



Slovensko predsedstvo EU 2008
Slovenian Presidency of the EU 2008
La Présidence slovène de l'UE 2008

**UNITED NATIONS
General Assembly**

**Informal review session on Chapter II of the Monterrey
Consensus:**

**“Mobilizing international resources for development: foreign direct
investment and other private flows”**

Statement on behalf of the European Union by

H.E. Ambassador Sanja Štiglic
Permanent Representative of Slovenia to the United Nations

New York, 15 February 2008

Please check against delivery

I have the honor to speak on the behalf of the European Union.

The Candidate Countries Turkey, Croatia* and the former Yugoslav Republic of Macedonia*, the Countries of the Stabilisation and Association Process and potential candidates Albania, Montenegro, Serbia, and the EFTA country Iceland, member of the European Economic Area, as well as the Republic of Moldova, Armenia and Georgia align themselves with this declaration.

Distinguished Co-chairs,

The European Union considers sustainable and socially responsible FDI as a very important complement to the domestic resources to promote development and economic and social growth. The EU will continue to encourage the international efforts that facilitate FDIs with substantial impact on development, especially on employment generation and technological upgrading in developing countries, with the ultimate objective of poverty eradication.

Since the adoption of Monterrey Consensus, we have witnessed the doubling of the FDIs in Heavily Indebted Poor Countries (HIPC) and low income countries. Among other notable positive developments we should point out that the geographic patterns of FDIs are changing in favor of developing countries with a number of new countries becoming significant host and home economies. The inward FDI flows to developing countries have increased significantly along with the the rise of FDIs from developing and transition economies leading to substantial growth of South-South FDIs.

Excellencies,

The EU sees the following challenges with respect to Chapter 2 of Monterrey Consensus:

1. In some developing countries the **institutional frameworks that support sustainable FDIs** have to be developed. FDIs seek their way to areas where they have a supportive environment, including a broad range of favorable political and macroeconomic conditions that support markets and the free flow of capital worldwide. An enabling and appropriately regulated business environment, a well-functioning financial sector and a supply of skilled labour is necessary to attract stable and long-term capital flows. Practical tools such as UNCTAD's Investment Policy Reviews or the

* Croatia and the former Yugoslav Republic of Macedonia continue to be part of the Stabilisation and Association Process.

OECD Policy Framework for Investment (PFI) could be translated into national practices and development strategies and therefore assist in defining a common understanding of healthy investment climates in emerging and developing countries. National governments should promote long-term linkages between the foreign companies and the domestic suppliers and other partners as key elements for developing strengthening the domestic entrepreneurial sector.

FDIs, which ensure social and ecological sustainability, integration of local business, adhere to labour and occupational health and safety legislation and standards can make a major contribution to economic growth and development. By incorporating environmental, social and governance criteria into their investment decision-making, foreign companies are also inducing domestic companies to improve in these areas. Emerging economies as well as developing countries should therefore be encouraged to associate themselves with internationally agreed standards and initiatives on Corporate Social Responsibility such as the OECD Guidelines for Multinational Enterprises, the UN Global Compact, and ILO tripartite declaration.

Judicious use of regulation will help foster a competitive environment, which typically ensures that consumers are able to attain more goods at lower prices than under a monopoly. Rising levels of competition are also associated with increased economic growth, productivity, investment and higher living standards. Competition can also help create the right incentives for firms to increase access to services, and reduce opportunities for corruption.

- Investment in infrastructure is vital to allow an enabling environment.** Foreign investors need good access to knowledge, inputs of capital, and access to markets. This requires transport infrastructure, as well as the provision of a regular supply of electricity and other utilities. Communication infrastructure is also vital for disseminating information about prices and markets across a wide area.
- FDIs into critical infrastructure sectors could be pursued as **joint partnerships between private and public sectors**. These partnerships should be clearly defined and structured to avoid failures that have occurred in some countries. Partnerships should be encouraged, especially in extractive industries, and should ensure appropriate sharing of generated revenues between the foreign companies and the host countries. Funds generated from collaboration should, as appropriate, be used to support national development objectives. Not forgetting that there are already international standards (Extractive Industries Transparency Initiative; the Equator principles and standards by IFC) to be used.

Moreover, targeted NGO initiatives should be included in joint partnerships as we have already observed in cases of community development in various countries. When developing partnerships, not only economic and financial, but also social, gender and environmental implications of all undertakings should be taken into account. We should also do our best to foster innovative and sound developmental financing approaches.

4. The EU welcomes the substantial growth of **South-South FDI**s, mostly stemming from emerging economies. These investments can have particularly significant impact in the least developed countries as they can lead to the transfer of knowledge, skills, and technology. Their benefits will however be greater if they support sustainable development and abide by transparent and predictable rules of investment. In particular, sovereign wealth funds could play a key role as a regional source of funding for the least developed countries. Triangular cooperation has also proven to be particularly effective in the field of capacity development.
5. **The regional integration processes among developing countries** can improve their ability to attract FDI. The integration processes will bring significant policy changes by creating larger, more predictable internal markets with positive impact on inward FDI. The EU will continue to support such schemes.
6. **The flow of migrant remittances** should be simplified* and included into formal financial sector. Further strengthening of the "home" country financial sector is needed in order to enhance the inflow of remittances. Reform measures should include reduction of legal and practical barriers related to transfer of remittances that facilitate easier inclusion of remittances into the financial sector. Also measures to lower the transfer costs of remittances to home countries should be studied. In this regards, EU Member States are currently implementing the EU Payments Services Directive that may, at a later stage, also be applied to payments towards destinations outside the EU.
7. Further efforts should be made to **enhance the development impact of migrant remittances**, for example through adopting the necessary regulatory reforms to expand financial access locally, giving incentives to the private sector to develop an expanded attractive package of financial services, enhance giving the choice to migrants and their beneficiaries to invest in the productive sectors. The EU is looking into the concept of co-development that attempts to use development aid to leverage migrant's remittances for investment projects in their home countries. We may also

* Lower the cost and achieve better quality of remittances.

consider the idea of securitization of remittance flows that will provide countries with better access to international finance.

8. It is important for policymakers, at both the national and international level, to provide stronger oversight of financial market activities. Moreover, international oversight institutions should continue introducing measures and strengthening of existing mechanisms to **prevent illicit transfers** – such as tax fraud, illegal capital outflows, abuse of transfer pricing by transnational corporations, corruption, money laundering, financing terrorism and others. To the same aim, implementation of recommendations of the OECD/FATF (Financial Action Task Force) should be improved and expanded. EU also welcomes the work undertaken within the UN system to develop non-legally binding guidelines for Corporate Social Responsibility.
9. We should increase our efforts to **develop responsible and sustainable tourism**, paying particular attention to the interest of developing countries. Tourism is a very dynamic sector, from which many developing countries could benefit in terms of economic growth and job creation. Partnerships should be reinforced in this field in order to maximize the positive economic, social and cultural effects of tourism and minimize its potential negative social and environmental impacts.

Distinguished Co-chairs,

In conclusion, it remains a key central challenge to create the necessary domestic and international conditions to facilitate sustainable direct investment flows to developing countries, especially the ones that are conducive to achieving national development priorities. The EU will continue to support joint public/private partnerships that enhance the ability of developing countries to attract and absorb foreign direct investments and other private flows, including migrant remittances and their inclusion into developmental programs. It will continue to promote and support measures, both in source and destination countries to improve transparency and information concerning financial flows.

Thank you.