



**FINANCING PRIVATE
INVESTMENT IN ASIA**

**FOCUSING ON CREDIT
RISK AND THE
INVESTMENT CLIMATE**

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Outline

1 **The role of insolvency systems**

2 **The case of India**

3 **The role of the investment climate**

4 **The case of Indonesia**

The role of insolvency systems in a modern market economy

- Strong insolvency systems → efficient use of resources + investor confidence + financial stability → economic growth.
- Closing down or restructuring failing companies, while managing bad and doubtful debts on bank balance sheets → sensitive policy issues and practical challenges for national governments and practitioners.

Insolvency systems in Asia

- Sheer volume of company debt overhang + hidden losses in Asian financial systems + gap between insolvency rules and their practical implementation → insolvency reform must remain at the top of the policy agenda.
- May the resumption of economic growth be weakening the political resolve to continue on the path of reform?

What actions are needed?

- Improve the existing procedures, techniques and information systems used in the risk-management process
- Review the competencies of the legal and financial professionals involved in risk management and offer training where needed.
- Strive for effective implementation and enforcement of the legal framework for company restructuring, liquidation and recovery to support better risk-management practices.

From Umarji 2004 to Umarji 2010 – or from India 2004 to India 2010

- Expand the coverage of the Recovery of Debts Due to Banks and Financial Institutions Act of 1993 to non-bank lenders
- Improve the functioning of workout systems (professional liquidators/receivers + specified timeframe)
- Provide super-priority to any lender that provides post-workout credit
- Development of the securitisation of financial assets since the SARFAESI Act of 2002

ASEAN Business Environment, 2006-2010

	Indonesia	Malaysia	The Philippines	Singapore	Thailand	Vietnam
Infrastructure	X	√	X	√	√	X
Labor costs	√		√	was X	√	√
Skilled labor	was X	was √	√	√		X
Office rent		was √	√	X	was √	X
Housing cost		was √	√	X	√	X
Governance	X (worse)	was X	was X	√	was X	X
Corruption	X	X	X	√	X	X
Protectionism	X	X	was X	√	X	X
Taxes	X		X	√	was X	X
Security		X (was √)		√	√	√
Politics		was √	was X	√	was X	√
Incentives	X (worse)		was X	√		
Regionalism				√		
Logistics	X					
US friendliness		√	√	√	√	√

Source: American Chambers of Commerce, ASEAN Regional Business Outlook Survey

Investment Policy Review of Indonesia – main findings

- Based on the Policy Framework for Investment
- Impressive results in overcoming immense political and economic challenges since late 90s
- Increasingly transparent and accountable political system → new laws and policies → stable growth and raising FDI
- FDI still small in GFCF, but contributes to export and produces spillovers/linkages
- Positive contribution of the Investment Coordination Board

Investment Policy Review of Indonesia – main recommendations

- Implementation and red tape
- Restrictions in foreign equity ownership
- Barriers to entry and abuse of dominance
- Public spending in infrastructure
- Long-term non-banking finance
- Proliferation of local taxes
- GOI persevere with its efforts to increase transparency and accountability and continue to share experience of good practice in formulating and implementing policies

For more information

www.oecd.org/daf/investment