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Expert meeting on comparing best practices for creating an
environment conducive to maximizing development benefits,
economic growth and investment in developing countries and
countries with economies in transition

Geneva, 24–25 September 2007

Report of the expert meeting on comparing best practices for creating an environment conducive to maximizing development benefits, economic growth and investment in developing countries and countries with economies in transition

Held at the Palais des Nations, Geneva, from 24 to 25 September 2007

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I. Chair's summary

1. The Trade and Development Board agreed at its forty-first executive session in April 2007 to convene an expert meeting aimed at “comparing best practices for creating an environment conducive to maximizing development benefits, economic growth and investment in developing countries and countries with economies in transition”. Creating an environment conducive to development, growth and investment involves many national and international policies. The expert meeting, held from 24 to 25 September 2007, focused on policies aimed at maximizing the development benefits of foreign direct investment (FDI), and on considering best practices for meeting five strategic FDI challenges that have emerged from UNCTAD's Investment Policy Reviews and other work. This note summarizes the discussions at the meeting.

A. Opening statements

2. In his opening remarks, the Director of the Division on Investment, Technology and Enterprise Development (DITE) and Officer-in-Charge of UNCTAD noted the gratifying call in the G8 2007 Heiligendamm Declaration for UNCTAD to join forces with other regional organizations and initiatives such as the Organization for Economic Cooperation and Development (OECD), the New Partnership for Africa's Development (NEPAD) and Asia-Pacific Economic Cooperation (APEC) to develop best practices for building an institutional environment conducive to increased investment and sustainable development, and to engage industrialized countries, emerging economies and developing countries in a dialogue aimed at building international consensus and disseminating best practices in that connection. The purpose of the meeting was, first, to consider the selection of issues related to best practices for meeting strategic FDI challenges in the light of UNCTAD's research; second, to elaborate on, and add to, the key issue areas with a view to identifying “best practices”; third, to discuss methodological approaches to facilitate the achievement of reliable and useful results and the provision of advice to countries seeking to improve their policies; and, fourth, to consider the important question of dissemination of the findings on best practices and support to countries wishing to apply them to their own circumstances.

3. Thereafter, the meeting discussed – in an informal setting – the major emerging policy challenges and specific issues for best practices as identified in the secretariat's background paper (TD/B/COM.2/EM.22/2).

B. High-level round table

4. In opening a high-level round-table discussion that included senior representatives from Australia, Belarus, Egypt and India, as well as the Executive Director of the International Trade Centre, the Director of DITE set out the major policy challenges related to FDI and development as identified by the secretariat: (i) devising systematic competitiveness policy for FDI; (ii) upgrading efficiency-seeking FDI and moving up the value chain; (iii) benefiting from FDI in small markets; (iv) fostering the role of FDI in facilitating economic transition; and (v) using FDI to build peace in post-conflict countries. He stressed that those items were suggestions by the secretariat as they had emerged from its research and technical advisory work in recent decades. Experts would be asked to comment on, and add to, the secretariat's proposed themes, including by pointing to the best policy practices in that context.

5. The panellists endorsed the proposals in the secretariat's background paper and identified several other key issues that have a bearing on the major policy challenges for FDI, including a country's geography, its level of development and its core infrastructure. They indicated that there was no overarching policy rule or one-size-fits-all approach to those issues. That fact would need to be taken into account when consideration was being given to how case studies integrate specific FDI-seeking policies and their outcomes as the basis for creating world standards and benchmarks.

6. Infrastructure development in particular was identified as one of the greatest underlying challenges for developing countries, including in the context of export industries' dependence on effective and efficient transportation regimes. Successful infrastructure development would depend on finding sustainable solutions to long-term financing (both equity and debt) issues, establishing and maintaining adequate policy and regulatory frameworks, and dealing with the inadequate skills of official institutions and investors for managing investment in developing countries. Public-private partnerships would offer a solution that would be worth studying in detail. A second theme that emerged from the discussions concerned the role of geography in attracting FDI, especially with regard to manufacturing investment in small landlocked countries. As a third theme, the role of different sectors of economic activity for development in developing countries was highlighted, as well as the need to move up the value-added ladder. FDI policies in that regard would need to be effectively integrated into a country's overall development strategies.

7. As part of the high-level round table, Professor Jeffrey Sachs, Director of the Earth Institute at Columbia University, shared his views and recommendations on developing best-practice case studies via video-link with New York. He called on UNCTAD to implement a framework approach that would fill the gap between FDI policymaking and deriving benchmarks for replication. He drew attention to the need to consider domestic investment promotion as a complement to foreign investment, as well as emphasizing the importance of earlier discussions on implementing a functioning infrastructure, good governance processes and industrial zones as the basis for both development and the attraction of FDI for economic growth. Aid-for-trade programmes should be concerned, first and foremost, with investment in core infrastructure, and, secondly, with practical process facilitation regarding non-physical infrastructure concerns (e.g. sanitary standards, conditions for agro-processing and border-crossing).

8. In the discussions that followed it was noted that consideration of good governance as an underlying element for development should not focus solely on the prevention of corruption. Another point concerned the pronouncements of the Bretton Woods institutions on the use of incentives as a means for investment promotion. Finally, participants drew attention to the importance of predictability of investment rules and regimes that would further contribute to the advancement of investment, both domestic and foreign. Appropriate and effective institutional frameworks would form another essential ingredient in that regard.

C. Session I: substantive aspects of best practices

9. In his introduction to session I, the Head of the Policies and Capacity-Building Branch outlined the proposed UNCTAD process for developing case studies, which would involve taking into account carefully selected topics for case studies on the basis of their importance and relevance for developing

countries and countries with economies in transition. He stressed that a “best” replicable practice of a proactive policy measure aimed at increasing the contribution of FDI to development does not exist, since no one size fits all. However, leading examples of successful government policy practices could be useful by shedding light on success stories that are, if adapted and applied to specific circumstances, replicable by other Governments that are pursuing the same objectives. The FDI strategic challenges identified would correspond to five types of country profile that had emerged from the secretariat’s work on Investment Policy Reviews and in other areas. The five profiles are as follows: (i) large countries that can attract market-seeking FDI but need a systematic strategy to attract more efficiency-seeking FDI, including moving foreign affiliates up the competitive ladder; (ii) fast-growing middle-income developing countries that already rely less on market-seeking FDI and have considerable export possibilities, but need to keep shifting into new industries and into services to continue to attract efficiency-seeking FDI; (iii) disadvantaged, small (including landlocked, least developed and island) developing countries that need careful FDI attraction strategies designed to overcome small domestic markets, in the context of low skills and poor infrastructure; (iv) countries with economies in transition; and (v) post-conflict countries that need a special approach to setting priorities in the investment framework and in strategy so as to give confidence to overseas investors, including returnees and the diaspora.

10. In the ensuing discussion, speakers made reference to, and supported, the five proposed thematic case studies on strategic FDI challenges and the list of proposed topics of best-practice case studies in the annex to the secretariat’s background paper. Presenters confirmed specific aspects important to thematic scenarios related to systematic competitiveness (Australia), large economies (Indonesia), economies in transition (Viet Nam), small economies (Estonia) and landlocked economies (Ethiopia). From the perspective of a large economy, successful increases in FDI inflows were facilitated by a three-track strategy consisting of economic reforms behind borders, opening up of the economy, and introducing specialized government and private sector projects. This also included one-stop shops to streamline business licensing and regulatory processes.

11. From the perspective of a landlocked, post-conflict economy, the special challenges with regard to attracting investment included overcoming the image problems caused by the conflict; a low level of infrastructure development, and infrastructural damage caused by the conflict; hurdles vis-à-vis transparency and the efficient provision of services; lack of information about investment opportunities; and shortages of skills and manpower. Post-conflict investment policy would therefore need to pay particular attention to convincing investors of a country’s stability and learning about FDI attraction; and at the same time it would be necessary to work towards improving infrastructure, providing specialized training and higher education opportunities, including the building of universities, and developing public institutions.

12. From the perspective of a small country in transition, best-practice lessons could be derived from transforming a single-sector (State-owned) economy into a multi-sector economy. This should be driven not only by encouraging the participation of the private sector and supporting trade and investment relations with other economies, but also by the development of adequate legal and regulatory frameworks. At the same time, various problems in economic growth and investment promotion could be directly linked to a “shock therapy” approach in economic systems transition. FDI increases had been linked primarily to privatization initiatives and trade integration, including in this case

in-depth (EU) integration, in recent decades (but were also helped by “good luck”). Furthermore, there were risks for a small economy when catching up in development terms but still lagging behind larger economies in relative terms.

13. In the area of systematic competitiveness, problems were highlighted with regard to focusing only on foreign investment for development, and overlooking or neglecting the domestic investment agenda. This would tend to leave out of account border and behind-the-border barriers to investment, which influence both domestic and foreign investment. The benefits of liberalization are unevenly distributed, and adjustment policies have to be considered. In addition, institutional reforms that are both credible and independent are necessary, as well as an ongoing assessment of the effectiveness and impact of investment policies.

14. In the ensuing discussion, participants touched on topics related to effectively integrating skills training into development policy strategies (for instance, by implementing public–private partnerships with specialized industry associations); the effective use of e-means to monitor and screen FDI; the facilitation of good governance and transparency through e-government applications that would help to reduce corruption and administrative barriers while at the same time assisting small and medium-sized enterprises and women entrepreneurs; the impact of the WTO’s economic liberalization requirements; and the importance of linking investment and technology through adequate intellectual property rights provisions. Other issues discussed included corporate social responsibility that takes account of both the investor’s and the Government’s perspective; and the environmental perspective of how to promote “green FDI” (i.e. environment-friendly FDI) and how to use the Clean Development Mechanism (CDM) for ensuring environment-friendly investment.

D. Session II: methodology panel discussion

15. DITE’s principal investment adviser opened the panel discussion on methodological issues. Focusing on the “how-to” and leaving aside the content (“what”), he identified as a major challenge the fact that case studies should be produced and compared in accordance with a sound methodology, and should lead to practical and useful results and policy recommendations. He noted that national policy strategies were difficult to evaluate as they were always affected by various factors. Investment strategies in particular normally targeted not only foreign investment, but also domestic private and public investment. Further consideration should be given to the constantly changing environment in which policies were embedded and to which the methodology must be sensitive. Finally, the methodology should adopt a contemporary, if not a futuristic, perspective.

16. In the ensuing discussion, the importance of business management cases for their own use and context was recognized. However, the point was made that best practices in national policies would have to consider many more factors, including (i) what issues should be taken into account in comparing and contrasting two countries, so as to ensure significant results applicable across different stages of development and national circumstances; (ii) good examples of case studies that could serve as role models; and (iii) identifying policies affecting FDI as opposed to policies identifying national performance. In that context, it was emphasized that the case studies were focused on creating an environment conducive to maximizing development benefits, economic growth and investment, but that a correlation between those elements remained controversial.

17. Furthermore, certain aspects of the Harvard Business School case approach needed to be adapted, as it did not have a cross-country setting, was limited to the corporate perspective, was merely descriptive, did not serve as an example for practitioners but was rather self-serving, and often had deficiencies in terms of rigorosity and research methods. Other difficulties in the development of best-practice cases stem from the time-consuming nature of such undertakings, which makes them costly and challenging for professionals since they have to work with huge amounts of data, which are sometimes not reliable and often not representative for whole populations. UNCTAD should develop a unique methodology for best-practice case studies that is descriptive, explanatory and exploratory. In that context, it was pointed out that a critical issue in best practices in development concerned the processes involved. UNCTAD should therefore develop an “insights” approach with a process orientation that considered what the key decision in a particular process had been, when it had been taken, and what at that particular time had ensured that it was the right one.

18. Choosing the two countries that would be contrasted and compared in terms of national policy measures and their results is equally useful, as is the involvement of third-party experts in order to reduce the risk of bias. Ideally, those preparing a case study should be a multilateral team, consisting of an in-country expert, an UNCTAD expert and an international adviser. The choice of countries should be based on their representative value for other countries and not be oriented too much towards best results. Also, it is necessary to maintain a strictly contemporary perspective as best-practice cases soon become outdated. Experts emphasized that the next step should be the creation of an expert panel for peer review that would monitor and evaluate the preparation of five pilot cases, which should be presented in a draft report.

E. Session III: round table on best practices – implementation issues

19. Introducing the round table on implementation issues, the Head of the Policy and Capacity-Building Branch of DITE said that, in producing national policy best practices, UNCTAD would seek inspiration in private business, in academia, for example the Harvard Business School, and in the practices of other organizations, for example the OECD. Although an inventory of best practices provided developing countries with the tools to adapt and apply them to their national objectives and circumstances, the key element was the dissemination of those practices at the national and the international policy level. This included a role for regional or other international organizations.

20. In the panel debate, the critical role of cooperation among a country’s stakeholders, including through public and private partnerships, was highlighted. Experts also emphasized the bottom-up nature of UNCTAD’s best-practices approach, which should be based on real experience in countries and not on a theoretical conception of what best practices should be. For APEC an important issue regarding best practices was consensus-building. Beneficial policy measures were, in particular, regional integration, an open economy and free-trade reforms. During their implementation, there was close cooperation between government, business and academia, supported by international organizations, especially UNCTAD and the OECD.

21. In the same vein, the experiences with the OECD Policy Framework for Investment (PFI) were pointed to as valuable contributions to the best-practices approach. In the PFI, the OECD prepares a catalogue of questions covering 10 fields of interest. The state of economic policy is then evaluated, in a type of

peer review mechanism, on the basis of the answers of decision makers to those questions. The OECD's Senior Economist said that it was always the surprising answers that were most valuable for an accurate evaluation. However, the PFI had no cross-country approach whereby best practices were identified and applied in other developing countries. It was used in a collaboration between the OECD and the APEC Business Advisory Council (ABAC) to support APEC developing countries such as Viet Nam, the Philippines and Indonesia.

22. A member of ABAC's financial working group stressed the importance of a constant dialogue and collaboration between business and government, as exemplified by the important advisory and consensus-building role of ABAC within the APEC framework. He suggested that ABAC make a contribution to the UNCTAD best-practices project and share its expertise by sending two ABAC professionals to UNCTAD's best-practices panel.

23. The relevance of a case study on international investment dispute settlement was reiterated, on the basis of the significance of the legal, regulatory and institutional framework. It would be important to ascertain what changes in domestic law had been brought about by international investment agreements and what would be best practices in terms of dealing with investor-State dispute settlement issues.

24. In the ensuing discussion, the point was made that despite well-researched policy advice, a lack of funds and human capacity often hindered implementation of policy recommendations and best practices. That fact thus highlighted the importance of donors. On the other hand, an official of the German Ministry of Economy and negotiator of German BITs emphasized the great importance of the partner country's legal framework, focusing in particular on concrete investor protection measures. Another participant mentioned the problem of a lack of literature on best-practice studies. It appeared that there was much to be done in the research field in parallel with a case study carried out by UNCTAD.

F. Conclusion

25. In his concluding remarks, the Head of the Policies and Capacity-Building Branch said that the expert meeting had conducted an open and fruitful debate, and that it had in general endorsed the secretariat's approach to best-practice topics and methodologies. It had also provided guidance for further thematic and specific topics for consideration in that context (see the list revised by the expert meeting in annex I). The following themes had been added to the list of thematic topics: (i) devising public-private partnerships in infrastructure investment; (ii) attracting FDI in export-oriented competitive sectors; (iii) effectively integrating FDI strategies into overall development strategies; and (iv) creating effective institutional frameworks that support FDI. Furthermore, the expert meeting had agreed to add topics for the long list of specific cases outlined in the secretariat's background paper. They were as follows: (i) skills development to meet emerging needs for attracting and benefiting from FDI; (ii) encouraging corporate responsibilities; (iii) making FDI contribute to environmentally sustainable development (i.e. green FDI and the CDM); (iv) effectively interfacing FDI policies with those for innovation, transfer of technology and intellectual property; (v) promoting good governance in FDI facilitation; and (vi) effectively using e-means to monitor and screen FDI. The speaker also underlined the need to replicate best practices through UNCTAD and other agencies. In conclusion, he stressed that experts broadly shared the view that work on best practices should be actively pursued and that UNCTAD would be

the appropriate forum for providing extensive knowledge and for discussing emerging issues in that regard.

26. In closing, the Director of the Division on Investment, Technology and Enterprise Development and Officer-in-Charge of UNCTAD underlined the expert meeting's success by referring to the rich debate and the broad consensus on the list of possible topics. Some topics, he pointed out, were in themselves UNCTAD work programmes (e.g. good governance in investment promotion). He endorsed the common objective of turning case studies into easily understandable, forward-looking programmes for implementation in developing countries and economies in transition. Furthermore, he was in favour of future collaboration with other agencies before and after UNCTAD XII, and in particular stressed cooperation with the OECD, which would be intensified through exchanges, not least between the heads of UNCTAD and the OECD. That would form the basis for undertaking a number of joint activities on best-practice case studies and for further developing and disseminating the latter at the national and international levels.

II. Organizational matters

A. Convening of the expert meeting

27. The expert meeting on comparing best practices for creating an environment conducive to maximizing development benefits, economic growth and investment in developing countries and countries with economies in transition was held at the Palais des Nations, Geneva, from 24 to 25 September 2007.

B. Election of officers

28. At its opening meeting, the expert meeting elected the following officers to serve on its bureau:

Chair:	Mr. Robert Ahomka-Lindsay (Ghana)
Vice-Chair-cum-Rapporteur:	Mr. Emmanuel Farcot (France)

C. Adoption of the agenda and organization of work

29. At the same meeting, the expert meeting adopted the provisional agenda circulated in document TD/B/COM.2/EM.22/1. The agenda for the meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda
3. Best practices for creating an environment conducive to development, growth and investment
4. Adoption of the report of the meeting

D. Documentation

30. For its consideration of the substantive agenda item, the expert meeting had before it a note by the UNCTAD secretariat entitled “Best practices for creating an environment conducive to development growth and investment” (TD/B/COM.2/EM.22/2).

E. Adoption of the report of the meeting

31. At its closing meeting, the expert meeting authorized the Rapporteur to prepare the final report of the meeting under the authority of the Chair.

Annex I

List of key issues for best-practice case studies, as revised by the expert meeting

Thematic topics

1. How to devise a systematic competitiveness policy for FDI
2. How to upgrade efficiency-seeking FDI
3. How to attract FDI to small economies
4. How to foster the role of FDI in countries with economies in transition
5. How to attract FDI in post-conflict countries

Additional thematic topics proposed by the expert meeting

1. How to devise public–private partnerships in infrastructure investment
2. How to attract FDI in export-oriented competitive sectors
3. How to effectively integrate FDI strategies into overall development strategies
4. How to create effective institutional frameworks that support FDI

“Long list” of possible case studies on specific issues

1. How to attract skills
2. How to use FDI to improve infrastructure – electricity
3. How to use FDI to improve infrastructure – ports
4. How to attract FDI in higher education
5. How to attract more technology-intensive FDI
6. How to foster foreign affiliate innovation
7. How to attract FDI to the regions
8. How to develop strong partnerships with foreign investors
9. How to move foreign affiliates into exports
10. How to revitalize FDI in export processing zones
11. How to utilize FDI to build a regional hub
12. How to attract diaspora FDI
13. How to leverage investment promotion in international investment arrangements
14. How to manage revenues from FDI in extractive industries
15. How to fast-track investment reform
16. How to give foreign investors confidence in the commercial justice system
17. How to manage competition issues with foreign investors

18. How to proactively manage investor–State disputes arising from international agreements
19. How to implement a modern FDI entry regulation system
20. How to improve work and residence permitting

Additional issues proposed by the expert meeting

1. How to develop skills to meet emerging needs for attracting and benefiting from FDI
2. How to encourage corporate responsibilities
3. How to make FDI contribute to environmentally sustainable development (i.e. green FDI and the CDM)
4. How to effectively interface FDI policies with those for innovation, transfer of technology and intellectual property
5. How to promote good governance in FDI facilitation
6. How to effectively use e-means to monitor and screen FDI

Annex II

Attendance*

1. Representatives of the following States members of the Trade and Development Board attended the meeting:

Australia	Indonesia
Afghanistan	Iran (Islamic Republic of)
Bangladesh	Italy
Belarus	Lao People's Democratic Republic
Benin	Madagascar
Burundi	Malaysia
Chad	Maldives
China	Mali
Djibouti	Mauritania
Dominican Republic	Mexico
Ecuador	Myanmar
Egypt	Nigeria
El Salvador	Russian Federation
Estonia	Saudi Arabia
Ethiopia	Slovenia
France	Sri Lanka
Fiji	Sudan
Germany	Trinidad and Tobago
Ghana	Uganda
Greece	United States of America
Haiti	Viet Nam
Honduras	Zimbabwe
India	

2. The following intergovernmental organizations were represented at the meeting:

African, Caribbean and Pacific Group of States	Organisation internationale de la francophonie
African Union	Organization for Economic Cooperation and Development
European Commission	
League of Arab States	

3. The following United Nations organizations were represented at the meeting:

Department of Economic and Social Affairs	Economic and Social Commission for Western Asia
Economic Commission for Europe	United Nations Development Programme

4. The following specialized agencies and related organization were represented at the meeting:

International Monetary Fund	UNCTAD/International Trade Centre
International Telecommunication Union	World Trade Organization

* For the list of participants, see TD/B/COM.2/EM.22/INF.1.

5. The following non-governmental organizations were represented at the meeting:

General Category

Center for International Environmental Law
World Association for Small and Medium Enterprises

6. Representatives of the following private-sector bodies and academic institutions were present at the meeting:

APEC Business Advisory Council
Georgetown University
University of Glasgow
Winston and Strawn
