

ANNEX F

Peru's FDI Regulatory Restrictiveness Index

This annex presents Peru's FDI regulatory restrictiveness index, based on the OECD methodology (see Box), and its comparison with other OECD and non-OECD countries.

Box F.1. Calculating the FDI Regulatory Restrictiveness Index

The FDI regulatory restrictiveness index is calculated for 9 sectors: i) professional services (including legal, accounting, architectural and engineering services); ii) telecommunications (fixed and mobile); iii) transport (air, road and maritime); iv) finance (including insurance and banking); v) distribution; vi) construction; vii) tourism; viii) electricity and ix) manufacturing.

For each sector, three main categories of restrictions are measured:

- the authorised level of foreign equity holding (0-100 per cent);
- screening and discriminatory notification requirements;
- other restrictions, including limitations on foreign participation in boards of directors, on movement of personnel, and operational restrictions, such as domestic content requirements.

The restrictions are evaluated on a 0-1 scale with "0" corresponding to a completely open sector and "1" to a closed sector. Since a limitation on foreign equity is a decisive barrier, a ban on foreign ownership in a given sector implies a maximum score of 1 as the other restrictions become irrelevant. Market access barriers represented by state-owned monopolies are also scored. The overall restrictiveness index is a weighted average of the sectoral indices, using fixed average FDI and trade shares for weighting individual sectors.

There are a number of important qualifications regarding the reported FDI regulatory restrictiveness scores. The measures are limited to overt regulatory restrictions on FDI and do not capture non-policy institutional or informal

Box F.1. Calculating the FDI Regulatory Restrictiveness Index (cont.)

restrictions, or policies that may indirectly impinge on FDI, notably economic and social regulations. Nor is the extent of actual enforcement of restrictions factored into the calculations.

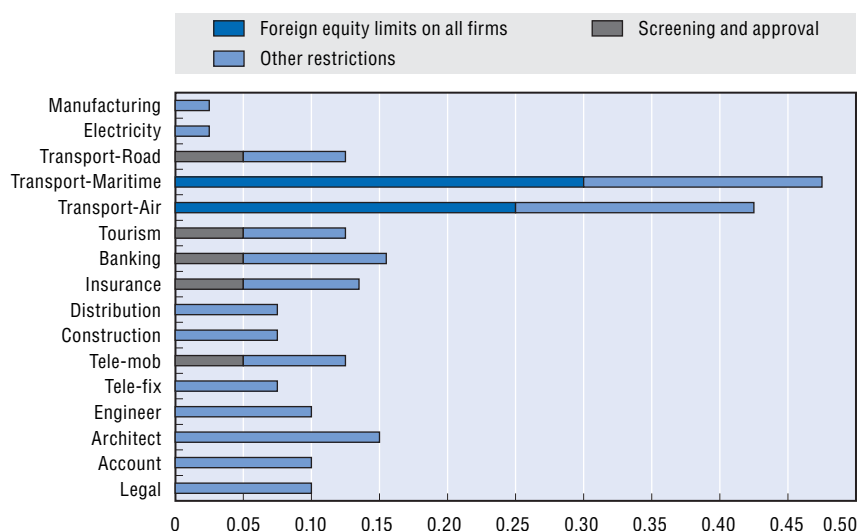
The index used in isolation is not an adequate predictor of countries' FDI attractiveness. Nonetheless, when used in combination with other variables, the index can contribute to explaining variations among countries in attracting FDI.

Source: OECD (2007), "OECD's FDI Regulatory Restrictiveness Index: Revision and Extension to More Economies and Sectors", *International Investment Perspectives*, Chapter 6.

Peru's FDI regulatory restrictiveness index: A cross-sector comparison

Among the sectors covered by the FDI regulatory restrictiveness index, Peru's restrictions on foreign ownership concern air and water transport. Given that the ownership restrictions are weighted highly in the overall index due to the fact that foreign ownership is a necessary and essential condition for FDI, Peru records its highest FDI restrictiveness scores in these two sectors. Among other restrictions, the most important is the requirement applied to all

Figure F.1. Peru's FDI regulatory restrictiveness index by sectors and types of restrictions



Source: OECD Investment Division.

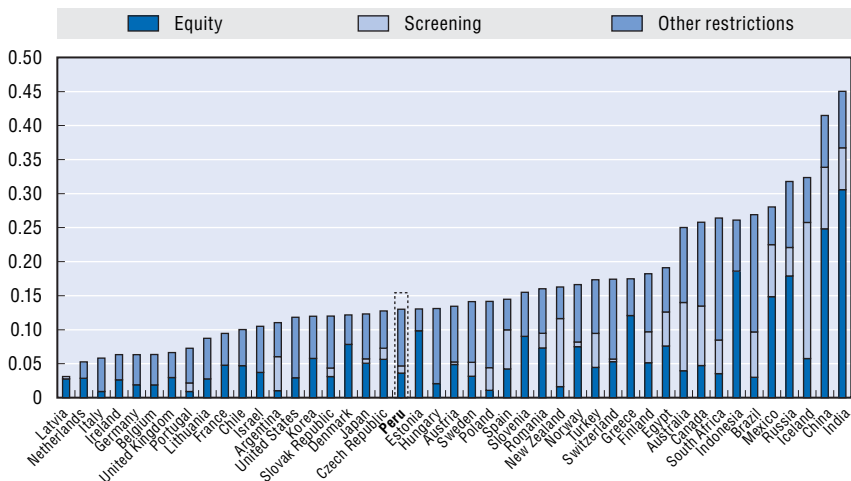
service providers to give preferential treatment to nationals when hiring their employees and the obligation imposing that foreign natural persons may not represent more than 20% of the total number of employees of an enterprise and their pay may not exceed 30% of total payroll.

Peru's sectoral pattern of restrictions is similar to one observed in most OECD and non-OECD countries with transport being often the most restricted sector followed by financial services whereas manufacturing, distribution and construction are usually relatively less restricted sectors also in other countries. The main exception is Peru's low FDI restrictiveness score for the electricity sector which reflects the fact that Peru has abolished state monopoly in this sector and the remaining enterprises with majority state ownership represent the estimated 30% of the country's electricity generation and some 15% of its electricity distribution.

Peru's regulatory restrictiveness index: A cross-country comparison

Figure F.2 compares Peru's average overall FDI restrictiveness index with 44 other countries, including OECD countries, 10 countries adherent to the OECD Declaration on International Investment and Multinational Enterprises and several other non-OECD countries. Peru's overall score of 0.130 is one of the lowest among non-OECD countries and also below the OECD average

Figure F.2. **FDI regulatory restrictiveness index**



Note: The aggregated index covers the following sectors and sub-sectors: business (legal, accounting, architectural and engineering services); telecommunications (fixe-line and mobile telephony); construction, distribution; finance (insurance and banking); tourism; transport (air, maritime and road transport; electricity and manufacturing.

Source: OECD Economics Department-OECD Investment Division joint work.

(0.144). As a result, Peru ranks at the 17th position among 45 covered countries.

Figure F.2 also provides a breakdown for each country's FDI regulatory restrictiveness index according to the types of restrictions on foreign investment, i.e. equity restrictions, screening requirements and other restrictions. It confirms that in Peru's case operational restrictions represent the most important segment of the overall index whereas ownership restrictions are relatively low compared to most other countries.

List of Abbreviations

APEC	Asia-Pacific Economic Co-operation
BCRP	Central Bank of Peru
BIT	Bilateral investment treaty
CAN	Andean Community
CEPLAN	National Strategic Planning Centre
CETICOS	Centres for Exports, Transformation, Industry, Trading and Services
COFOPRI	Organisation for the Formalisation of Informal Properties
CONAM	National Commission on Environment
ECA	Economic Complementarity Agreement
FDI	Foreign direct investment
FONAFE	National Fund for Financing of State Business Activities
FONCEPRI	Fund for Promotion of Private Investment in Public Infrastructure Works and Public Services
FOPRI	Fund for Promotion of Private Investment
FTA	Free Trade Agreement
ICSID	International Centre for the Settlement of Investment Disputes
INDECOPI	National Institute for Defence of Competition and Protection of Intellectual Property
INGEMMET	Mining and Metal Geology Institute
LAIA	Latin America Integration Association
MFN	Most-Favoured-Nation
MIGA	Multilateral Investment Guarantee Agency
MNE	Multinational Enterprises
NAFTA	North America Free Trade Agreement
NCP	National Contact Point
OECD	Organisation for Economic Co-operation and Development
PFI	Policy Framework for Investment
ProInversión	Peru's Private Investment Promotion Agency
SME	Small and medium enterprises
SNIP	National Public Investment System
SUNARP	National Supervisory Authority of Public Registries
SUNAT	National Tax Administration Supervisory Authority
TPA	Trade Promotion Agreement

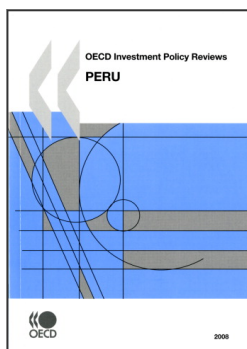
TRIMs	Agreement on Trade-Related Investment Measures
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organisation

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