THE IMPLEMENTATION COSTS OF INVESTMENT FACILITATION FRAMEWORK

Extended abstract

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In contrast to the negotiation of the Trade Facilitation Agreement (TFA) where Members expressly indicated that negotiations on trade facilitation “shall also address the concerns of developing and least developed countries related to cost implications of proposed measures”, there has not yet been a similar commitment by negotiating Members during the Investment Facilitation Framework (IFF) negotiation. In the latest IFF proposed text from October 2020, the negotiating parties have only hinted to this issue as far as saying “the extent and the timing of implementation of the provisions of this framework shall be related to the implementation capacities of developing and least-developed country Members”. This could indicate that negotiations on investment facilitation shall also address the concerns of developing and least developed countries related to cost implications of the proposed measures.

Following the previous two studies by the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) to quantify the current level of implementation of investment facilitation measures and the potential gains from the IFF, this study focuses on quantifying the cost associated with implementing such measures. Providing reassurance about the expenses and challenges that the implementation of IFF measures may entail, is a crucial issue during the negotiations in particular for developing and least developed countries.

This study reviews 5 countries identifying the measures that present the greatest challenges to developing countries in implementing investment facilitation reforms. The study covers the broad lines of the WTO negotiations on investment facilitation, including in particular: a) transparency and predictability measures, including publication and availability of information, internet publication, and enquiry points; b) procedural simplification and streamlining, including electronic signature; c) focal point and d) coordination and cooperation, including single windows or one-stop-shops.

The countries under this study are Mongolia, Dominican Republic, Colombia, Lao P.D.R and Ghana. The countries covered are very different from each other in many respects: size, geographical and geopolitical conditions, level of development and FDI patterns. Since most IFF measures are already implemented by the developed countries, we have not included any of them in this study.

Similar to the experience of the TFA’s implementation, we have categorized the costs into one or more of the following areas for IFF: new regulation, institutional changes, training, equipment and infrastructure.

1. **Regulatory costs**: Investment facilitation measures may sometimes require new legislation or the amendment of existing laws in accordance with the national legislative and regulatory process of each country. This will in turn involve time and staff specialised in regulatory work in ministries, the centre of government and parliament. Resources required for legislative and regulatory work differ depending on the country’s legislative structures, procedures and frequency of changes in legislation. However, with the exception of major legislative overhauls, or the need for major legislative changes, such as the adoption of legislation on electronic signatures, most changes pertinent to investment facilitation seem to be handled at the operational level and entail little additional cost.

2. **Institutional costs**: Some investment facilitation measures require the establishment of new units, such as a focal point or a central enquiry point, which may mobilise additional human and financial resources. With respect to the human resources, countries can either recruit new staff or redeploy

existing staff. The former option generally costs more, although the latter option may also entail training costs, expenses for physically relocating staff and resources devoted to forward planning.

3. **Human resource costs**: Training often appears as the most essential cost component of investment facilitation measures. Effective implementation of many investment facilitation measures implies the enhancement or amendment of administrative capacity, which typically require recruitment of new staff and/or supplementary training for the existing personnel. Recruiting new staff is the most expensive since it implies a budgetary increase and can only tap into a limited pool of expertise. Regular training is common practice, although it varies in frequency and duration, and training for specific investment facilitation measures is often part of such general training.

4. **Infrastructure/facility costs**: Equipment and infrastructure are not a prerequisite for investment facilitation measures, although some of these measures, such as single window and focal point, are more readily implemented with appropriate equipment and infrastructure. Information and communication technology (ICT) products and infrastructure primarily enhance the effectiveness and efficiency of investment agencies. For example, telephone lines, computers and telephone equipment make it far easier for investors to communicate, and office automation provides genuine improvements in performance. Most equipment and infrastructure should be viewed as implementation tools to be carefully combined and sequenced with regulatory, institutional or human resource changes.

Furthermore, in this study, we categorize the cost into upfront cost versus operational cost. Upfront costs are the one that are only one-time cost versus operational cost that are recurring and necessary to maintain the measures. The study shows that although some of the investment facilitation measures are expensive to put in place and often require substantial financial support, they are relatively inexpensive to maintain and operate.

This study shows that countries have been implementing investment facilitation measures for several years and no country is starting from zero. Some of these measures are previously implemented in the context of the WTO TFA. These are the horizontal measures that do not incur any additional costs to implement for the countries. The study also shows that the costs of putting in place and maintaining investment facilitation measures are not particularly large and are far smaller than the benefits gained from implementing these measures.

This study helps draft WTO commitments that take into account countries’ implementation capacities, to help countries understand what is involved in implementing new commitments and design appropriate technical assistance and capacity building.

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