

**Development Co-operation Directorate
Directorate for Financial and Enterprise Affairs
Development Assistance Committee
Investment Committee**

**MAKING INVESTMENT WORK FOR THE SUSTAINABLE DEVELOPMENT GOALS:
Mobilising private investment through policy reform and donor support - Proposed December Conference**

A Concept Note by the Secretariat

14-15 October 2015

Delegates are invited to give comments on the conceptual framework and methodology for the proposed Conference to be held on 9-10 December in Paris.

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**MAKING INVESTMENT WORK FOR THE SUSTAINABLE DEVELOPMENT GOALS:
MOBILISING PRIVATE INVESTMENT
THROUGH POLICY REFORM AND DONOR SUPPORT**

Concept Note and Draft Agenda for 9-10 December 2015 Conference

I. Background: Investment for Development – Following-up on the Addis Ababa Action Plan and the Post-2015 Agenda

1. New targets have been adopted in the framework of the Sustainable Development Goals (SDGs). Achieving these goals will require treating social and environmental objectives as a central part of the development agenda. Aid alone will not suffice for financing these goals. Indeed, the resources needed every year to achieve the SDGs are estimated to be several times greater than current levels of Official Development Finance. This leaves a vast space to be filled, as was fully recognised by the Third International Conference on Financing for Development (F4D), held in Addis Ababa this July. Governments, private investors, and donor countries all have essential roles to play in following up on the F4D agenda to ensure that developing countries can attract the financial resources to reach the SDGs.

2. In particular, these actors can partner in effective and innovative ways to mobilise private finance for development. Most developing countries continue to have particularly low levels of investment relative to GDP - in Africa, investment to GDP ratios struggle to reach 20% and in Latin America and the Caribbean, the picture is not much better. Large emerging markets, like India and China, have a large impact on global trading and investment patterns, due to their sheer size and high growth rates. At the same time, in India for example, FDI stocks remain modest and investment to GDP ratios have slowed to closer to 30%, despite efforts being made to in spurring foreign and domestic investment. This reflects a lack of adequate framework conditions through which countries can successfully attract and retain investment.

3. There is a challenging task ahead if developing countries hope to stimulate investment flows and make them work for development. Private investment— domestic and foreign investment—require that certain threshold conditions be met. When the conditions for investment are inadequate, implementing the SDG agenda will prove to be difficult as investors will stay away. Therefore, actions are required on three fronts:

- The ability of developing and emerging economy governments to develop sound conditions to enable investment, including through strengthening the domestic policy frameworks for green investment and the environment.
- Guidance by international organisations and other stakeholders on responsible business conduct can help private investors join the push towards the SDGs and action on climate change.
- Donors can make a difference through two channels: (i) supporting and aligning to the priorities of developing country governments to strengthen enabling conditions for investment through technical assistance programmes; and (ii) using development co-operation to catalyse and leverage private investment flows to support sustainable development, notably through innovative financing mechanisms such as blended finance.

4. In this context, in June 2015, OECD Ministers and developing and emerging economies endorsed a comprehensive and practical policy tool: the Policy Framework for Investment (PFI). The OECD has used the PFI since 2006 to support sounder investment policies in some 30 developing and emerging economies through notably the outreach of regional initiatives as well as regional groupings like the Southern African Development Community (SADC) and the Association of South East Asian Nations (ASEAN). The PFI has also served as the basis for the development of specific tools applied to address the needs of OECD partner countries in improving investment policies and the broader enabling environment for investment. Such instruments used by OECD regional programmes include an Investment Reform Index (IRI), Business Climate (BCR) and Sector Competitiveness Reviews (SCR), as well as a Small and Medium-Sized Enterprise (SME) Policy Index. Beyond the aim to consider the interplay of a range of policies in stimulating investment, these tools provide the basis for regional dialogue and peer pressure, facilitate prioritisation, offer a framework for monitoring of reforms, thus fostering implementation.

5. Updated in 2015 by a taskforce composed of over 70 countries, the PFI embodies a whole-of-government approach to reforms for investment, which helps create integrated policy frameworks for financing the SDGs at national and regional levels. For example, the updated PFI now treats environmental objectives and green investment as central policies and addresses other government action to achieve sustainable development. The Ministers also agreed through a Council Recommendation which called on OECD members to use the PFI as a reference in development co-operation programmes. Thus there is now a higher impetus to move beyond traditional forms of aid by using it to help developing countries undertake investment policy reforms. Development co-operation aiming to strengthen domestic enabling conditions for investment can be informed by instruments such as the PFI, as well as sector-specific applications of the PFI such as the *OECD Policy Guidance for Investment in Clean Energy Infrastructure*.

II. Time for Action

6. In addition to the United Nations, the OECD and other international organisations, bilateral and multilateral aid agencies, business associations and civil society organisations are participating in the global efforts of, and devoting resources to developing country governments and Regional Economic Communities in carrying out reforms. They are in a wide array of policy areas, ranging from investment policy to human resources, competition and infrastructure. At the same time, these stakeholders will need to actively work together to forge strong partnerships to enhance the framework conditions for private investment. Effective partnerships are necessary to provide an integrated approach for financing and implementing sustainable development.

7. While a comprehensive assessment that addresses investment policy frameworks is key to developing a sound investment climate, it is not enough. One of the major challenges identified through the use of the PFI is the lack of implementation of the reforms and policy advice that emerge from it. This is linked to a number of factors, including the shortage of resources for implementation or skills to develop investment opportunities in new areas, such as those offered by green technologies, services or practices. Furthermore, implementation could significantly be improved through better co-ordination and partnerships across development stakeholders to assist in developing methodologies that are suited to the needs and capacities of the host government. This includes indicators of progress, as well as co-ordinated technical assistance and institutional capacity building for investment policy reforms, tailored towards different circumstances of country or regional contexts. Blended finance that helps mitigate the risks of private investment can also be channelled towards projects in sectors where promising structural reforms are underway or new opportunities exist for green investment.

8. The updated PFI, together with donor efforts and related tools such as the World Bank investment climate assessment, is poised to make a key contribution to the SDGs. Benefiting from strong

buy-in by host governments and Regional Economic Communities, with which the OECD has moved to strengthen relationships. This includes the recently launched OECD-Southeast Asia Regional Programme with its strong links to ASEAN and APEC. The PFI has significant potential as a tool by which developing countries and regions can attract the investment flows that will be necessary to meet their development objectives. Donors on the ground in particular, with close relationships with the host government and working through development co-operation programmes, can actively support the implementation of investment policy recommendations. In this respect, the World Bank Group and several other multi-lateral organisations and donors are already using the PFI for their technical assistance programmes.

III. Thematic focus of the Conference and Objectives: Supporting Addis Ababa Action Agenda by ensuring the success of investment policy reforms

9. With this in mind and in a bid to meet the development objectives, the Conference will provide a forum for participants to share their views and experiences on approaches that can best assist governments in implementing national and regional policy reforms conducive to more and better investment. By gathering country representatives that have used the PFI, the business sector, development partners, and technical experts, the Conference hopes to achieve the following:

- Inform about action taken at international, regional and national levels to support governments in implementing appropriate investment policy reforms and monitoring progress;
- Discuss practical measures to ensure responsible business conduct in investment for sustainable development;
- Rally development partners with the view to foster better collaboration for national and regional investment for development, leveraging, as relevant, OECD and other multilateral and bilateral organisations' regional programmes;
- Consider how blended finance can shift the investment risk-return profile with flexible capital and favourable terms so that the private sector can overcome investor barriers and increase the supply of capital to projects in key sectors and countries through public-private partnerships, not only in infrastructure but in a range of development areas.
- Use this platform among governments, international and regional organisations, multilateral institutions, the private sector and civil society to provide a strong foundation for: (i) an exchange of information and experience on national, regional and international initiatives to measure progress and encourage further actions on better and more investment; (ii) donor alignment with country investment reform priorities identified via the PFI and other tools; and (iii) in the longer term, identify how blended finance and other innovative financing mechanisms can capitalise on these reforms, by bringing donors and private investors to the table for catalytic investment projects within an enhanced investment environment.

IV. Format and Participation

10. The two day programme for 9-10 December 2015 will consist of both plenary and focus groups sessions. The Conference will consist of plenary discussions. It will be preceded by four focus group meetings to be held the day before, whose main findings will be discussed at the plenary sessions of the Conference, where they will benefit from a broader exchange of perspectives among investment policy makers from both OECD and developing country governments, donors, private sector, civil society, and

other relevant stakeholders. In particular, donors would include aid agencies that provide technical co-operation to help developing countries improve the enabling environment as well as Development Finance Institutions that provide blended finance and other financial instruments to mitigate the risks of private investment.

ANNEX

Draft Outline AGENDA

9 December 2015 (FOCUS GROUPS)

The main findings from the four focus groups discussions will be discussed at the plenary sessions of the Conference, where they will benefit from a broader exchange of perspectives with governments, donors, and other relevant stakeholders.

10:30-13:00	FOCUS GROUPS ON DEVELOPMENT CO-OPERATION FOR GREEN GROWTH AND CLIMATE PROTECTION		
	<p>FOCUS GROUP A: Development co-operation for private sector driven green growth and climate protection <i>Donors are increasingly engaging the private sector to support country-led delivery of sustainable development solutions and action on climate change as part of their development co-operation portfolios. This session will explore evidence along three different ways development partners are working with the private sector to increase investment for sustainable development:</i></p> <ul style="list-style-type: none"> • <i>catalysing and leveraging green investment through financial instruments (e.g. blended finance, use of green bonds to attract institutional investors, impact investment)</i> • <i>strengthening enabling conditions for private investment (e.g. through domestic policy reforms)</i> • <i>building partnerships to exchange knowledge and harness capacity for green investment (e.g. SDIP)</i> 		
14:30-18:00	FOCUS GROUPS ON INVESTMENT POLICIES IN ASEAN AND LATIN AMERICA AND THE CARIBBEAN (LAC) AND ON INDICATORS FOR IMPACT ON DEVELOPMENT		
	<p>FOCUS GROUP B: Regional Policy Network on Investment – ASEAN countries <i>This meeting, which is part of the regular meetings of the Regional Policy Network on Investment, part of the OECD South East Asia Regional Programme will serve the purpose to learn lessons on sustainable development issues from Investment Policy Reviews (IPRs) undertaken among ASEAN countries.</i></p>	<p>FOCUS GROUP C: Regional Policy Framework for Investment – Latin American and Caribbean (LAC) <i>This meeting, which is part of the regular meetings of the OECD-LAC Investment Initiative, will serve as space in which to discuss:</i></p> <ol style="list-style-type: none"> 1) <i>Lessons learned from Investment Policy Reviews (IPRs) undertaken among LAC countries (Chile, Peru, Colombia, Costa Rica), including on green investment issues</i> 2) <i>Experience of participants in the OECD-LAC Investment Initiative</i> 3) <i>Way forward for the region, in the context of both the updated PFI and the possible</i> 	<p>FOCUS GROUP D: Indicators for Implementation and Impact – New Tools for investment policy reforms <i>This focus group will gather experts to discuss the types of indicators that may be most relevant, reliable and useful for enhancing the implementation of investment policy reforms and assessing their development impacts, including on environmental sustainability, SMEs, GVCs, youth employment and gender. The session will pursue three inter-related objectives:</i></p> <ol style="list-style-type: none"> i. <i>Identify key gaps that could be bridged, as well as synergies that could be exploited in</i>

		<i>launch of an OECD Latin America and the Caribbean Regional Programme in 2016</i>	<i>developing indicators under the PFI; ii. Identify best practices and innovative approaches that can inform the development of PFI indicators, considering both technical and institutional aspect; iii. How such indicators could best be used by developing country governments as well as donors</i>
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10 December 2015 (CONFERENCE)

8:30-9:00	REGISTRATION
9:00-9:45	OPENING & CALL TO ACTION <ul style="list-style-type: none"> • Opening remarks: OECD • Kick-off presentations (10mn each) by representatives of regional Caucuses (e.g. ASEAN, EURASIA, LAC, MENA, SADC)
9:45-11:15	SESSION 1: Making investment policy reform work for development – country stories & challenges to implementation <p><i>In this session, participants will learn about PFI-based reforms as illustrative of the general issue involved in taking the step from investment policy advice to implementation. Participants will also learn about private sector development programmes developed by bilateral donor agencies to support national efforts to attract investment. This session will identify where the most pressing implementation bottlenecks lie, and for which reasons. A discussion will follow where participants will offer insights into their own experience, and flag areas where support from the donor, business and policy communities is most needed.</i></p> <ul style="list-style-type: none"> • Costa Rica (TBC) or India (TBC) • Ukraine (TBC) • Egypt/Morocco (TBC) • IFC (TBC) on experience in Myanmar • DFID (TBC) on experience in Nigeria <p><i>Moderated discussion</i></p>
11:15-11:30	Coffee break
11:30-13:00	SESSION 2: Tackling the implementation challenge from advice to action <p><i>Based on the ‘existing landscape’ of challenges and initiatives identified in the preceding session, this session will look towards bringing the actors and tools together for more effective solutions to support sustainable development, including action on climate change. It will discuss how approaches to support investment policy reform and mobilize private investment for sustainable development can be designed and implemented, using the PFI and other tools as a reference. The purpose of this session is to lay the groundwork for successful partnerships among all players at national, regional and international levels, as well as at sub-national levels where appropriate.</i></p>
11:30-13:00	Session 2.A. Creating a supportive environment at national and regional level <p><i>This session will allow participants to discuss individual country approaches to successfully implement investment policy reforms, including through donor support. Since the interest of governments is not only to attract more investment but also to create an environment which will stimulate and attract quality investment, the role of policies that promote responsible business</i></p>

	<p><i>standards will also be examined. The role of business actions and regional initiatives aimed at complementing government will be discussed as well.</i></p> <p><i>The policymaker's perspective:</i></p> <ul style="list-style-type: none"> • Co-operative action at national level with development partners: Enlisting aid agencies for technical assistance • Establishing effective monitoring mechanisms for enhancing investment policy reforms and assessing their impacts (Report from focus group D) • Improving the quality of investment for development: Promoting the role of business in advancing sustainable development and climate solutions. (Report from Focus Group A) <p><i>The business perspective:</i></p> <ul style="list-style-type: none"> • Implementing due diligence to avoid negative social, human rights and environmental standards <p><i>The regional perspective:</i></p> <ul style="list-style-type: none"> • Regional initiatives in support of reforms: <ul style="list-style-type: none"> - The example of ASEAN (Report from focus group B) - Pacific Alliance – Presentations by investment promotion agencies (e.g. ProChile, ProColombia, ProMéxico, PromPerú) • Complementary efforts (e.g. the role of the UN Office of the Special Adviser on Africa in enhancing international support for Africa's development)
13:00-15:00	Lunch break
15:00-16:30	<p>Session 2.B. Creating a supportive environment for local private sector development: donor activities</p> <p><i>Based on a mapping exercise, this session will enable donors to share experience with other stakeholders on how they try to support host countries to develop the local private sector and strengthen their role to deliver sustainable development solutions (Report from Focus Group A). Activities could be at the upstream level of assisting reforms, midstream level of helping to improve market functioning, or the downstream level of direct support to local companies, mostly micro and small and medium enterprises. Exchange of views with host country governments, the private sector, and civil society on effectiveness is envisioned.</i></p>
16:30-16.45	Coffee break
16.45-17:45	<p>Session 3 Framework for Action</p> <p><i>During this session, the specific actions recommended during the previous sessions will be presented. Based on the evaluation of the panel and the general discussion among participants, a set of conclusions for making investment policy reforms work and catalysing sustainable investments for development will be formulated.</i></p> <p>Discussion: Framework for Action <i>(Define role and responsibilities of (i) governments, (ii) private sector, (iii) development partners and (iv) international organisations and regional economic communities)</i></p>
17:45-18:00	<p>Closing Session – Ensuring investment for the SDGs</p> <p><i>During this final session, the Chairmen will close the Conference by formulating a course of action for follow-up activities</i></p>