private partnerships (PPPs) in the provision of infrastructure and the DAC has already held an exploratory discussion with the private sector on the issues relating to PPPs in the water and sanitation sector. DAC work in this area could also connect up with the ODA/FDI theme outlined above.

### **Agriculture**

7. While the international negotiations on issues such as market access and subsidies should improve the outlook for agriculture in developing countries, it must not be forgotten that major efforts and investments will also be required by developing countries and their farmers if they are to benefit from improved market opportunities. Agricultural commercialisation, global value chains, rapid technological change, diversification, productivity, etc. all need attention at a time when donor investment in agriculture has declined. DAC work on agriculture will signal the renewed importance of investment in agriculture and how best to support agricultural policy reform in partner countries.

### **ICT**

8. ICT is vital for enterprise development. Responding to calls for the G8 DOT Force, work in the DCD/DAC focuses on how to integrate ICT into development programmes and in preparing roadmaps for donors in this area.