Putting the Policy Framework Into Action: Next Steps

Richard Newfarmer
World Bank
Rio de Janeiro, Brazil
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Policy Framework for Investment

• What is it?: 10 questions in 10 policy domains
  – Investment, promotion, trade, competition, tax, corporate governance, CSR, human resources, infrastructure, and public governance

• How can governments use PFI?
  – Self evaluation
  – Peer review
  – Regional arrangements

• Question: How does the government set priorities among various domains? Are all questions are not equally important in attracting investment
  – Investment restrictions > competition policy?
  – Within area, questions can be much deeper
  – Short term (IPA) > long-term (education)?
Countries have quite different strategic requirements… but small countries can do well.
PFI: From checklist to strategy

- Requires embedding in a strategy
  - Establish investment objectives
    - Speed growth (Tech, productivity)?
    - Expand exports?
    - Expand employment?
    - Relieve infrastructure constraints?
    - Regional development?

- Assess assets and impediments to investment
  - Assets: Labor, resources, location?
  - What are the binding constraints to investment?

- Realism: Take account of capacity to implement
Generic priorities: Getting the most FDI … and getting the most (TFP) from FDI

- Stable macro policies (e.g. Gastanaga, et al 1998)
- Create positive investment climate (infrastructure, property rights, intellectual property, corruption) (Daude-Stein, 2001)
- Removing policy-induced barriers to entry and competition (e.g., tariffs, entry restrictions, tax policies)
Reducing trade barriers increases competition

Per cent level of tariffs, annual per cent growth in trade

**Tariff levels (left axis)**

- 1980s: 30
- 2000s: 10

**Trade growth (right axis)**

- 1980s: 2
- 2000s: 12
**Generic priorities:** Getting the most FDI

... and getting the most (TFP) from FDI

- Stable macro policies (e.g. Gastanaga, et al 1998)

- Create positive investment climate (infrastructure, property rights, intellectual property, corruption) (Daude-Stein, 2001)

- Removing policy-induced barriers to entry and competition (e.g., tariffs, entry restrictions, tax policies)

Education raises the productivity of FDI, leading to higher growth...

Note: The low, medium, and high categories for FDI to GDP ratio are below 0.01%, 0.01%-0.2%, and over 0.2% respectively. For the schooling variable, the low, medium, and high categories are below 0.4, 0.4-1.0, and over 1.0, respectively.

Generic priorities: Getting the most FDI ... and getting the most (TFP) from FDI

- Stable macro policies (e.g. Gastanaga, et al 1998)
- Create positive investment climate (infrastructure, property rights, intellectual property, corruption) (Daude-Stein, 2001)
- Removing policy-induced barriers to entry and competition (e.g., tariffs, entry restrictions, tax policies)
- Pro-active policies (promotion, linkage creation, technology networks)
PFI: Next steps

• Possible to advise on ways to set priorities?
  – Context manual
  – Analyzing binding constraints

• Possible to categorize by level of capacity to implement?
  – Low income countries need to answer different questions (property protection) than middle income countries
  – Different investments require differing type of regulatory capacities: e.g., retail services v. power

• Pilots to test PFI… How to create dialogue?
  – Within governments
  – With governments
  – Between governments
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