



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

**The European Union preliminary views  
on  
“Mobilizing international resources for development:  
foreign direct investment and other private flows”**

New York, 15 February 2008

The European Union considers **sustainable and socially responsible FDI** as a very important instrument to promote economic growth and social development.

Developing countries can benefit from increased external finance for development to fund the investment, services and infrastructure essential for sustainable pro-poor growth. External financial flows (including migrants' remittances) can serve as a **useful complement to domestic private savings** in financing investment. In addition to bringing capital to the country, FDI is normally beneficial for development by **promoting transfer of knowledge and technology, increasing competition and creating employment opportunities.**

The increase of cross border direct investment is recognized as a major factor of shaping the world's economy. FDI flows have increased from 470 billion USD in 1997 to 1300 billion USD (inflows and outflows) in 2006. FDI stocks in developed and developing countries have doubled in the period from 2000-2006. The percentage of inward FDI stocks in developing countries (DCs) has risen from 6% in 1995 to over 26% in 2006. A positive development to be welcomed is also the geographical pattern of FDI showing signs of change, with new countries emerging as significant host and home economies. **The rise of FDI from developing and transition economies and the growth of South-South FDI are important and positive recent trends.** Latest estimates for 2007 suggest a 15, 7% growth rate of FDI inflows to DCs, with 36 billion USD flowing to African DCs, compared to e.g. 126 billion USD into Latin America and 224 billion USD to South East and East Asia. However, huge discrepancies among developing countries in their ability to attract FDI inflows remain. In a number of developing countries, FDI is also concentrated on a limited range of economic sectors (in particular energy), therefore limiting its impact on the whole population and human development.

1. It remains a **central challenge to create enabling domestic and international environment** to facilitate **sustainable** direct investment flows to developing countries, conducive to achieving their national development priorities. Economic, social and environmental aspects of sustainability are crucial in order to maximize FDI benefits, in particular for least developed countries.
2. FDI flows depend on a **whole range of domestic factors**, such as political and macroeconomic conditions, good financial governance, adequate infrastructure, human capital and the bureaucratic environment. **Transparent, non-discriminatory and predictable conditions for investment, including an effective legal and regulatory framework**, which i.a. allows protection of intellectual property rights (TRIPS), are of particular relevance.

In order to **reduce the possibility of externally-induced financial crises**, countries that succeeded in attracting foreign capital must have an **effective system for monitoring and managing public and private sector external debt** and precautionary measures to dampen the volatility of capital

flows.<sup>1</sup> There is a need for technical assistance in this area. It is also important that lenders act responsibly, inter alia by respecting the Debt Sustainability Framework of the IMF and the World Bank.

3. The EU considers the **UNCTAD Investment Policy Reviews and the OECD Policy Framework for Investment (PFI)** as valuable instruments in defining a shared **understanding of healthy investment climates** in emerging countries and developing countries. They could be translated into national practices and development strategies, especially in Africa in the NEPAD and Africa Union contexts and the Asian Pacific Economic Cooperation (APEC) framework. We welcome the ongoing activities by UNCTAD and OECD to jointly engage industrialized countries, emerging economies and developing countries in the **development of best practices** for creating an institutional environment favourable for FDI, sustainable landing and sustainable development. The EU welcomes that such a process is developing and connected with UNCTAD XII.
4. Investment should not be encouraged by lowering domestic environmental, labour or occupational health and safety legislation and standards or by relaxing core labour standards and sound management practices. In this respect, the EU remains committed to promote **internationally agreed corporate social responsibility standards** such as the ILO tripartite declaration and the OECD Guidelines for Multinational Enterprises and initiatives such as the UN Global Compact. We invite the emerging economies as well as developing countries to associate themselves with the values and standards contained in these instruments. We call on private corporations and business organizations to adhere to the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises and to implement them.
5. Governments should contribute to an enabling business-friendly environment in order to attract not only FDI but also to increase local private sector investment. **Public investments in basic infrastructure, development of human capital and institutional capacity** are all relevant for sustained economic growth. Special attention should be given to measures to increase employment opportunities and productive entrepreneurial activities for women and young people. Consequently public-private partnerships (*clearly defined and structured to avoid failures*) and the application of international labour standards for decent work should also be encouraged.
6. **Regional integration process** among developing countries can have a very important effect on FDI. Indeed, the formation of a RIA (regional integration agreement) usually brings significant policy changes, which suggests that it may have a notable impact on foreign direct investment in the member countries. The creation of **larger, more predictable internal markets** through regional integration among developing countries can also improve their ability to attract investment, including inward FDI.

---

<sup>1</sup> The United Nations Development Agenda: Development for All, 2007

The EU supports an increased and enhanced role of regional and sub-regional organizations, which include also regional development banks. Co-operation within a region can complement national and global efforts and South-South cooperation should be further encouraged.

7. The European Union would like to draw on, exchange and **share the experiences** made – in developing countries as well as in the EU – in order to maximize development benefits from FDI in developing countries. UNCTAD and the OECD have as well developed useful best practices in promoting FDI (see above 4.).
8. To complement domestic efforts, international support in various areas remain useful, such as technical assistance in promoting FDI, building an enabling domestic environment (good financial and economic governance, promoting backward production linkages between domestic suppliers, supplying information for investors, strengthen quality of entrepreneurship etc. )
9. In case of private flows which create additional public external liabilities (for example those cases where guarantees from the government are asked) **attention should be paid to debt sustainability**. We call upon commercial creditors to adhere to principles of responsible lending.
10. The important **role of remittances** in contributing to development and poverty reduction has become increasingly recognized. They are considered to be the **most stable flows of external finance**, usually responding positively to emergency situations and poverty reduction in a country. In countries where remittances are significant at a macroeconomic level, they can be an important source of foreign exchange to enhance external stability and facilitate the financing of imports. On the other hand, there can also be risks of dependency on remittances leading to economic inactivity and of a real exchange rate appreciation which may reduce the external competitiveness of local industries.

Recorded **world-wide flows of remittances** are more than **twice as large as official aid and nearly two-third of foreign direct investment flows to developing countries**. Remittances are the largest source of external financing in many poor countries. Also, remittances have been less volatile than other sources of foreign exchange earnings in developing countries.<sup>2</sup>

Intensive work by all stakeholders in recent years, to which EU Member States and the European Commission made important contributions, concentrated on three issues:

- ***How to improve the quality and coverage of data on remittances?***

More operational definitions of remittances to be used in balance of payments statistics were agreed at UN level in 2006 in order to take better into account the practical aspects of data collection. In 2008, the "Luxembourg Group", which brings together experts from different organisations and countries in the world, will finalise a guide on the

---

<sup>2</sup> Dilip Ratha, Sanket Mohapatra, K. M. Vijayalakshmi, Zhimei Xu : Remittance Trends 2007

compilation of remittances statistics. It will present the range of methodological approaches (transaction reporting, direct reporting, households surveys, data models) and practical steps for statistical offices and central banks (understanding the current situation; evaluation of current data collection system; prioritization; improvement and expansion of data by channel). Many statistical offices and central banks in the EU recently intensified their efforts to take up these approaches.

- ***How to reduce the costs and improve the quality of remittances flows?***

The main reference here is the "General Principles for International Remittance Services" as agreed by the World Bank and the Committee on Payments and Settlements Systems (CPSS) of the Bank for International Settlements. The five Principles are related to transparency and consumer protection, payment system infrastructure, the regulatory framework, market conditions, as well as risk management practices. EU Member States are currently implementing the EU Payments Services Directive which takes up many of these elements for payments within the EU that may, at a later stage, also be applied to payments towards destinations outside the EU. In order to increase transparency, several EU Member States set up Internet websites which allow migrants to compare the costs of various suppliers for sending remittances to their home countries.

- ***How to enhance the development impact of remittances?***

This area is both important, to reduce the dependency on remittance inflows, and sensitive, as remittances are private money on which only migrants and their families can have control over. The objective should therefore be to create new opportunities to spend remittances otherwise than on consumption:

- Saved remittances can best be channelled into investment opportunities through the banking system and microfinance institutions. Financial sector development and better access to finance will facilitate this process. The scope for improving the general business environment (rule of law etc.), financial sector regulation and supervision as well as financial literacy should be looked at.
- In view of their stability, the idea of a securitisation of remittance flows is being developed that will provide countries better access to international finance. The European Investment Bank is implementing a securitisation project in Lebanon.
- Some EU Member States are promoting the concept of co-development that attempts to use development aid to leverage migrants' income and remittances for investment projects in their home countries.

11. 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.