Chapter 1.

OECD Initiative on Investment for Development: Overview of Progress

The OECD Initiative on Investment for Development provides a framework and an overarching strategy for organising OECD co-operation on policies for investment with developing and transition economies. In 2007 investment policy co-operation with non-members resulted in a number of major accomplishments, and new demands at a high political level from our members and at the Heiligendamm G8 Summit, as well as from our partners in transition and development for deeper co-operation. This chapter overviews progress in each of the Initiative's projects, the results achieved and their future directions over the coming year.

Full details on the activities of the Investment for Development Initiative can be downloaded from the OECD website at: www.oecd.org/daf/investment/development.

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INVESTMENT FOR DEVELOPMENT: THE YEAR IN BRIEF

On 11 July 2007, Egypt became the first Arab and first African country to sign the *OECD Declaration on International Investment and Multinational Enterprises*.

The *Declaration* is a way for governments to commit to improving their investment climates, ensuring equal treatment for foreign and domestic investors and encouraging the positive contribution that multinational companies can bring to economic and social progress.

Egypt has been active in several Investment for Development co-operation programmes. They participated in the task force developing the Policy Framework for Investment - the most comprehensive multilaterally-backed approach to date for improving investment conditions -, were the first country to pilot using the PFI at the Global Forum on International Investment (see **Chapter 2**) and as a basis for an Investment Policy Review of Egypt. Since 2006 Egypt also chairs the MENA-OECD Investment programme (see **Chapter 3.2**).

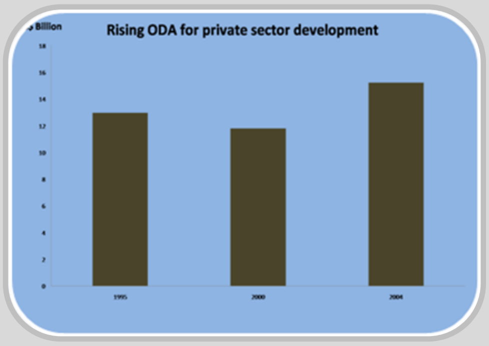
Demand to use the Policy Framework for Investment has been large, with requests coming from every continent and from both OECD and non-member countries.

Several countries volunteered to pilot the PFI as a tool for self-evaluation of the investment climate at the Global Forum on International Investment (GFII) held in Istanbul in November 2006.

The regional investment initiatives - NEPAD-OECD Africa Investment Initiative, the MENA-OECD Investment Programme and the Investment Compact for South East Europe - have each applied the PFI in 2007 (see **Chapter 3**). And Vietnam is carrying out an in-depth self-assessment of its investment climate based on the first five chapters of the PFI, which will be presented and discussed at the March 2008 GFII (see **Chapter 3.4**).

The global-, regional- and bilateral-based investment co-operation activities are also being used to test and vet the development of a PFI User's Toolkit.

INVESTMENT FOR DEVELOPMENT: THE YEAR IN BRIEF



Policy capacity building featured strongly in all Investment for Development co-operation programmes in 2007.

Bilateral co-operation with China over the past year, for example, focused on helping Chinese enterprises to better understand internationally recognised norms of business conduct, and on FDI statistical methodology (see **Chapter 4.1**).

The MENA-OECD Investment Programme and the Investment Compact for South East Europe strengthened their activities aimed at supporting countries in the implementation of reforms and in assessing progress.

One result from this was the publication by the Investment Compact in November 2007 of four *How to Implement Reports*, covering investment promotion, regulatory reform, human capital and anti-corruption (see **Chapter 3.3**).

The third pillar of the Investment for Development Initiative draws lessons on the use of ODA in support of developing countries' efforts to promote private investment and uses these to develop policy guidance for donors.

Over the past year efforts have focussed on the implementation of guidance developed in 2006 and an exchange and assessment of experiences among donors, partner countries and the private sector with using ODA to promote private investment.

One of the outputs from this work includes the compilation and publication for the first time of detailed statistics and trends on how ODA is being used to support private sector development, by geographical area and by type of assistance (see **Chapter 5**).

Initiative Overview

Continuous efforts to strengthen national policies and public institutions to create sound investment environments is what counts most in government endeavours to attract beneficial investment. The *OECD Initiative on Investment for Development* supports developing and transition economies' sustained efforts to attract and generate more and better investment through peer learning, sharing of experience and by providing policy tools and instruments that build investment climate reform implementation capacity.

Proposed at the OECD Ministerial in May 2003, the *Initiative* was launched by the OECD Investment Committee in Johannesburg in November 2003 at the Global Forum on International Investment. It received further strong support at the 2004 Global Forum hosted by India and at the 2005 OECD Ministerial, where Ministers reiterated their support to the *Initiative* and their commitment to helping countries build sound investment environments.

The *Initiative on Investment for Development* is an overarching strategy for furthering OECD co-operation with developing and transition economies and includes three closely inter-related projects:

- the development and use of a *Policy Framework for Investment*;
- building policy capacity based on OECD peer learning methods; and
- using ODA more effectively to support partner countries' efforts to mobilise private investment.

Different applications of the Policy Framework for Investment are being piloted

In April 2006, the task force established to develop the Policy Framework for Investment (PFI) finalised its work, and in May at the OECD Ministerial meeting, Ministers welcomed the PFI and its importance as a policy tool that will help governments improve investment climates.[1] They also called on the OECD to continue to work with non-member governments and other inter-governmental organisations to promote the active use of the PFI.

What is the PFI?

The PFI is a tool, providing a checklist of issues in ten policy domains for consideration by any government interested in creating an environment that is attractive to all investors and in enhancing the development benefits of investment to society. The policy areas covered are widely recognised, including in the Monterrey Consensus, as underpinning a healthy environment for all investors, from domestic small- and medium-sized enterprises to multinational enterprises. These policy areas are: Investment policy; Investment promotion and facilitation; Trade policy; Competition policy; Tax policy; Corporate governance; Responsible business conduct; Human resource development; Infrastructure and financial sector development and Public governance.

The PFI gives a list of questions under each theme to encourage policy makers to ask appropriate questions about their economy, their institutions and their policy settings and to help governments determine whether their policies are likely to encourage investment. It is not a volume of ready-made prescriptions, nor is it binding. The questions are supported by annotations and complemented by references to OECD and other selected policy resources, such as the World Bank’s Investment Climate Surveys Database.

The PFI promotes transparency and appropriate roles and responsibilities for governments, business and others with a stake in promoting development and poverty reduction, and builds on universally shared values of democratic society and respect for human rights, including property rights. Policy coherence, transparency and accountability and regular evaluation of policies are three principles that apply throughout the PFI.

The G8 Heiligendamm, June 2007 Summit Declaration also endorsed the economic development value of the Policy Framework for Investment. It called on the PFI to “…be translated into national practices and development strategies, especially for countries under the New Partnership for African Development (NEPAD) and Asia Pacific Economic Cooperation (APEC) framework”, and invited the OECD, UNCTAD and other organisations such as the World Bank to consider providing the necessary support for this purpose.

As part of the response to this call from the G8 for co-operation, the 2008 Global Forum on International Investment is being jointly organised by the OECD and UNCTAD and will lead to the development of best practices and policy implementation capacity for creating an institutional environment conducive to increased investment in support of sustainable development (see **Chapter 2**). Looking further ahead, Investment Global Forums will be used to review the PFI and its scope with non-member partners and stakeholders in light of experience with its use.

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Dr Mahmoud Mohieldin, Minister of Investment, Arab Republic of Egypt, and OECD Secretary General, Angel Gurria at the launch of the Egypt Investment Policy Review

The PFI can be used in a variety of ways. Self-evaluation, peer reviews, regional co-operation and multilateral discussions can all benefit from the insights offered in the PFI and contribute to establish where to prioritise investment policy reforms. It also provides a reference point for international organisations' capacity building programmes for investment promotion agencies, for donors as they assist developing country partners in improving the investment environment and for business, labour and other non-governmental organisations in their dialogue with governments. In each of these ways, the PFI advances the implementation of the United Nations Monterrey Consensus.

A number of these PFI uses are already being implemented, with requests coming from every continent and from both OECD and non-member countries. The highlights in these PFI applications over the past year include:

- In the context of Egypt's request to adhere to the *Declaration on International Investment and Multinational Enterprises*, the Investment Committee Secretariat prepared a background report on

Egypt's investment policies, which extensively used the PFI to survey Egypt's achievements and consider the remaining challenges that lie ahead. (The executive summary and recommendations of the Egypt Investment Policy Review are reproduced in the box below.)

- Vietnam is carrying out a detailed self-assessment of its investment climate based on the investment policy, investment promotion and facilitation, trade, competition and tax policy chapters of the PFI. The findings will be presented and discussed at the March 2008 Global Forum on International Investment. This application follows an APEC High-Level Public-Private Dialogue on the PFI in Melbourne in April 2007 (see **Chapter 3.4**).
- The NEPAD-OECD Africa Investment Initiative Lusaka roundtable held in November 2007, building on the dialogue initiated at the Brazzaville roundtable developed and tested guidance on how to complete the investment related questions in the self-assessment phase of the APRM – Africa's own peer review mechanism – through the development and use of PFI user guidelines (see **Chapter 3.2**).
- The Investment Compact for South East Europe (SEE) published in November 2006 the first Investment Reform Index (IRI) report. The IRI covers 8 of the 10 PFI policy chapters. The results of the IRI provide an informed basis for SEE governments to evaluate the strengths and weaknesses of their investment climates and to communicate progress achieved in implementing policy reforms (see **Chapter 3.3**).

A number of lessons have been learnt from these initial applications of the PFI. For example, one of the conclusions from Professor Mucavele, Executive Head of the NEPAD Secretariat, drawn from the NEPAD-OECD Africa Investment Initiative Brazzaville roundtable in December 2006 was the need to develop a handbook of methodologies on how the PFI can be used in an African country context. More generally, country's testing the PFI invariably sought from the OECD a methodology explaining how exactly to use the tool.

Executive Summary and Recommendations of the Egypt Investment Policy Review

Historically, Egypt has not been a major destination for international direct investment. However, inward flows have been rising rapidly and steadily in recent years. Between 2000/01 and 2006/07, foreign direct investment (FDI) inflows increased more than fifteen-fold. The distribution of these flows has also been changing, with the share of flows going into manufacturing and services increasing from around 30% in 2004/05 to around 70% in 2005/06, while the share going into petroleum has experienced a commensurate decline.

These increasing FDI inflows have been largely in response to the ambitious reform programme started in 2004. Openness to foreign direct investment has been a core element of these reforms. The principle of national treatment of foreign investors is enshrined in general investment legislation. Foreign investment in manufacturing has been fully liberalised (with the exception of defence-related industries), and foreign equity participation in financial services and privately operated telecommunications services is now permitted up to 100%. With the recent migration of the investor protections and many of the benefits provided by the specialised Investment Guarantees and Incentives Law to the more generally applicable Companies Law, the Egyptian authorities are progressing towards a fully unified investment regime, in line with OECD recommended best practices. However, further efforts for improving the broader policy framework for investment are still needed.

Egypt maintains certain limitations on foreign investment. Sectoral exceptions to national treatment include limits on foreign ownership in construction, maritime and air transport, courier services, foreign trading intermediation and preferential treatment arrangements for domestic bidders in public procurement. These are reflected in the list of exceptions which Egypt has lodged under the National Treatment instrument of the OECD Declaration and agrees to subject to periodic examinations in accordance with the instrument's disciplines. As part of the process of Egypt's adherence to the Declaration, the government has indicated a timetable to phase out the restrictions in construction, courier services, and with respect to commercial agents in relation to exports. Other discriminatory restrictions apply to foreign commercial presence in the form of branches in the insurance sector and in legal, accounting and other professions which can only be practiced by Egyptian natural persons. These exceptions and other restrictions are also present in a number of OECD and other adhering countries.

Maximum quotas for foreigners sitting on companies' boards of directors in certain sectors or as a percentage of employees can also discourage foreign investment. Remaining public monopolies in some sectors, such as fixed line telecommunications and electricity production and distribution, are important obstacles to market access as well. These barriers are captured in Egypt's list of "other measures reported for transparency" under the National Treatment instrument.

While registration procedures have been considerably simplified in large part due to the one-stop-shop facilities offered to enterprises, some licensing procedures remain lengthy and unduly complex. The temporary suspension of issuing licenses to investors, foreign and domestic alike, which at present appears to apply in banking (pending consolidation in the sector), travel agency services (pending passage of new regulations) and in selected sectors that are especially energy intensive (as part of government efforts to manage energy demand and supply) is another problem investors have frequently encountered which calls for rapid resolution.

Addressing these impediments to investment (including domestic investment) is an important part of the on-going reform agenda, which includes the continued progressive privatisation of state-owned enterprises, on-going support for the recently established competition authority, further improvements of the customs administration, effective enforcement of the intellectual property rights law, promoting public sector integrity and intensifying the fight against corruption.

With regard to the Guidelines for Multinational Enterprises which are an integral part of the OECD Declaration, Egypt will establish a National Contact Point (NCP) at the Ministry of Investment. The Egyptian NCP should be visible, accessible, transparent and accountable and serve to make the Guidelines better known to businesses, labour representatives, and other interested parts of Egyptian civil society. Egypt has already subscribed to most of the multilateral instruments underpinning the principles and standards embodied in the Guidelines.

As an adherent to the Declaration, the Egyptian government has also accepted the commitments under the International Investment Incentives & Disincentives instrument by which countries recognise the need to give due weight to the interest of other adhering countries affected by laws and practices in this field and endeavour to make measures as transparent as possible, and under the Conflicting Requirements instrument by which countries shall co-operate so as to avoid or minimise the imposition of conflicting requirements on multinational enterprises.

Recognising this need the Investment Committee initiated in 2007 a two-year programme working with non-members, partner organisations, donors and stakeholders, to further promote use of the PFI by assisting in developing a user methodology, including indicators of progress, and in institutional capacity building for the effective use of the PFI in light of different circumstances and needs. This project will lead to the creation of a web-based PFI User's Toolkit.

The *Toolkit* will provide guidelines that enable PFI users to:

- Identify the specific issues, policy and institutional practices which need to be scrutinised to answer each PFI question;
- Identify the criteria and indicators, both quantitative and qualitative that relate to each question, enabling an assessment of where a country/region is positioned relative to other countries/regions and of the relative strengths and weaknesses of a country's/region's investment climate and how fast progress is being made with the country/region; and

- Draw lessons from existing case studies which illustrate good practice, lessons learnt, and benefits achieved etc from the application of a principle(s) underpinning the PFI question.

It is also scheduled in the year ahead to produce derived thematic chapters from the PFI. These will cover, for instance, the specific issues associated with mobilising private investment in the energy sector. In related work, the OECD is developing policy guidance for participation by international investors in infrastructure projects, such as roads and airports. The guidelines build upon the PFI, and complement OECD work on aid-supported infrastructure and poverty reduction.

Working together to develop policy implementation capacity through peer-based dialogues

Building policy capacity is the second pillar of the *Investment for Development Initiative*. Peer learning approaches are used and supported by the adaptation and development of investment policy tools and instruments. The tools and instruments are designed together with our transition and developing country partners using a consensual approach and multi-stakeholder consultations, and tested through pilot assessments of volunteering countries. This ensures their applicability to individual region and country conditions as well as ownership by those using the tools.

In March 2007 a new tool was added to the capacity building apparatus: the *OECD Principles for Private Sector Participation in Infrastructure* (see box).[2] The *Principles* are intended to be used for government assessment, action plans and reporting, international co-operation and public-private dialogue, in conjunction with other investment instruments and tools, such as the Policy Framework for Investment, the OECD Guidelines for Multinational Enterprises and the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones. They also complement DAC policy guidance for donors promoting pro-poor growth in the infrastructure sector.

A first sectoral application of the *OECD Principles for Private Sector Participation in Infrastructure* is currently under way, with water and sanitation as the sector case in point. This work is part of a broader OECD project on Sustainable Financing to Ensure Affordable Access to Water and Sanitation. The practical guidance will help governments optimise their collaboration with the private sector for the development and better management of water and sanitation infrastructure. It is developed through reviews of some 30 developing and emerging country experiences and multi-stakeholder dialogues, notably regional roundtables.

OECD Principles for Private-Sector Participation in Infrastructure

The *OECD Principles for Private Sector Participation in Infrastructure* aim to help governments work with private sector partners to finance and bring to fruition infrastructure projects in areas of vital economic importance, such as transport, water, power supply and telecommunications. Specifically, they offer a coherent catalogue of policy directions to be assessed as a first step in the authorities' consideration of effective ways of involving the private sector in their infrastructure sectors, in light of their own national circumstances and needs.

The *Principles* cover five main issues: 1) deciding on public or private provision of infrastructure services; 2) establishing an enabling policy framework for investment; 3) enhancing the public's acceptance and the government's capacities to implement agreed policies; 4) making the co-operation between the public and private sectors work; and 5) communicating government's expectations about responsible business conduct to their private partners.

The principles are of applicability to foreign and domestic operators, and to the various forms private sector participation can take. They can be used as a template for country self-assessment at national and local government levels, an aid for progress reporting by public authorities, a tool for structuring regional and other inter-governmental co-operation and public-private dialogues. They may also be used by donors as a reference point, and complement donor guidance on pro-poor growth in the infrastructure area.

Implementation of capacity building is carried out through the regional and bilateral co-operation programmes, and mostly structured around the organisation of evidence-based policy dialogues on a specific topic or issue bearing on the investment climate. The geographic coverage of the co-operation programmes spans sub-Saharan Africa (NEPAD-OECD Initiative), Middle East and North Africa (MENA-OECD Programme), South East Europe (the Investment Compact), Russia, China, India and Vietnam. See **Chapter 3** for details on the regional initiatives and **Chapter 4** on the bilateral programmes of co-operation.

Capacity building highlights from these programmes over the past year include:

- Dialogues with China focussed on helping Chinese enterprises to better understand internationally recognised norms of business conduct, and sharing experience on FDI statistical methodology. More compatible and accurate statistics will enable China and its investment partners to understand clearly the pattern of China's inward and outward FDI flows, providing a sounder basis for analysis. (See **Chapter 4.1**.)

- MENA governments have developed National Investment Reform Agendas (NIRAs). The MENA-OECD Programme organised workshops in Egypt, Oman, Jordan, Morocco, Lebanon and the United Arab Emirates to review and support the implementation of the NIRA reform road maps in these countries. (See **Chapter 3.1**.)
- The NEPAD-OECD Africa Investment Initiative, Lusaka Roundtable in November drew on the *OECD Principles for Private Sector Participation in Infrastructure* to develop and test guidance which can be used in an African country context and tailored to the specificities of the water and sanitation sector. It also tested and vetted draft methodologies for applying the PFI in the context of the APRM process. (See **Chapter 3.2**.)
- The Investment Compact strengthened their activities aimed at supporting countries in the implementation of reforms and in assessing progress made. Four *How to Implement* Reports, covering investment promotion, regulatory reform, human capital and anti-corruption were published. (See **Chapter 3.3**.)

The methods and results from the *Investment for Development Initiative* are creating new demands at a high political level to deepen investment policy co-operation. At a wider level, the 2007 OECD Ministerial Meeting recognised the need to further expand the OECD's global reach, policy impact and relevance, and supported strengthening OECD's engagement with countries and regions of strategic interest to the Organisation. These countries include Brazil, India, China and South Africa. Countries of South East Asia were also regarded as having highly dynamic and influential economies and deserving further attention.

The Heiligendamm G8 Summit also gave recognition to the OECD co-operative work on investment and on investment for development and called for its continuation and financial support (see Box). Details on how the Organisation will respond to the work called for in the Heiligendamm Summit Declarations and the processes used have yet to be agreed by all the stakeholders concerned. Looking ahead though, a component of the reinforced co-operation programme and a part of the *Investment for Development Initiative* will be the first *OECD Investment Policy Review of India*, which is expected to be published in the second half of 2009.

Investment for development and the Heiligendamm G8 Summit

Freedom of Investment, Investment Environment and Social Responsibility was one of the key themes of the G8 Heiligendamm Summit of 6-8 June 2007. (Annex 1 reproduces the Summit Declaration relating to this theme.) The Declaration called for deeper co-operation and closer engagement with transition and developing country partners.

The work of the OECD Investment Committee, including outreach activities organised under the auspices of the *Investment for Development Initiative* received high recognition. The Summit Declaration called for continuation of the Committee's project on Freedom of Investment, National Security and "Strategic" Industries, additional non-member adherences to the OECD Declaration on International Investment and Multinational Enterprises, active use of the Policy Framework for Investment in developing countries and wider dissemination of the OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones.

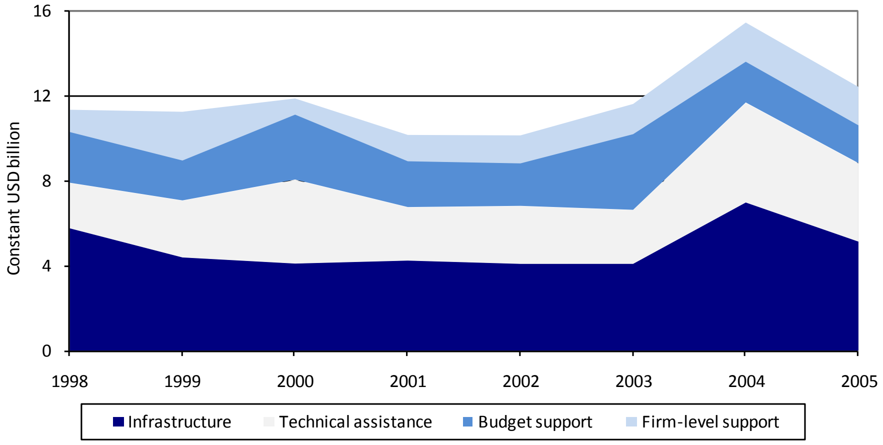
The G8 Summit Declaration of 8 June 2007 on Africa endorsed the NEPAD-OECD Africa Investment Initiative, stating "We will individually and collectively continue to support initiatives which address the investment climate, such as…the NEPAD-OECD Africa Investment Initiative".

Using ODA more effectively to mobilise investment for development

The third pillar of the *Investment for Development Initiative* draws lessons on the use of Official Development Assistance (ODA) in support of countries' efforts to create a sound investment environment in developing countries. In 2005, the Investment and Development Assistance Committees presented to the 2005 OECD Ministerial Meeting a joint report on the role of ODA to mobilise investment for development. The report pointed to the need for donors to be more strategic, better co-ordinated and guided by more systematic learning of what works and does not work to address binding constraints at national and sector levels that are holding back investment. DAC highlights the PFI as a tool that complements its guidance for identifying the obstacles that crimp investment.

During 2006 more specific policy guidance for donors was developed within the Development Assistance Committee (DAC) in consultation with a range of stakeholders including the Investment Committee. **Chapter 5** publishes newly compiled statistics on how ODA is being used to support investment-based private sector development programmes, by geographical area and by type of assistance. This shows how ODA aimed at bettering investment climates after having declined in the late 1990s has risen sharply since the beginning of this decade (see Figure).

Figure 1. DAC country ODA in support of bettering the investment climate



Source: OECD-DAC, Creditor Reporting System

For its part, the Investment Committee supports efforts to use ODA better to help developing countries improve their enabling environment, and to promote the observance of the OECD Guidelines for Multinational Enterprises thereby enhancing the positive contribution of responsible international business to development. For example, in November 2007 the NEPAD-OECD Africa Investment Initiative Lusaka Roundtable provided African countries advanced in the APRM – Africa's own peer review mechanism – an understanding of the principles and practices of ODA for investment climate reform. This has helped African countries to mobilise resources to support implementation of the National Programme of Action that result from the APRM process. The Lusaka roundtable also examined the role for donors in developing the uptake of financial risk mitigation mechanisms to help to attract private investment in the water and sanitation sector (see **Chapter 3.2**).

Notes

1. The text of the PFI can be downloaded from the OECD website at: www.oecd.org/daf/investment/pfi.
2. The *Principles* can be downloaded from the OECD website at: www.oecd.org/daf/investment/instruments.

Annex 1

Excerpt from G8 Summit Declaration on Freedom of Investment, Investment Environment and Social Responsibility*

G8 Summit **2007**
Heiligendamm

GROWTH AND RESPONSIBILITY IN THE WORLD ECONOMY

Summit Declaration (7 June 2007)

FREEDOM OF INVESTMENT, INVESTMENT ENVIRONMENT AND SOCIAL RESPONSIBILITY

9. We recognize that the increase of cross-border direct investment is a major factor shaping the world's economy. Provided appropriate framework conditions are in place, such inflows make a major positive contribution to economic growth, social and environmental development. We note four areas for action in order to maximize the benefits from cross-border investment:

- reinforcing our G8 commitment to the freedom of investment,
- promoting an open investment environment in industrialised countries and emerging economies,
- enabling greater benefits from and sustainability of foreign direct investments (FDI) for developing countries,
- promoting and strengthening corporate and other forms of social responsibility.

Freedom of investment

10. We will work together to strengthen open and transparent investment regimes and to fight against tendencies to restrict them. Erecting barriers

* The full text of the G8 Summit Declaration, as well as all other documentation relating to the summit can be accessed via the G8 website at www.g-8.de.

and supporting protectionism would result in a loss of prosperity. We therefore agree on the central role of free and open markets for the world economy, respecting sustainability concerns, and the need to maintain open markets to facilitate global capital movements. We reaffirm that freedom of investment is a crucial pillar of economic growth, prosperity and employment. We call on all developed countries, major emerging economies and others to critically assess their investment policies, the potential costs incurred from unnecessarily restrictive or arbitrary policies and the economic benefits of open investment regimes.

11. Against this background we remain committed to minimize any national restrictions on foreign investment. Such restrictions should apply to very limited cases which primarily concern national security. The general principles to be followed in such cases are non-discrimination, transparency and predictability. In any case, restrictive measures should not exceed the necessary scope, intensity and duration. Applicable treaties relating to investment remain unaffected. We encourage the OECD to continue its work on these issues, especially by identifying best practices and by further developing general principles. We will work with the OECD and other fora to develop further our common understanding of transparency principles for market-driven cross border investment of both private and state-owned enterprises.

The global investment environment

12. Emerging economies benefit considerably from inward FDI while acting increasingly as countries of origin of FDI. We see the need and the opportunity to work towards a level playing field for all investors. Companies from G8 countries investing in emerging economies expect to find the same open investment environment as companies from such countries investing in G8 countries. Openness to investment is beneficial for all parties involved.

13. We underscore that market-driven technology transfer is an important globalisation catalyst. Governments have a role in establishing and maintaining the appropriate institutions and legal regulatory policy frameworks necessary to enable technology flows on a commercial basis and assuring the respect of intellectual property rights.

14. Open and transparent procurement markets are an important precondition for cross-border investments. We invite all our partners, in particular the major emerging economies, to create a level playing field for national and foreign tenderers. This may include considerations to join the WTO's Government Procurement Agreement (GPA).

15. We call on the emerging economies to adopt the OECD Declaration on International Investment and Multinational Enterprises. We invite the major emerging economies to participate in a structured High Level

Dialogue on investment conditions in industrialised countries and emerging economies as part of the Heiligendamm Process. A stocktaking exercise, an examination of best practices and the implementation of peer review mechanisms to promote an open, efficient investment environment that aims to remove remaining barriers to investment should be a good start. We ask the OECD to provide a platform for such a dialogue.

Investment in developing countries

16. Unlike industrialized and emerging economies, many less advanced developing countries often reap only inadequate benefits from FDI. In shared responsibility with our developing country partners we want to enable quality FDI inflows to grow, inflows that help local infrastructure facilitate the operations of national and foreign investors that improve the skills of the local labour force and the advantages of transfers of management skills and technology that accrue from FDI increase, and that support the ability of domestic firms to supply inputs to foreign-invested companies or strengthen international value chains. Economic, social and environmental aspects of sustainability are crucial in order to maximize the FDI benefits for all developing countries, including least developed countries.

17. We support the regional and multilateral development banks (MDBs), including the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), in addressing the problem of poor business environments in their borrowing members and urge them to integrate efforts to address these impediments to investment in their country strategies and budgets.

18. We support the initiative of G8 Finance Ministers to foster the development of deeper, more liquid local bond markets in emerging economies. This can make an important contribution to reducing the vulnerability of individual countries to crises and to enhancing the financial stability of emerging countries as a whole.

19. We support the OECD Policy Framework for Investment and UNCTAD Investment Policy Reviews as valuable mechanisms in defining a shared understanding of healthy investment climates in emerging economies and developing countries. The OECD Policy Framework for Investment could be translated into national practices and development strategies, especially for countries under the New Partnership for African Development (NEPAD) and Asia Pacific Economic Cooperation (APEC) framework. We invite the OECD, UNCTAD and other organisations such as the World Bank to consider providing the necessary support for this purpose.

20. We invite UNCTAD and the OECD to jointly engage industrialized countries, emerging economies and developing countries in the development of best practices for creating an institutional environment conducive to increased foreign investment and sustainable development. Such a comprehensive process should be closely connected with the twelfth UN Conference on Trade and Development (UNCTAD XII) planned for 20th to 25th April 2008 in Accra (Ghana).

Investment and responsibility – the social dimension of globalization

21. Globalization and technological progress have resulted in rapid structural change in many regions and economic sectors. We acknowledge that structural change is the inevitable result of progress and that it brings dislocations along with opportunities. Open markets rest on political acceptance, social inclusion, gender equality and the integration of traditionally under-represented groups such as older workers, youth, immigrants and persons with disabilities. In order to address the social dimension of the globalisation process, we identify the four following areas of action.

22. Promoting and further developing social standards: We are convinced that a globalisation that is complemented with social progress will bring sustainable benefits to both industrial and developing countries. We recognize our responsibility for an active contribution towards this objective. Therefore, we support the International Labour Organization's (ILO) Decent Work Agenda with its four pillars of equal importance: the effective implementation of labour standards, especially the ILO core labour standards, the creation of more productive employment, further development of inclusive social protection systems and the support of social dialogue between the different stakeholders.

23. While stressing that labour standards should not be used for protectionist purposes, we invite the WTO members and interested international organizations, in close collaboration with the ILO, to promote the observance of internationally recognized core labour standards as reflected in the ILO declaration on Fundamental Principles and Rights and its follow-up. We also commit to promoting decent work and respect for the fundamental principles in the ILO Declaration in bilateral trade agreements and multilateral fora.

24. Strengthening the principles of Corporate Social Responsibility: In this respect, we commit ourselves to promote actively internationally agreed corporate social responsibility and labour standards (such as the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration), high environmental standards and better governance through OECD Guidelines' National Contact Points. We call on private

corporations and business organizations to adhere to the principles in the OECD Guidelines for Multinational Enterprises. We encourage the emerging economies as well as developing countries to associate themselves with the values and standards contained in these guidelines and we will invite major emerging economies to a High Level Dialogue on corporate social responsibility issues using the OECD as a platform.

25. We stress in particular the UN Global Compact as an important CSR initiative; we invite corporations from the G8 countries, emerging nations and developing countries to participate actively in the Global Compact and to support the worldwide dissemination of this initiative.

26. In order to strengthen the voluntary approach of CSR, we encourage the improvement of the transparency of private companies' performances with respect to CSR, and clarification of the numerous standards and principles issued in this area by many different public and private actors. We invite the companies listed on our Stock Markets to assess, in their annual reports, the way they comply with CSR standards and principles. We ask the OECD, in cooperation with the Global Compact and the ILO, to compile the most relevant CSR standards in order to give more visibility and more clarity to the various standards and principles.

27. Reinforcing Corporate Governance: Corporate governance is a key element in improving economic efficiency and growth as well as enhancing investor confidence. Good corporate governance provides proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and facilitates effective monitoring and surveillance. While corporate governance challenges are present everywhere, they are particularly acute in emerging economies. We encourage the widest adherence to the OECD Corporate Governance Principles and support the continuation of the work of the OECD / World Bank Regional Corporate Governance Roundtables.

28. Investing in social protection systems: Social protection is an investment in a country's economic future and a cost-effective way of fighting poverty. It includes appropriate protection against life's major risks and appropriate coverage for everyone, aiming at improved education and health. Social protection has the capacity to contribute to individual employability and to ensure that those who can work obtain adequate support to find employment and to obtain skills demanded by the labour market.

29. Social protection systems contain some universal elements and should be based on values such as social equity, fairness, and justice in order to promote equal opportunities and participation. We believe that social security systems require further development and extension of

coverage taking into account nations' abilities to provide such coverage given their varying states of economic growth and recognizing the fact that there can be no one size fits all model of social protection. We agree to keep this issue on our development policy agenda, encouraging relevant international organizations to work in close cooperation on this issue. We recognize that in conjunction with economic growth and active labour market policies, social security is an instrument for sustainable social and economic development.

