



Global Forum on International Investment

Encouraging Modern Governance and Transparency for Investment: Why and How?

17- 18 November 2003

Johannesburg

Hosted by the Government of South Africa

The OECD Strategy on Investment for Development: Creating a Framework for Dialogue and Learning

Richard Hecklinger

Deputy Secretary-General,

Organisation for Economic Co-operation and Development

It is a great pleasure for me to open, together with Minister Trevor Manuel, the annual meeting of the OECD Global Forum on International Investment here in Johannesburg.

We are grateful to the Government of South Africa and in particular Minister Manuel and his staff at the Ministry of Finance and our colleagues at the Trade and Investment South Africa (TISA) for making this meeting possible. As you are aware, there are two other events: OECD-Africa Investment Roundtable, and Workshop on Sustainable Development, Environment and Guidelines, which will take place concurrently on 19 November.

Foreign direct investment (FDI), together with domestic investment, plays an essential role in promoting worldwide economic growth and development through its potential to transfer knowledge and technology, create jobs, enhance competitiveness and entrepreneurship and, ultimately, contribute to the eradication of poverty. However, these benefits are not automatic – without appropriate public policy they may not be fully realised.

Contributing to global development is a key objective of the OECD. Its founding Convention calls upon the OECD to promote policies: *"designed to contribute to sound economic expansion in member as well as non-member countries in the process of economic development."*

Increased interdependence has made this objective even more vital for achieving poverty reduction and sustainable development globally. The principles and values that the OECD promotes – commitments to democracy, market-based economies and open, rule-based, and non-discriminatory trading and financial systems, supported by good governance – are essential to achieving our ultimate goal of the economic and social well-being of all people, in a way that respects diversity and cultural identity.

OECD's strengths include a multidisciplinary capacity for analysis and policy dialogue, its sharing of best practices and monitoring of its members through peer review, and its extensive policy dialogue and capacity-building with non-OECD partner economies, together with international organisations and other stakeholders. Peer reviews provide an opportunity for learning from each other, while recognising that policy prescriptions cannot simply be lifted from one country's experience and transplanted to another. OECD experience points to a clear need to take account of individual country circumstances.

International Partnerships and the Strategy on Investment for Development

The Consensus reached at the International Conference on Financing for Development, held in 2002 in Monterrey, recognised the critical importance of domestic and international investment for the growth process and called for greater international co-operation in support of development. We are eager to benefit from your input and involvement in a new OECD initiative – the “Strategy on Investment for Development” –, which takes its inspiration from the Monterrey Consensus.

The Strategy will apply a consensus-based model of international cooperation to the challenge of designing and implementing investment policies that enhance the economic, environmental and social well being of host countries. The aim of the Strategy is to provide a forum for co-operation and information sharing.

The Strategy will seek to identify the key policy elements that create the most favourable framework conditions for investment and growth. This follows up on a basic idea set forth in Monterrey -- that a strong domestic enabling environment is vital for mobilising domestic resources; encouraging the private sector and attracting and making effective use of international investment and assistance.

And efforts to create such an environment should be supported by the international community. In other words, OECD countries should help transition and developing countries to help themselves. A broad range of policy areas might be considered under this framework – including, for example, public governance, corporate law and governance, competition and taxation.

The success of the Strategy will depend on effective engagement between OECD and non-OECD economies, and with a wide range of partners such as business, trade unions and NGOs as well as other international organisations, including the World Bank, the UNCTAD, regional bodies and the New Partnership for Africa's Development (NEPAD).

We would invite all of these actors to work with us. Dialogue would take place in global, regional and bilateral outreach meetings as well as through electronic media.

The “Strategy on Investment for Development” seeks to provide -- not a negotiating table -- but a platform for ongoing consultations and discussions in meetings such as this Global Forum. I look forward to hearing your views on this strategy in the discussions today and tomorrow.

Modern governance and transparency

Modern governance and transparency will be among the key elements of the Strategy. Public governance refers to the architecture of the institutions and decision processes that determine how public policy gets made. The institutional building blocks of governance systems include basic rights (economic, political, civil and social), legal, civil and political institutions and regulatory and legal practices.

Transparency is an integral part of effective public governance. Transparency can be said to exist when there is effective two-way communication between governments and the people and organizations affected by public policy. The OECD report on *Public sector transparency on international investment policy* makes the case that transparency is good for society, as well as for international investors. It also looks at the broader governance requirements for making public sector transparency a reality and notes that international dialogue on this area might allow countries to explore the implications of their different transparency practices and to learn to make them work better.

Accompanying this report is the *Framework for Investment Policy Transparency*, which is designed to assist OECD and non-OECD government’s efforts to enhance the transparency of their investment policy framework. The *Framework* poses fifteen questions to government officials that serve as a framework for self-evaluations and reporting of policy developments.

Let me also stress that, if investment is to bring benefits to host societies, high quality public governance should be matched by the high quality private governance. Sound corporate governance is vital to building healthy capital markets. Good corporate practices are key to ensuring that international investment promotes improved standards of living and sustainable development.

Ensuring that both public and private governance are well designed and that they reinforce one another is an ongoing challenge. It will be met only where there is active engagement with all stakeholders and where proper attention is paid to such issues as health, safety and environment. The Workshop on “Sustainable Development Environment and the OECD Guidelines for Multinational Enterprises”, to be held on 19 November in association with this Global Forum, will explore many of these issues.

Since its inception, the OECD has been in the business of improving governance. Its member countries have developed -- based on their collective policy experiences -- a

number of recommendations and principles, which can serve as reference points for policy makers. These include, for example, Policy Recommendations on Regulatory Reform, Principles for Managing Ethics in the Public Service, Guidelines for Managing Conflict of Interest in the Public Sector and Guiding Principles for Successful E-Government. We have included many of these in the conference folders. We hope you will find them useful.

Many countries have been actively reforming their public sectors now almost for two decades. Experience has shown that policy does matter – at a given income level, countries that have more effective public sectors have better economic, social and environmental outcomes. Thus, in terms of raising the overall welfare of a country's citizenry, policy reform clearly pays off. Governments are under increasing pressure to make more profound changes in order to meet investors' needs at a time when global flows are not increasing and when competition for investment is intensifying.

This conference gives us an opportunity to reflect on why countries should embark upon reform and what they can reasonably expect from it.

International Co-operation – Future Work on International Investment

It is encouraging that African leaders themselves have reflected the importance they attach to good public governance in the design of NEPAD. Experience shows that economic growth is essential for reducing poverty. And consequently, NEPAD is right to set ambitious goals for economic growth in Africa. Achieving this goal will depend to no small extent on integrating African countries more strongly in international investment and trade.

OECD and NEPAD Ministers agreed during their meeting on 16 May 2002 to seek ways in which OECD could contribute to best development practices, aid effectiveness, the promotion of trade and investment, good governance, and approaches to sustainable development in Africa. We are working together with NEPAD, African Development Bank, World Bank Group and other key partners to develop an Africa Investment Initiative.

For our launch at Wednesday's meeting, we have a rich agenda before us: an agenda that deals with issues like how to create a hospitable environment for private investment in Africa, how to overcome barriers and how to build partnerships and capacities. It promises to be a very interesting discussion, and we hope that you all will join us in supporting a result-oriented, inclusive and comprehensive work programme in Africa for creating a positive investment environment.

More than ever, our quest for global solutions to global problems requires co-operation for the global common good. A partnership for development was agreed at Monterrey, Mexico, where developed and developing countries concurred that greater efforts would be made by developing countries, particularly to ensure good governance and a better investment climate, while developed countries would support these efforts in various

ways. The Monterrey Consensus is our joint policy framework in working toward achieving the Millennium Development Goals.

In this effort, all development partners need to play their part. The advanced economies need to improve market access, reduce trade-distorting subsidies, and provide more — and better co-ordinated — financial and capacity building assistance. Developing countries need to stay the course in strengthening economic policies and good governance. Steadfast implementation is the key to decisive progress in our common fight against poverty.

In conclusion, I would like to take this opportunity to assure you of the continuing support and partnership of the OECD. We would like to share experiences on how best to meet the challenges of designing and implementing policies, which will promote investment, both domestic and foreign. The Johannesburg Declaration on Sustainable Development commits governments to “continue to work for stable partnerships with all major groups respecting the independent, important roles of each of these.”

Our proposed “Strategy on Investment for Development”, which I hope we will be able to develop and put into practice together, will help us to make good on this commitment to partnership in support of the sustainable development agenda.