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GOOD GOVERNANCE IN INVESTMENT PROMOTION

Note by the UNCTAD secretariat

Executive summary

Governments worldwide recognize that the general standards and policies that affect investment in their respective countries have become increasingly important in the attraction of foreign direct investment (FDI). It has been demonstrated that promoting good public governance by increasing transparency and predictability of laws and regulations and consistency in their enforcement, improving efficiency of procedures and encouraging higher standards of public service contributes not only to a better regulatory environment for business but also to the attractiveness of an investment location. Although many Governments have been working on improving public governance, very few have done so in the context of investment promotion. This note discusses the question of what constitutes good governance in investment promotion based on best practices and lessons learned from UNCTAD technical cooperation activities, the increasing importance of corporate governance, and the role of investment promotion agencies (IPAs) in improving governance in the public and private sector.

[*] Re-issued for technical reasons.

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INTRODUCTION

1. In the competition for foreign direct investment (FDI), many Governments have been engaged in marketing their country, often through investment promotion agencies (IPAs) established for this specific purpose.[1] As Governments and IPAs focused on attracting FDI, comparatively less attention was given to improvement of the national business environment and the general operating measures that affect business within countries, including FDI. As a result, investors persuaded by IPAs to invest in new locations are often confronted with unanticipated administrative obstacles. As many of UNCTAD's Investment Policy Reviews point out, this is true especially in developing countries, where lack of efficiency and capacity within the public sector contributes to bureaucratic red tape, unexpected delays and poor services.

2. By improving public governance in investment promotion, Governments can address these problems. This was recognized in the UNCTAD Expert Meeting on Effectiveness of Foreign Direct Investment Policy Measures in June 2003, which recommended an expert meeting on this subject. The Meeting also proposed looking at mechanisms to help increase corporate awareness and encourage socially responsible actions by investors.[2] These recommendations were endorsed at the January 2004 meeting of the Commission on Investment, Technology and Related Financial Issues.

3. This note discusses the question of what constitutes good governance in investment promotion utilizing lessons of successful international cases and knowledge gained through UNCTAD technical cooperation activities, including project activities in Ethiopia, Lesotho, Maldives and the United Republic of Tanzania under the good governance in investment promotion (GGIP) programme. Important elements in the area of corporate governance are discussed in section III.

I. ELEMENTS OF GOOD GOVERNANCE IN INVESTMEMT PROMOTION

4. This note will focus on four elements, i.e. *predictability* and *transparency* of government laws, regulations and procedures, *accountability*, particularly within institutions that deal with investors, and the degree of public/private sector interaction or *participation* of private sector groups in initiatives to improve the investment environment. Figure 1 provides a brief description on how these four elements affect governance in investment promotion.

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[1] UNCTAD, 2002, *The World of Investment Promotion at a Glance: A Survey of Investment Promotion Practices*. Advisory Services on Investment and Training, Advisory Studies 17.
[2] UNCTAD, 2003, *Report of the Expert Meeting on Effectiveness of Foreign Direct Investment Policy Measures,* TD/B/COM.2/EM.13/3.

Figure 1. Elements of good governance in investment promotion

Predictability	Predictability refers to the existence of clear policies and a legal framework for investment, predictable rules and regulations, and their fair and consistent application. Predictability also implies that regulations should be minimized and simplified to the greatest degree possible.
Accountability	Through the establishment of performance standards and monitoring, the accountability and the effectiveness of government officials increase, while the chances of corruption are reduced. In addition, investors and the public should be informed of these standards so that they are fully aware of the level of service to be expected. Establishing a clear and impartial grievance procedure has also been a feature of countries that have been successful in the promotion of investment.
Transparency[3]	The interface between government and investors is most effective when there is timely information disclosure, easy availability of information and a helpdesk for investors. Transparency also implies greater openness to the media and the public on investment policies and practices.
Participation	Dialogue with stakeholders, including the investors' community, contributes to policy development and the implementation of policy decisions. By establishing various forums, including consultative committees, through which civil society and business groups can provide inputs, a Government will ensure that its policies and programmes better reflect development goals and stakeholders' interest.

1. Predictability

5. Predictability is perhaps the most important concern of investors. They evaluate new projects by, *inter alia*, the risks involved, and a high degree of uncertainty can easily be a deterrent. Clear policies and a comprehensive legislative framework are therefore essential, along with the consistent application of laws and regulations.

6. In order to be predictable, laws and regulations should set out the criteria by which government officials take decisions. The clearer the standards of application, the greater the degree of predictability and smaller the risk for an investment. In the absence of a comprehensive legislative framework on investment, some countries have established a system of case-by-case negotiated agreements between investors and the Government. These agreements include various incentives and concessions on the part of the Government, as well as obligations on the part of the investor. In general, such a system, which lacks predictability but also transparency, does not generate much confidence in the investor community. There are of course projects for which negotiation of key fiscal or regulatory matters is likely to be desirable or unavoidable. These cases include the terms of exploitation of unique natural resources or the terms of privatization transactions under conditions of competitive bidding. Even in these cases, the scope of project terms to be negotiated should be confined to a minimum. For example, well structured privatization tenders contain a single bid variable.

7. The need to regulate must be proportionate to its objectives, its impact and a Government's regulatory capacity. The stages in the regulatory process should include: (i) considering the policy options and deciding whether or not to regulate; (ii) discussing with and taking account of the views of those who are to be affected; (iii) measuring the wider costs and implications of various proposals such as designing, passing, enforcing and monitoring the implementation of laws, and ultimately ensuring that the right solution is put in place.

[3] Some discussions on transparency include issues that in this note are discussed under predictability, accountability and participation.

8. If the decision is made to regulate, there needs to be coordination and cross-checking with related laws, regulations and policies to ensure consistency. Where lack of consistency arises, government regulators should consult with stakeholders and try to resolve the problem. In addition, laws that are no longer appropriate may not be enforced, bringing that law and the enforcement authority responsible for it into disrepute. Last but not least, one also should ensure simplicity in rules and regulations, including the removal of unnecessary steps and procedures and the reduction of the number of documents that need to be completed. Results of the "Doing Business" project of the World Bank showed that, in 130 countries covered, heavier regulation is associated with higher costs and delays for investors, as well as corruption.[4] However, in a number of countries, especially LDCs, bringing simplicity to regulations is not the only challenge. Increasing institutional capacity in government agencies at the national and subnational levels is equally important.

9. In cases where the approach towards good governance in formulating the legal and regulatory framework is not followed closely, the consequences for investment promotion are often negative. First, there will be disrespect for the rule of law and increased corruption. Laws that are too costly to comply with, or too complicated to understand, could encourage people on both sides of the fence to look for an easier way out. Second, the increased uncertainty will affect the decision to invest. Third, there is misallocation of resources, as time and energy are diverted from productive business activity to costly efforts to comply with unnecessary regulations.

2. Accountability

10. When discussing the issue of accountability of government institutions and their employees who interact with investors, it is important to identify to whom and for what these civil servants are accountable. Civil servants are accountable for applying and enforcing specific sets of laws, regulations and policies, and they are legally bound to do so. To ensure that these tasks are performed correctly and to prevent corruption, it is necessary not only to have clear standards of application, but also to have in place adequate sanctions and means to detect offences. This could be achieved by anti-corruption legislation, including mechanisms to inspect reported cases.

11. There are, however, other issues that need to be addressed aside from legal accountability. A very significant one is attitude. Many civil servants in ministries and other government organs still do not see investors as parties to whom they are accountable for prompt, competent and impartial performance of their duties. Accountability problems also arise when it is not clear who is responsible for taking a decision. A common complaint by investors is that they have been given "the run around" and bounced from office to office, with no one willing to address their problem.

12. In the GGIP programme, client charters[5] have been recommended for government institutions that deal with investors so as to initiate an attitude change and to improve job performance. Another recommendation addressed the problem that investors face in solving disputes with government institutions. The establishment of an effective mechanism to resolve these disputes outside the formal court system can save investors a lot of effort, time and money, and will make an investment location more attractive.

3. Transparency

13. It is important to ensure that the text of a law or regulation is easily available to those it is primarily addressed to. One problem faced by foreign investors in some countries, which has a

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[4] World Bank, 2004, *Doing business in 2004: Understanding Regulation,* pp. xii-xv.
[5] A client charter is an official document that states the vision and mission of an institution and its standards of services.

bearing on transparency, is that laws are enacted in a local language not spoken at the international business level. Having authoritative investment guides in internationally recognized languages that bring together in one publication the basic requirements for setting up and operating a business in a country is one way to address that problem. In this regard, UNCTAD has cooperated with the International Chambers of Commerce (ICC) to produce a series of Investment Guides for LDCs.[6]

14. Information technology (IT) and the Internet are effective tools for increasing transparency in the investment regime and informing investors and the public of expected changes in laws, regulations and procedures. The Internet could also be used to provide on-line question and answer services and to consult investors on new legislation and policies. A 2000 UNCTAD survey showed that 40 per cent of IPAs provide on-line services and that most IPAs maintain specialized databases on the business environment, investors, useful contacts, etc. However, it should be noted that there are major differences between countries and that in this particular survey one-third of the LDC IPAs were not connected to the World Wide Web, while two-thirds did not have a home page.[7]

4. Participation

15. The challenge is often to put in place a regulatory framework that strikes the right balance between promoting business growth, investor confidence and competitiveness, and retaining necessary health, safety, security, environmental and labour standards. What is critical to note is that this requires a Government/private sector partnership. On the one hand, policy makers, regulators, legislators and enforcers must examine the legislative process and be accountable for the consequences, both direct and indirect, positive and negative, of the regulations that they make. On the other hand, the private sector must share the responsibility by responding when consulted and adopting self-regulatory measures, wherever possible, to reduce the enforcement burden on government.

16. For Governments, consultations with the private sector about policies, laws and processes can be an important part of their investment promotion efforts. It not only keeps the Government informed of investors' needs, but also signals to the business community an open and investor-friendly Government. Apart from the investors, the Government should also maintain a dialogue with other stakeholders, before, during and after policy is developed and legislation is enacted. Given the critical role that civil society can play in the promotion of good governance, its role in investment promotion cannot be underestimated. The media also has a role to play as a monitor of government activity and as a major means by which information is given to the public.

17. In some countries, consultations between the public and private sector on investment-related issues are not carried out in formal settings, and investors therefore find that they are not consulted as frequently as they would wish on policies and measures that affect business. This is sometimes due to the weak and fragmented organization of the private sector. In order to improve clarity in the consultative process, it is generally recommended that open and formal consultations be conducted with private sector umbrella organizations and that the use of informal talks with selected partners be reduced.[8] Many Governments are now following this approach. In Ethiopia, a workshop on private/public sector dialogue organized under the aegis of the World Bank in June 2002 agreed to establish a continuous dialogue between the Chamber of Commerce and the Prime Minister

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[6] Under the UNCTAD/ICC project, investment guides were published for Ethiopia in 1999 (revised 2004); Mali in 2000 (revised 2004); Bangladesh in 2000; Uganda in 2001 (revised 2004); Mozambique in 2002; Nepal in 2003; Cambodia in 2003; and Mauritania in 2004.
[7] UNCTAD, 2002, *The World of Investment Promotion at a Glance: A Survey of Investment Promotion Practices*. Advisory Services on Investment and Training, Advisory Studies 17.
[8] OECD, *Public Sector Transparency and the International Investor*, 2003, p. 29.

(biannually) and between representatives of the Ministry of Trade and Industry and representatives of the private sector (quarterly). In Tanzania, a National Business Council was established in 2001 to provide the private sector with the opportunity to discuss with the highest level of government the problems that the business community is facing (box 1).

Box 1: The Tanzania National Business Council

The Tanzania National Business Council (TNBC) held its inaugural meeting on 9 April 2001. Chaired by the President, it is aimed at providing the private sector, including foreign investors, with access to the President in order to discuss barriers to efficient business operations. Membership is divided equally between government representatives and private sector leaders and NGOs. Private sector organizations include the Confederation of Tanzania Industries and the Tanzania Chamber of Commerce, Industry and Agriculture.

The TNBC lobbies for private sector concerns to be kept visible and at the forefront of the government agenda, ensuring continuing support for market reform and private sector development at the highest levels of government. Follow-up action on the issues discussed at TNBC meetings is critical, hence its links with other government bodies, for example the National Investment Steering Committee (NISC). This Committee is responsible for identifying and resolving legal, regulatory and administrative barriers to investment and for addressing legal and administrative issues involving two or more ministries or government agencies.

Source: UNCTAD, 2002, *Investment Policy Review of Tanzania*, pp. 66, 77.

II. SELECTED ISSUES AND BEST PRACTICE EXAMPLES

18. Developing countries, especially LDCs, that have embraced public service reforms and are committed to improved public governance are confronted with a huge task, but are hindered in their efforts due to limited resources and capacity. Public reform programmes therefore take time to have an impact on all branches of government and often do not reach some parts of the administration. It is for this reason that some developing countries have requested international support in their efforts to improve public governance. International interventions in specialized areas, such as investment promotion, can make use of best practices in other countries and can benchmark performance against locations that compete for the same FDI.[9]

19. In June 2002, UNCTAD held a workshop on Efficient and Transparent Investment Promotion Practices, which aimed at discussing best practices and experiences in good governance in investment promotion. Representatives from the Organization for Economic Co-operation and Development (OECD), the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), Transparency International (TI), the private sector and national Governments participated in the meeting. During the implementation of the GGIP programme, cooperation with these organizations, Governments and experts continued. Country reviews on the status of governance in investment promotion were carried out in Ethiopia, Lesotho, Maldives and the United Republic of Tanzania. UNCTAD also advised these countries on ways to

[9] A number of organizations and businesses produce data on country risks, economic freedom and international competitiveness, comparing the business environment, including the quality of public governance, between countries. These indexes are powerful instruments influencing TNC investment decisions. An important measure of good governance is the annual index of Transparency International (TI) on the perceived level of corruption in host countries. Of the 133 countries listed on the 2003 TI Corruption Perception Index, the best-scoring LDCs rank 78 and 83.

improve governance in investment promotion. Figure 2 gives a selection of mechanisms, instruments and practices that could be employed for this purpose.

Figure 2. Ingredients of good governance in investment promotion

Elements of good governance in investment promotion	Examples of how to improve governance	Mechanisms/instruments/practices
Predictability	• Clear policies and a legal framework for investment • Streamlined and simple rules and regulations governing investments • Effective investment facilitation services	• Strong advocacy role of IPAs • On-line road maps for investors • IPA investment implementation support services
Accountability	• Introduction of ethical standards for civil servants • Anti-corruption instruments and measures • Dispute resolution mechanisms for investors	• Code of conduct • Client charters • Anti-corruption legislation and enforcement (Anti-corruption Board) • Investment Ombudsman
Transparency	• Easy availability of information for investors • Timely disclosure of information on changes in the investment regime • Information collection and sharing of national data on FDI and the impact of international investment on the economy	• Investment regime data on the Web • Investment guides • On-line application and tracking system for permits and licences • Client charters • Analysis of FDI data by IPA and frequent publications on FDI trends and impact
Participation	• Regular public/private sector dialogue on efforts to improve the investment environment • Consultations with civil society on legislative and regulatory changes that will influence businesses	• National Business Council • Involvement of NGOs and labour organizations in consultations on policy decisions

1. Selected issue 1 - Public sector service standards

20. An important policy issue for many Governments is how to encourage an attitude of change within the civil service towards a more client-oriented service culture. A policy document on Ethiopia’s Civil Service Reform Programme (CSRP) states: “Promoting positive attitude towards serving the public refers to concerted efforts that have to be made to bring about fundamental change in the outlook and behaviour of officials and employees of public institutions so that they… serve the public genuinely and with due regard.”[10] The training that the Ethiopian Government provides to address these issues is general in nature and does not address specific client groups, such as foreign investors. Training activities in the area of good governance in investment

[10] *Service Delivery Policy in the Civil Service*, Addis Ababa, April 2001.

promotion should build on these interventions and focus on good governance issues, which are critical for civil servants who work in investment promotion.

21. The quality of investor services provided by public institutions in developing countries, especially LDCs, often falls short. Lack of accountability of public officials is largely to blame. Accountability is increased when performance standards are established and when these are made available to service users. As relative newcomers to the public sector, IPAs especially need to define their functions and their customer relations. UNCTAD has recommended that IPAs, as well as other government institutions dealing with investors, develop and implement client charters that include mission statements and clear standards of service that the institutions aim to deliver.

22. UNCTAD's positive experience in Uganda helped in developing the client charter concept for institutions in other countries, such as Lesotho, Ethiopia (figure 3) and the United Republic of Tanzania. It was in Uganda that, at the recommendation of UNCTAD's Investment Policy Review of 1999, the Uganda Investment Authority (UIA) took the initiative of developing client charters for 23 public institutions, following the example of Malaysia. All these institutions, such as the Uganda Electricity Board, the National Water and Sewerage Corporation and the Uganda Revenue Authority, had relations with investors.

Figure 3. Extract from the Client Charter of the Ethiopian Investment Commission developed under the GGIP programme (2003)

Client Charter (extract) – Ethiopian Investment Commission		
Services	Time	Cost (birr)
Issuance of Investment Permit Certificate		
o Domestic and existing foreign companies	7 days	205-705
o Foreign:		
Individual		
- Investment permit	7 days	205-705
- Registration	7 days	56-705
Business organization		
- Investment permit	9 days	205-705
- Registration	9 days	106
Writing a recommendation letter regarding incentives		
o Customs duty exemption	3 days	Free
o Income tax holidays	3 days	Free
Issuance of a business licence (if all documents are completed)	2 days	206
Issuance of work permits to expatriate staff	2 days	100
Approval and registration of technology transfer agreements related to investment	25 days	Free
Approval for buying an enterprise or shares in an existing enterprise by a foreign investor	5 days	Free
Registration of export-oriented non-equity-based foreign investment collaborations	2 days	Free
Renewal of investment licence	4 days	100-350
Registration of amendments relating to commercial registration (if all documents are completed)	5 days	56
Response to complaints	10 days	Free

23. UIA reported that the effect of the client charters was felt immediately. Staff had more sense of their responsibilities, networks were created within and between institutions, and corruption was reduced. The private sector also reacted positively. The President of the Uganda Private Sector Foundation stated that: "Public institutions such as UIA, the Uganda Revenue Authority and the Uganda Electricity Board have improved their services to the private sector and it is now up to the private sector to take advantage of this opportunity." The improvement is also recorded in the 2004

Index of Economic Freedom, where Uganda ranks 48, within the category “mostly free”, up from a position of 81 (2001), within the category “mostly unfree”.

2. Selected issue 2 - Use of advanced IT applications by IPAs

24. Some Governments have found that e-government, i.e. the use of IT, especially the Internet, to enhance access to and delivery of government services to citizens, businesses and public sector staff,[11] has improved their operations. The introduction of advanced IT applications by an IPA can improve its efficiency in respect of its administrative functions. In addition, it improves contacts with investors, who are a relatively sophisticated clientele that often expects online services equal to those in their home country. Other effects of e-government are increased openness and transparency, increased reach of the IPA to potential investors and reduced opportunities for corruption.

25. The pace at which Governments have been adopting Internet-based technologies is considerably slower than in the private sector. This has to do with a lack of competitive pressures, the size, hierarchical structure and complexity of government agencies, and the political concern, especially in developing countries, that Internet-based services are not equally available to all. Several of these factors, however, do not apply to investment promotion. Many IPAs are small and have business-like organizational structures. Their clientele is Internet-oriented and relies on IPAs to provide information and services in the most efficient way.

26. A number of IPAs have made early decisions to make full use of IT, including IPAs in developing countries. The Rajasthan Bureau of Investment Promotion (BIP) in India is an example of an agency that has developed on-line application forms for investors that cover clearances, approvals and services. Investors can track the progress of their applications through the Internet. BIP also installed a computerized management information system to improve case monitoring and reporting necessary to track the progress and history of applications.

27. BIP has reported many advantages of the computerization of their operations, such as easy access to the status of investor applications, on-line reporting, and maintenance of investor databases. But, most importantly, the computerization of BIP strengthened its single window system for investment projects and made the process of starting an investment project in Rajasthan easier and more transparent.

3. Selected issue 3 - Dispute resolution

28. One key element of accountability is an effective mechanism for resolving disputes that might arise at any point in the application, implementation and operation phases of investment projects, including transparent and predictable arbitration rules to resolve disputes and an efficient judiciary. Although a well-functioning court system is a major component in effective dispute resolution, it should be considered only a last-resort measure. If courts become the only or even the main means of resolving disputes, the result is often costly legal fees and delays, inefficiencies and loss of effectiveness. It is therefore important to develop alternative measures for dealing with disputes more quickly and more simply. This can be done through arbitration and mediation centres or through the appointment of an ombudsman. In one LDC, UNCTAD identified the need for a statutory mechanism to settle investment disputes outside the court system, and recommended appointing an investment mediator, following the example of the Investment Ombudsman in the Republic of Korea.

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[11] UNCTAD, 2001, *E-Commerce and Development Report 2001,* New York and Geneva, p. 89.

29. The Office of the Investment Ombudsman (OIO) in the Republic of Korea was established in 1999 as a non-profit organization within Invest KOREA. The Ombudsman, who is directly appointed by the President, is mandated to address and resolve difficulties experienced by foreign investors and to help improve the overall investment environment. His tasks include providing assistance to foreign companies in resolving grievances related to bureaucratic red tape and administrative procedures, but also arranging personalized settlement services for newly arriving investors. By law, the ombudsman system ensures prompt cooperation from related agencies, but to achieve results it is also critical that the Ombudsman be a well respected person within the Government and the business community.

30. From 2000 to 2003, the OIO received a total of 1,615 grievance cases from foreign companies on issues related to customs, construction, financial affairs, labour, taxation, legal matters and investment procedures. These cases were processed by the OIO or proposals were made to relevant government bodies seeking their cooperation or revision of regulations. In 2003, 267 of the 369 grievances filed were settled by the OIO's "home doctor counsellors", experts in the field of legal and financial affairs, management, construction, taxes and labour. Some grievances are still pending, and in a number of cases policy recommendations have been made.

31. The OIO initiative has been well received. The President of the American Chambers of Commerce in Korea has noted: "The Office of the Investment Ombudsman has played a valuable role as an advocate in resolving a wide range of management and daily life difficulties on behalf of foreign investors". In a similar statement, the President of the European Union Chambers of Commerce in Korea (EUCCK) says: "…OIO has been a trustworthy strategic ally to EUCCK member firms in helping make Korea a more efficient and profitable place to do business."[12]

32. Successful dispute resolution mechanisms can also be found at other levels. In Lesotho, for instance, a tripartite Industrial Relations Council was established to handle conciliation and arbitration of industrial disputes. The Council was also mandated to advise the Government on good practices in industrial relations. This new approach to resolving industrial disputes gave the Government a neutral role, and this has been appreciated by Lesotho's unions.[13]

4. Selected issue 4 - Policy advocacy role of IPAs

33. Investment promotion should be regarded as a complement to rather than a substitute for policies that create an attractive investment climate. Indeed, promotion alone can even be counterproductive in a country that offers a poor investment climate. When investors get disappointed on their first contact, not only are they likely never to return, but they may also discourage many other potential investors. Thus, policy makers should put more effort into improving the country's fundamentals rather than investment promotion when these fundamentals are not in place or are far below international standards.

34. This is why the role of IPAs has been progressively refined to reflect the growing need to combine investment promotion with policy advocacy. Policy advocacy consists of activities through which an IPA supports initiatives to improve the quality of the investment climate, identifies the views of the private sector on that matter, and brings it to the attention of policy makers. Such activities include participation in task forces on policy and legal processes. IPAs can also conduct strategic policy research concerning regulatory reforms, private sector development, and investment

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[12] Information received from the Korean Office of the Investment Ombudsman (OIO).
[13] UNCTAD, 2003, *Investment Policy Review of Lesotho,* p 34.

conditions. Last but not least, the IPA can play a role in highlighting the positive impact of FDI in a country and make investors aware of their legal and social responsibilities.

35. In most countries, businesses establish a variety of associations for their own advocacy purposes. Because these organizations are often geographically and functionally diverse, they wield less authority than when they get together and speak with one voice representing the interests of their members vis-à-vis the Government. A way to facilitate that is for the IPA to assist business associations in setting up a strategic alliance in order to pursue joint advocacy. Creating specific legislative-focused actions that target policy makers can help. To this end, IPAs can arrange regular meetings with representatives of major business associations at the national level to discuss recommendations and help to submit policy proposals to the Government.

36. In Sweden, the IPA has a direct mandate from the Ministry of Foreign Affairs to report on the investment climate in Sweden once a year or when the need arises. In a publicly available annual report called "The Climate for Foreign Investment in Sweden", Invest in Sweden (ISA) reviews trends in FDI and changes in Sweden's competitiveness from a number of perspectives. The report also includes a survey of foreign investors' views of the business climate in general and on any specific issues that are considered particularly important in a certain year. One of the key aspects of the report is to highlight both the positive and negative sides of the investment climate. The annual survey of investors has been a useful element of the ISA's policy advocacy work.

37. Of all the main functions of IPAs, empirical evidence actually suggests that policy advocacy is the one most associated with attracting investment, followed by image building and investor servicing. Investment generation appears to be the least cost-effective approach, partly because it is expensive and often not adapted to the reality of the relevant country. Notwithstanding the importance of policy advocacy, it seems IPAs generally do not reflect this in their work programmes. On average, policy advocacy accounts for only 7% of IPA budgets, compared to over 33% for investment generation activities.[14] This is a matter that many IPAs need to seriously reconsider.

III. CORPORATE GOVERNANCE AND INVESTMENT PROMOTION

38. Public interest is also served by improved corporate governance, especially in countries where the regulatory environment is weak. Since corporate governance practices vary across countries, it would not be appropriate to designate one approach to corporate governance as "the best". However, from the perspective of investors, certain elements have emerged as essential components of good corporate governance.

39. In the aftermath of the Asian financial crisis, the OECD Business Sector Advisory Group on Corporate Governance identified four essential elements in the area of corporate governance:

- *Accountability* – clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by boards of directors;
- *Fairness* – ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers;

[14] FIAS, 2003, *The Effectiveness of Promotion Agencies at Attracting FDI*, Occasional Paper 16, International Finance Corporation and the World Bank, p. 62.

- *Responsibility* – ensuring corporate compliance with the other laws and regulations that reflect the respective society's values;
- *Transparency* – requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership.[15]

40. These essential elements have formed the foundation of the Principles of Corporate Governance that the OECD adopted in April 1999. The OECD issued a revised version of the principles in April 2004.[16] These principles have become an important benchmark in the Reports on Codes and Standards (ROSCs) issued by the World Bank and the International Monetary Fund.[17]

41. IPAs could play a role in creating awareness of the importance of corporate governance by promoting dialogue between stakeholders, including policy makers, businesses and the public. As part of their facilitation efforts, IPAs could also familiarize new international investors with the rules of law, procedures and the local business culture as a preventive measure against corruption and other illicit practices. However, due to the limited capacity of IPAs, many of these agencies have not yet addressed corporate governance issues.

IV. ISSUES TO BE ADDRESSED BY EXPERTS

42. In the light of the above, experts may, *inter alia*, wish to comment on the issues raised in this note and exchange views on the following questions:

(a) How can openness, transparency and consultation be ensured in the policy making process, particularly on issues that affect investors and the investment climate?

(b) What are effective policies and practices for ensuring the highest performance standards for the civil service in general and IPAs in particular?

(c) What are private sector views on the role of the business community in promoting good governance in investment promotion?

(d) How can an IPA's policy advocacy role in good public governance be strengthened?

(e) Is there a role to play for IPAs in promoting good corporate governance?

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[15] Business Sector Advisory Group, *Report to the OECD on Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets*, p. 20, April 1998.
[16] A copy of the revised principles can be downloaded from http://www.oecd.org/dataoecd/32/18/31557724.pdf.
[17] ROSCs on corporate governance can be accessed at http://www.worldbank.org/ifa/rosc_cg.html.