CUTS @WIF 2018 REPORT

Improving Policy Coherence to Attract Export-oriented FDI for Sustainable Development

Taking Forward Phase 3 of IIA Reform

Organised by CUTS International, this interactive session addressed the challenges that developing countries face when designing investment policies for sustainable development, with particular attention to investment policy coherence issues that arise when aiming to attract export-oriented foreign investment and generate concrete sustainable development benefits. On the panel were Mr. Pradeep S. Mehta, Secretary-General, Consumer Unity & Trust Society (CUTS); Mr. Rajesh Aggarwal, Chief, Trade Facilitation and Policy for Business, International Trade Centre (ITC); Ms. Adrienne Klasa, Development Finance Editor, FDI Magazine and the Banker; Mr. Thierry Kalonji, Director, Investment and Promotion and Private Sector Development, Common Market for Eastern and Southern Africa (COMESA); Ms. Betty Maina, Principal Secretary, State Department of Investment and Industry, Ministry of Industry, Trade and Cooperatives, Kenya.

The panel reflected on how to balance the concerns of foreign investors with those of host countries, including with respect to creating linkages and building capacities for local stakeholders and local industries. Speakers particularly looked at features of regulatory frameworks that potentially disincentivise foreign investors, and questioned the policy objectives underpinning them. Towards devising concrete solutions building on their first-hand experience as investment experts and practitioners, panelists also suggested ways to build capacities of developing and least developed countries for them to achieve better coherence of their national investment policies and eventually attract foreign investment for sustainable development.

Investors want coherence and stability

During discussions, speakers emphasised the criticality of policy coherence from an investor point of view. It was summarised that investors looking to invest in Africa go where they can bring in their managers, setup quickly, and rely on a stable policy environment with no capital control. Another very important issue for them is certainty about their land ownership, which is often not the case as evidenced by the many recent disputes between investors and host governments over the matter.

What causes lack of coherence

With regard to the causes that lead to lack of coherence, it was recalled that no country sets out to have an incoherent policy environment. Rather, it is the legacy of layers and layers of policy history, as well as lack of anticipation at the policymaking stage about upcoming challenges.

Therefore, planning for the long term is required to increase policy coherence, but this is often made difficult by the short-term view of politicians focused on delivering quick visible results before the next election. Indeed, major transformational processes require following a consistent strategy over 25 years, whereas election cycles are typically every 5 years or so. While less democratic but more stable regimes may sometimes seem attractive to investors, these have their own set of risks.

Although panelists considered the coherence-related risks associated with federal states, the example of Kenya suggested that, while provincial Investment Promotion Agencies (IPAs) can have some level of flexibility, the existence of a national investment policy is likely to secure a fair level of vertical coherence with all domestic IPAs sharing the same registration frameworks etc.

Planning for coherence: Institutional setup and policymaking

Some countries like Mauritius have managed to ensure stability in the long run by relying on strong institutions rather than strong leaders. From nowhere a few decades ago, Mauritius has become a prime destination for investments by following intensive trade-oriented strategies, despite challenging preconditions such as a small market size and no natural resources. Success of this country can provide lessons on the positive role of nurturing a culture and common vision among public servants, as well as maintaining sound systems for institutional memory.

In order to better ensure positive developmental impacts from investments through enhanced policy coherence, the following other possible approaches were mentioned:

- Setting-up inter-ministerial committees on the linkages between investment and other issues like environment, particular sectors etc.;
- Appointing a dedicated ombudsman or establishing a dedicated policy coherence unit to deal with these issues, as was done in South Korea;
- Carefully deciding which entity has the power to initiate and conduct investment reforms, e.g. between the presidency and the parliament. Of course, there is no one-size-fits all approach, and what can work in one country may not work in another one.
- Being mindful that coherence should also exist among the various international frameworks the country takes part in, e.g. regional economic communities.

Coherence with trade policy

In Kenya, investment reforms have not only been aligned with the overall development strategy but have also been coordinated with the country’s trade policy. Kenyan efforts to attract investment aim to help developing value addition, which has required implementing export restrictions on raw materials such as raw hides in order to attract international investors to add value locally. However, a similar but uncoordinated approach to add value in Ethiopia’s leather sector did not lead to the intended results. In fact, local hides and skins were found to lack the quality required for use in leather value chains, leading firms to resort to importing raw materials from Pakistan and elsewhere.

Finally, it was also recalled that regional integration is important to create a larger market like EAC and COMESA that will make it more attractive to investors. However, it should be taken onto account that membership in multiple regional integration frameworks may increase risks of policy incoherence.

Pictures


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