THE POLICY FRAMEWORK FOR INVESTMENT

What it is, why it exists, how it's been used and what's new

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Of all the acronyms in existence, "PFI" has to be one of the most popular. For many people, it is the Private Finance Initiative but that is only one of at least 40 meanings of the PFI, including institutes devoted to everything from pet foods to pellet fuels. For us at the OECD and for the many emerging economies with whom we have been working, the PFI stands for the Policy Framework for Investment. Our PFI means exactly what it says: it is a policy framework to stimulate investment and to enhance the impact from that investment.

Most people would agree on the potential benefits of investment. It can bring increases in productive capacity and other assets, including intangible assets such as intellectual property – all of which can contribute to productivity increases. As Nobel-prize winning economist Professor Paul Krugman famously remarked, "Productivity isn't everything but in the long run it is almost everything." But many of us would also agree that the benefits from investment can sometimes be disappointing, not only on efficiency grounds but even more importantly as to its development impact. Some investment can even be detrimental in social or environmental terms.

The PFI looks at the investment climate from a broad perspective. It is not just about increasing investment but about maximising the economic and social returns. Quality matters as much as the quantity as far as investment is concerned. The PFI also recognises that a good investment climate should be good for all firms – foreign and domestic, large and small.

So how does it work? The PFI looks at 12 different policy areas affecting investment: investment policy; investment promotion and facilitation; competition; trade; taxation; corporate governance; finance; infrastructure; policies to promote responsible business conduct and investment in support of green growth; and lastly broader issues of public governance. These areas affect the investment climate through various channels, influencing the risks, returns and costs faced by investors. But while the PFI looks at policies from an investor perspective, its aim is to maximise the broader development impact from investment and not simply to raise corporate profitability.

The PFI is essentially a checklist which sets out the key elements in each policy area. The value added of the PFI is in bringing together the different policy strands and stressing the overarching issue of governance. The aim is not to break new ground in individual policy areas but to tie them together to ensure policy coherence. It doesn't provide ready-made reform agendas but rather helps to improve the effectiveness of any reforms that are ultimately undertaken. It's a tool, not a magic wand.

The best way to understand the PFI is to see how it has been used. Over 25 countries have undertaken OECD Investment Policy Reviews using the PFI, most recently Myanmar. Several other reviews are in the pipeline. The PFI 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. The PFI has also been used for capacity building and private sector development strategies by bilateral and multilateral donors. It has also been used as a basis for dialogue at a regional level, such as in Southeast Asia.

The PFI was originally developed in 2006 and updated in 2015 to reflect developments in the many policy areas mentioned above. Approaches to international investment agreements have evolved over the past decade. The OECD Guidelines for Multinational Enterprises have been substantially updated, partly to reflect the development of the UN Guiding Principles for Business and Human Rights. The OECD Principles of Corporate Governance and OECD Guidelines on Corporate Governance of State-Owned Enterprises are currently under review. The new PFI also places even more focus on small and medium-sized enterprises and on the role played by global value chains. It has incorporated gender issues, a vital element of inclusive development, and now has a chapter on policies to channel investment in areas that promote green growth.

We have also taken advantage of the focus on the PFI to address issues of how to move from PFI assessments to actual implementation of reforms on the ground. For this reason, the donor community was strongly involved in the discussions surrounding the update. Experience at country level and consultations on the PFI update have led to greater co-operation between the OECD and the World Bank Group on investment climate reforms. In this way, the PFI can provide a platform for co-operation among international organisations, allowing them to provide more effective and complementary advice and support.

The update of the PFI was not a purely technocratic exercise. The new PFI represents the collective wisdom of experts, policy makers, business people and other stakeholders. Through inclusive consultations worldwide, the PFI strikes a balance between what investors want and the broader interests of society. The updated PFI was launched at the OECD's Ministerial Council Meeting in 2015.

So the next time you hear someone speak of the PFI, it might well be the Policy Framework for Investment.

More information on the PFI can be found at www.oecd.org/investment/pfi.htm

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