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**SURVEY OF ACTIVITIES OF INTERNATIONAL ORGANIZATIONS IN THE PROMOTION OF  
FOREIGN DIRECT INVESTMENT IN COUNTRIES WITH ECONOMIES IN TRANSITION**

**Note by the secretariat**

This document presents a brief survey of foreign direct investment promotion activities of international organizations in countries with economies in transition. The following organizations are covered: the World Bank, the Multilateral Investment Guarantee Agency, the Foreign Investment Advisory Service, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the European Bank for Reconstruction and Development, the World Trade Organization and the United Nations Commission on International Trade Law. The investment promotion activities of the various programmes of the European Union are also summarized. Finally, there is a short note on activities of the United Nations Economic Commission for Europe with the suggestion to organize a Forum on foreign direct investment promotion activities in Geneva in 2002.

**Introduction**

1. This document provides a brief overview of recent and future activities of major international organizations to promote foreign direct investment (FDI) in countries with economies in transition in the region covered by the United Nations Economic Commission for Europe (UN/ECE).

2. FDI is one of the essential components for the successful transition of countries in central and eastern Europe to a market-based economic system. In market economies, the investment activity of domestic firms usually drives growth. However, in the countries in economic transition, as well as in developing countries FDI makes a notable contribution to new capital

formation.<sup>1</sup> Foreign investors can assist central and eastern European countries in accelerating their transition toward market-based economies by producing new goods and services and by providing fresh capital, managerial expertise, new technologies and access to markets. These benefits support the efforts to modernize existing business and the start-up of new businesses which have greater potential for integration into the world economy. The less tangible effects of FDI include the entry of new ideas and business practices which improve the business performance of enterprises both on the national and international market.

3. Most countries with economies in transition have considerable investment potential. This is because most of countries in the region show positive rates of growth in their GDP<sup>2</sup> (and, hence, markets) and because there was little FDI prior to the start of the transition a decade ago. From the very beginning of the transition, the attraction of FDI became one of the main, stated policy goals of Governments in the region, even if the institutional environment for such investment was not yet fully in place.

4. Major problems in investment promotion include domestic political resistance to foreign ownership of a country's industrial assets. This is particularly strong in Russia and other CIS States, but also present in central Europe (e.g. Poland). Political and economic turmoil may also act as a deterrent to larger scale FDI in the region of transition countries (e.g. crises in the Balkans and Russia).

5. After a decade of economic and social transition, inflows of FDI are characterized by a very uneven distribution across the region. As expected, financing by the World Bank and other international organizations is increasingly complemented and even replaced by private flows from abroad in some of the central European countries. This is most obvious in the countries that have gone far in the transition process. These include the Czech Republic, Hungary, Poland, Slovakia, Estonia and Slovenia which have attracted the larger share of total FDI in the region. On the other hand, the Balkan countries and the Commonwealth of Independent States (CIS) have largely been unable to achieve a sustainable inflow of FDI. In particular, there has been relatively little success (measured by FDI per capita) in trying to bring foreign investors to Russia, which has huge investment potential due to the size of its internal market and to its abundant resource endowment.

6. Foreign investment can have a large, positive impact on the course of transition, as witnessed by the experience of central European countries that were able to attract significant outside capital. FDI proved to be a powerful vehicle for transfers of technology, best practices in business management and the organization of production, and, increasingly, for integrating domestic production into global networks of production and distribution. As a result of

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1 Readers interested in statistical indicators of the relative importance of FDI inflows in gross fixed capital formation in various countries are invited to consult World Investment Report 1999: Foreign Direct Investment and the Challenge of Development (UNCTAD, New York and Geneva, 1999), pages 168 and 501-512.

2 Economic Commission for Europe, Economic Survey of Europe, 1999, No. 3, (New York and Geneva, United Nations), p. 16.

equal access, case-by-case privatization, foreign investors ended up owning large stakes in key industries in certain central European countries (most notably, in Hungary and Estonia), and contributed to large increases in productivity and growth. To cite just one industry-specific example, large inflows of FDI helped revitalize the existing automobile sector in the Czech Republic and created what is now a thriving auto industry in Poland.

7. Within countries with economies in transition there is a large demand for policy advice relating to the institutional and regulatory framework for FDI. These countries often ask for assistance aimed at capacity building from investment promotion agencies. More specifically, the countries in the region need advice in developing strategies to attract FDI and attracting 'seed' investment in local/regional economies.

8. The current document presents the FDI promotion activities of the following international organisations: the World Bank, the World Bank's Multilateral Investment Guarantee Agency (MIGA), the Foreign Investment Advisory Service (FIAS) (a joint facility of the International Finance Corporation [IFC] and the World Bank), the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), the European Bank for Reconstruction and Development (EBRD), the World Trade Organization (WTO) and the United Nations Commission on International Trade Law (UNCITRAL). The investment promotion activities of the various EU programmes are also summarized. Finally, there is a note on the United Nations Economic Commission for Europe (UN/ECE). Annexed to the document is an address list of organizations surveyed with contact addresses and web sites that may be used for further reference.

#### I. THE WORLD BANK

9. The World Bank's range of FDI promotion activities in the region is limited by the existing division of labour within the World Bank Group. The World Bank coordinates its investment promotion activities closely with other international organizations. Above all, the World Bank works in permanent contact with other members of the World Bank Group (IFC, MIGA, FIAS) that include investment promotion as part of their mandate. Furthermore, the Bank's strategy regarding FDI benefits from regular consultations with other multilateral actors in the region such as the International Monetary Fund (IMF), the EBRD and others. The World Bank has also been an active participant in a number of international forums aimed at strengthening coordination of investment promotion activities in transition economies.

10. Since the early 1990s, the Bank has operated in 27 countries of Europe and central Asia. It does not generally provide loans that aim explicitly at promoting FDI. Instead of working directly with foreign investors, the Bank's main role has been to help create an institutional framework in the region favourable to the attraction of financial flows (including private FDI). The Bank's project and adjustment lending programmes often include conditionalities that serve to improve the investment climate in the region. Indirectly, the Bank has done a great deal to facilitate FDI in the region by pursuing the following goals with its adjustment and project lending packages:

- creating a stable macroeconomic environment

- liberalizing foreign exchange transactions
- liberalizing domestic markets and international trade
- rationalizing tax structures
- creating viable financial systems
- reforming the countries' legal systems (especially company law)

11. The World Bank's active support for privatization programmes in the region was especially instrumental in attracting the large flows of foreign capital. In particular, the Bank recommended case-by-case sales to strategic investors as a privatization method for many large industrial enterprises and infrastructure monopolies. As a rule, the foreigners could buy stakes in these companies on the same basis as domestic investors.

12. While most of the Bank's assistance in the field of FDI promotion is general and indirect in nature, a small number of the Bank's industry specific projects had as their direct goal the attraction of FDI. For instance, one of the stated objectives of the 1994 Kazakhstan Technical Assistance loan was to strengthen the capacity of the key petroleum subsection agencies to attract FDI into the industry.

13. Although the provision of loan guarantees remains MIGA's speciality, the Bank's Europe and central Asia regional programme does have a small guarantee programme of its own. Since its inception in 1995, the regional Guarantee Team has prepared around ten projects, involving two types of guarantees: Partial Risk Guarantee Facilities and Partial Risk Guarantees (<http://www.worldbank.org/ecspf/guarantees/>).

14. The World Bank Institute provides training in areas which include FDI promotion activities. The programme also covers technical assistance in revising/creating FDI-related laws (company law, commercial codes, etc).

15. The Bank actively disseminates information about investment opportunities in the region through its numerous publications and websites. PrivatizationLink, a joint project with MIGA which is described later in this report, represents the most active example of such an activity.

16. As a knowledge-based institution, the World Bank offers more than just a financial 'product'. The Bank's research activities have addressed numerous topics related to FDI promotion in transition economies. In addition to the FIAS's Occasional Paper series on foreign investment, the Bank published a number of Policy Research Working Papers analyzing foreign capital inflows to central and eastern Europe. Several country-specific publications addressed concrete applications of FDI in the region. Additionally, in 1995 the Bank conducted (in collaboration with the OECD) a comprehensive survey on the importance of environmental issues to western firms considering FDI in the region.

17. The World Bank's Articles of Agreement prohibit any lending to private enterprises unless it is supported by government guarantees for both interest and principal. Therefore, the Bank's programmes primarily deal with national Governments.

18. The World Bank plans to continue to facilitate and promote FDI in the region of central and eastern Europe. This will be done by providing financial

support and technical expertise for the creation of an investment-friendly environment. In particular, the Bank will continue to press for case-by-case equal access for FDI to privatization of large industrial enterprises and infrastructure. This may represent, according to the Bank, the major route for FDI to the countries with economies in transition. However, as countries of central Europe and the Baltics prepare for EU accession, the focus of the World Bank Group's investment promotion activities will increasingly shift eastwards, to the countries of the CIS which so far have had little success in attracting FDI. For the near future, activities to bring foreign capital to the post-war Balkans will also be one of the World Bank's priorities.

## II. MULTILATERAL INVESTMENT GUARANTEE AGENCY

19. MIGA was established in 1988 as a member organization of the World Bank Group. Its primary mandate is to encourage FDI flows into developing and member countries with economies in transition. This mandate is fulfilled by means of two primary instruments. MIGA provides:

- guarantees against non-commercial risks
- technical assistance to countries seeking to attract FDI

Thus, MIGA's assistance operates at both the project-specific level in developing FDI and at the country-level strategies for its attraction and retention FDI.

20. MIGA's guarantees against non-commercial risks are provided to foreign private investors for projects in developing and transition economy member countries. Risks covered include currency-transfer restriction, expropriation, damages due to war and civil disturbance, as well as breach of contract.

21. MIGA's advisory services and technical assistance focus on:

- dissemination of information on investment conditions and opportunities
- support of catalytic events that foster FDI
- capacity building for investment promotion organizations.

22. In the field of information dissemination, MIGA developed IPAnet ([www.ipanet.net](http://www.ipanet.net)), an online information clearinghouse for the business community interested in FDI. IPAnet is designed to provide easy desktop access to investment opportunities, sources of finance, laws and regulations governing FDI and lists of key players in international investment. In June 1998, MIGA launched PrivatizationLink ([www.privatizationlink.com](http://www.privatizationlink.com)), a joint effort of MIGA and the Private and Financial Sector Unit of the World Bank. PrivatizationLink is an Internet-based marketing and information service disseminating information on investment opportunities arising from privatization in countries with economies in transition. It is a specialized service within IPAnet, which publishes information on State-owned enterprises that are in the process of privatization in transitional economies, as well as information on relevant laws, procedures and regulations governing these transactions.

23. In supporting catalytic events that foster investment, MIGA organizes single-sector multi-country conferences or investment missions that bring together investors and those seeking investment. Two sectors that have been particularly amenable to this multi-country approach are mining and tourism.

24. In the area of advisory services and technical assistance, MIGA provides advice on how to formulate and implement investment promotion strategies, as well as how to strengthen institutions in terms of structure, activities and staff. MIGA also provides capacity building for the management and staff of investment promotion agencies, focusing on areas such as image building, research on potential investment targets, investment-led generation, investor servicing, including aftercare. MIGA's role in this regard is global. The development of a new tool, the "Assessment Framework", in 1999, served to sharpen "needs assessment" work with client agencies, providing the foundation for development of client-specific recommendations and assistance. MIGA also offers advice on specialized management information system software that will assist clients in tracking investment leads and managing client relations.

25. The major recipient of MIGA's assistance is the private sector, especially in countries such as Armenia, Azerbaijan, Bulgaria, the Czech Republic, Georgia, Kazakhstan, Kyrgyzstan, Poland, the Republic of Moldova, Romania, the Russian Federation and Turkmenistan. MIGA is working jointly with other international organizations in several regional training programmes for central and eastern Europe such as with the OECD Center for Private Sector Development in Istanbul and the World Bank Institute.

### III. FOREIGN INVESTMENT ADVISORY SERVICE

26. IFC and MIGA bear the prime responsibility for the promotion of FDI in client countries. In addition, the Foreign Investment Advisory Service (FIAS), which is a joint facility of the World Bank and the IFC, has a mandate to provide advice to Governments that wish to attract FDI, improve the quality of such investments and gain more economic benefits from such capital inflows. Since the start of the transition in central and eastern Europe, FIAS has advised 22 countries in the region on the aspects of reform related to FDI.

27. In central and eastern Europe FIAS has provided short-term advisory services on FDI policies, legislation, corporate tax incentives, business regulations, administrative barriers to investment, investment promotion agencies (institution building), the development of appropriate investment promotion strategies, assistance in development of FDI statistics and programmes to improve supply links between transnational corporations and domestic industries.

28. The intended primary impact of FIAS's advice is to improve the policy, legal, regulatory and tax environment. The goal is to attract a larger amount of and more beneficially structured FDI which, in turn, is expected to increase employment, value-added, and exports due to the resulting injections into the economy of new capital, new technology, improved links with the global economy and improved management skills. FIAS is not directly involved in investment promotion and therefore does not claim to be responsible for specific investments. However, it has advised Governments in countries that have been successful in attracting FDI (relative to GDP), including Estonia,

Hungary, Poland, the Czech Republic and Latvia.

29. FIAS has operated in all the eastern European countries in transition, except Albania and Azerbaijan, where it expects to carry out a diagnostic review of the overall environment for FDI. Currently FIAS is active in Armenia, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, the Republic of Moldova, Romania, Russia, Slovakia, Slovenia and the Former Yugoslav Republic of Macedonia.

30. Depending on requests from Governments, FIAS expects to work in all the central and eastern European transition countries over the coming three years. FIAS works closely with Governments at the national and the sub-national level. There is also coordination of FDI promotion activities with other international organizations such as the World Bank, IFC, IMF, OECD, UNDP and many bilateral development agencies.

31. In addition to country-specific work (the reports of which are confidential for the client and not open to distribution without the client's permission), FIAS publishes a series of occasional papers on topics such as facilitating FDI, investment incentives, attracting high-tech investment, FDI in infrastructure and related subjects. FIAS also sometimes hosts or participates in conferences on FDI in the region.

#### IV. ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

32. The OECD's FDI promotion activities in the transition countries are linked primarily with analyses of the barriers to FDI, facilitation of dialogue between policy makers and private sector representatives, and attempts to support investment promotion agencies and to strengthen their capacity.

33. The assistance that the OECD provides is general. The objective is to improve the policy environment for FDI. The organization coordinates workshops and conferences, prepares FDI guides on best practice, and disseminates information.

34. The OECD especially intends to transfer to transition economies the experience and expertise gained in the past. An important activity supporting this objective is the dissemination of information which leads to an improved capacity on the part of policy makers. Hence, the main direct beneficiaries of OECD assistance are Governments.

35. Some notable OECD investment promotion activities in the past have included the Investment Policy Review for Mongolia and Turkmenistan. Both reviews are to be published in spring 2000. At about the same time, an OECD manual for Investment Promotion Agencies will be published.

36. Major problems the OECD has had to deal with included a lack of resources and an inadequate understanding of links between investment promotion and investment policy in many of the countries receiving the assistance.

37. Major transition economy recipients of the OECD assistance are Latvia,

Lithuania and Estonia and the countries of south-east Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, The former Yugoslav Republic of Macedonia and Romania).

38. The OECD coordinates its investment promotion activities with other international and bilateral organizations such as the EBRD, MIGA and USAID.

39. In the future, the OECD intends to strengthen the dialogue with the private sector in the policy making process. In addition, the development of policies and strategies to 'embed' FDI in the local and regional economies is also on the agenda.

#### V. UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

40. The activities of United Nations Conference on Trade and Development (UNCTAD) in the countries with economies in transition are linked with demand for downstream FDI promotion activities. Its activities include the promotion of projects and the organization of conferences on FDI. UNCTAD believes that there is an absolute need to strengthen the enabling policy framework for FDI (upstream activities) in the region.

41. The main field of UNCTAD activities in FDI promotion is the exchange of information. Its major achievement in this area was the construction of an information network through the World Association of Investment Promotion Agencies (WAIPA). This network has been established in 104 countries under the auspices of UNCTAD. The association is a non-profit organization open to all agencies whose prime function is to promote any country or territory for FDI. The objectives of the WAIPA are:

- to promote and develop understanding and cooperation among the investment promotion agencies (IPAs)
- to strengthen information exchange among IPAs
- to share country and regional experience in attracting FDI
- to assist IPAs in gaining access to technical assistance and training
- to facilitate access to funding and other assistance
- to assist IPAs in advising their Governments in the formulation of appropriate FDI promotion policies and strategies

42. The WAIPA programme includes workshops and conferences. It also keeps an Internet discussion forum, and publishes newsletters, an annual report and a directory of members. UNCTAD collaborates with other international organizations, such as FIAS, OECD, MIGA and UNIDO in a consultative committee, which advises WAIPA on support programmes for member agencies.

43. UNCTAD also provides a general type of assistance for its member States. This includes consulting, workshops and conferences, FDI guides, dissemination of information and investment policy reviews. The intention is to strengthen the national capacity to attract FDI. The main direct recipients of UNCTAD's assistance are Governments. This is most obvious in countries with economies in transition, such as Azerbaijan, Belarus, Georgia, Russia and Uzbekistan. One obstacle UNCTAD has had to overcome in its FDI work is the lack of funds



for technical assistance. UNCTAD X reinforced priority of least-developed countries for the organization, but if resources permit, UNCTAD plans to extend its advisory service in the region of the transition economies.

## VI. EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

44. The European Bank for Reconstruction and Development (EBRD) was established in 1991. It exists to encourage and direct the transition process toward open, market-oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe and the CIS. In the attainment of its mandate the EBRD promotes private sector investment through a variety of debt instruments, as well as through direct equity contributions.

45. The promotion of FDI plays a very important role in the EBRD's strategic approach to the transition process. The Bank is the single largest investor in the region of central and eastern Europe and the former Soviet Union.

46. The core activity of the EBRD is the financing of projects that advance the transition process towards a market-based economic system. The EBRD focuses on building financial sectors that serve the needs of the business community, in particular small and medium-sized enterprises (SMEs). Special attention is being paid to competition, decentralization and variety in the provision of services.

47. The EBRD helps to support the necessary financial institutions by investing in them, by developing skills and by promoting sound business practices. Financial sector operations constitute the largest sector for Bank financing, representing almost a third of the total value of EBRD operations. The EBRD pays particular attention to promoting start-up businesses and the growth of SMEs. The Bank aims to provide SME support in all countries where it operates, to strengthen the financial sector infrastructure dedicated to financing growth of SMEs, in particular start-ups, and to improve the business environment for SMEs. While the EBRD works primarily through financial intermediaries, support for SMEs is and will be an important consideration across all of the Bank's activities.

48. Another major activity of the EBRD is linked with infrastructure. The Bank seeks to promote entrepreneurship, to strengthen the institutional and regulatory framework, to expand the range of financing sources, and to encourage private sector involvement in infrastructure projects.

49. In addition, the EBRD seeks to support the restructuring of potentially viable large enterprises and to develop a sound investment climate based on an effective legal and regulatory framework, sound corporate governance, limits to bureaucratic interference, a firm stance against corrupt practices, fair and predictable taxation, and transparent accounting. The Bank will also continue its active approach to equity investments.

50. Last, but not least, the EBRD promotes FDI through the dissemination of detailed information on the countries of the region, through its Transition Report, two specific journals and participation in public seminars.

51. The main focus of the EBRD's activities is the private sector. One requirement in the agreement establishing the Bank is that projects in the public sector should not exceed 40 per cent of the Bank's total investments. The majority of the EBRD's partners in private sector investments are foreign strategic investors. Their contribution is invaluable in terms of introducing new technologies, management practices and marketing skills, as well as providing access to an international network of customers.

52. Apart from offering financing to foreign investors, the EBRD also facilitates FDI in a variety of other ways. It acts as a mediator between foreign investors and domestic parties, such as central and local governments. This partnership is complemented by technical assistance to regulators, financed with grant contributions from donors. The EBRD legal transition team also provides detailed advice and recommendations on the design of commercial law.

53. Even if the focus is on the private sector the EBRD also engages in policy dialogue with governments across the region to promote a better climate for domestic and FDI. The Bank is an active member in several national foreign investors' councils, which provide a discussion forum for investors to propose new ideas and to present complaints regarding FDI operations.

54. The major problems the EBRD has had to deal with are also substantive obstacles to the growth of SMEs and include: anti-competitive practices and corruption, followed by taxes and unnecessary or excessive regulations.

55. Priorities for the EBRD in the next decade include: to encourage competition policy that focuses on reducing barriers to business start-ups; and to introduce measures to combat corruption and crime.

56. The EBRD co-ordinates its investment promotion activities with other international organizations. International financial institutions play an important role in the EBRD's cofinancing activities. The Bank has particularly close contact with the European Investment Bank (EIB), IFC, Islamic Development Bank, World Bank and World Bank's Trust Fund for Bosnia and Herzegovina. The European Commission is one of the EBRD's shareholders. Coinvestment is the main area of direct cooperation between the EBRD and the European Commission.

## VII. WORLD TRADE ORGANIZATION

57. While all the international organizations mentioned in this document have operational activities specifically focused on the promotion of FDI, the World Trade Organization (WTO), is more a forum for the enforcement of legally binding rules and an institution for further negotiations to expand those rules. Consequently, the WTO does not undertake technical assistance and advisory activities regarding FDI. Nevertheless, it should be noted that the WTO agreements include provisions regarding FDI, notably in the agreements on trade in services (GATS), intellectual property rights (TRIPS) and trade-related investment measures (TRIMs). Consequently, membership of the WTO does influence the FDI climate in a country. In this regard, it may be noted that many countries with economies in transition are currently negotiating the terms of their accession to the WTO.

58. A Working Group on the Relationship between Trade and Investment was established at the WTO's first Ministerial Conference held in December 1996. The mandate of the Working Group provides for analytical work on a range of issues pertaining to the relationship between FDI and the multilateral trading system. More recently, proposals have been made for the launch of negotiations in the WTO aimed at establishing a multilateral framework of rules on FDI.

#### VIII. UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW

59. The United Nations Commission on International Trade Law (UNCITRAL) is a subsidiary body of the General Assembly of the United Nations which was established in 1966 with the general mandate to further the progressive harmonization and unification of the law on international trade. UNCITRAL has since prepared a wide range of conventions, model laws and other instruments dealing with the substantive law that governs trade transactions or other aspects of business law which have an impact on international trade and investment.

60. Of particular relevance for FDI is the legislative guide on privately financed infrastructure projects which is currently being prepared by UNCITRAL. The guide will provide legislative advice to States interested in promoting private investment in infrastructure and is intended to be used as a reference by national authorities and legislative bodies when preparing new laws or reviewing the adequacy of existing laws and regulations. For that purpose, the guide will help identify areas of law that are typically most relevant to private capital investment in public infrastructure projects and will consider the content of those laws which would be conducive to attracting private capital, domestic and foreign. Other relevant legal instruments intend to provide a favourable legal framework for the settlement of commercial disputes (UNCITRAL Model Law on International Commercial Arbitration) or to be used by private parties in the conduct of dispute settlement proceedings arising out of their commercial relationship (UNCITRAL Arbitration Rules, UNCITRAL Conciliation Rules, UNCITRAL Notes on Organizing Arbitral Proceedings); to modernize the domestic government procurement regime (UNCITRAL Model Law on Procurement of Goods, Construction and Services); or to facilitate the use of modern means of communication in business transactions (UNCITRAL Model Law on Electronic Commerce).

#### IX. EUROPEAN UNION

61. The European Union (EU) is by far the principal source of FDI in the central and eastern Europe. The main recipients of EU assistance are States in the process of accession: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (hereafter referred to as the "accession countries"). The EU is fully aware of the importance of FDI in the transition and accession processes and consequently supports FDI in a number of ways.

62. In the region of central and eastern Europe, EU Member States sponsor many initiatives involving a range of different policy instruments. This includes bilateral agreements on promoting FDI and measures to eliminate double taxation.

63. The EU has helped to create and activate FDI promotion offices in the countries in the region of central and eastern Europe. In view of the lack of experience in these countries regarding setting goals and identifying target industries to attract FDI, the EU has provided assistance in setting up these strategies and operational policies.

64. The European Commission endeavours to coordinate its FDI promotion activities with other bilateral or multilateral donors and investors. In this regard, the Commission signed a Memorandum of Understanding in 1998 with the World Bank and the EBRD. The European Investment Bank (EIB) is also a cooperating party to the Memorandum. The investments required by accession countries in central and eastern Europe to assimilate the body of existing Community law (acquis communautaire) will be sizeable. The pre-accession process will act as a real catalyst to mobilise funds from various international financial institutions. This is the rationale behind the agreement designed by the European Commission with the EBRD and the World Bank aimed at strengthening cooperation and facilitating co-financing.

65. In order to become a member of the EU, a potential candidate country has to fulfil the three "Copenhagen criteria" by having:

- a democratic Government which observes the rule of law and protects minorities
- a functioning market economy
- the ability to withstand the competitive pressures of membership of the EU

There is an additional criterion. The candidate country's public administration has to be capable of implementing and enforcing EU legislation, i.e. the acquis communautaire.

66. The current EU priorities for funding in the accession countries are to improve investment in infrastructure (70 per cent of funds, principally in the areas of transport, environment and industrial modernization) and institution-building (30 per cent of funds) to improve public, semi-public and regional administration. The PHARE Programme has provided assistance of around 1 billion per year and studies have shown that every euro attracts between 5 and 8 of further investment, whether from other official sources or in private investment.

67. The major recipients of the European Commission's assistance are Governments but it is often in the form of funds which are on-lent (i.e. lent by Government agencies) to the private sector.

a. The PHARE Programme

68. The PHARE Programme was introduced in 1989. It is the EU's financial instrument devised to support the countries in the region of central and

eastern Europe in their current transition process. It is also aimed at assisting FDI from the EU. A large part of the Programme's fund is used for technical assistance, to strengthen democracy and to help with the implementation of transition policies (support of institutional reform).

69. In recent years, the focus of assistance has shifted particularly toward legislative and administrative measures aimed at getting a market economy up and operating, as well as promoting FDI. Most of the PHARE funds to date have been directed towards the support of infrastructure and the private sector.

70. The PHARE Programme offers assistance to all acceding countries. It does not distinguish between the "Luxembourg group" candidates (Czech Republic, Estonia, Hungary, Poland and Slovenia) and the "Helsinki group" candidates (Bulgaria, Latvia, Lithuania, Romania and Slovakia).<sup>3</sup> EU pre-accession assistance includes three instruments from the year 2000 with the following annual budgets: PHARE 1.56 billion; the environmental and infrastructure facility (Ispa) 1.04 billion; and the agriculture and rural development facility (Sapard) 0.52 billion.

71. In relation to the development of the private sector in accession countries, the PHARE Programme supports the creation of an enabling environment for enterprise development through projects in business areas such as: privatization and the restructuring of enterprises; regional and SME development; export development and FDI promotion; banking and finance; information technology and transport.

72. Support from the PHARE Programme has been channelled towards the EU enlargement process, with special emphasis on the development of institutional capacity building and investments aimed at facilitating the integration of the acquis communautaire. The current major goal of the Programme is to prepare the acceding countries for full EU membership. The Programme has provided over 300 million for the development of SMEs.

73. The effectiveness of this Programme is scheduled to be increased by recent developments in its management methods, including:

- a focus on projects that are priorities for the implementation of the acquis communautaire as scheduled in the accession partnership
- having a more effective spending policy
- turning attention to larger projects
- decentralizing management and shifting it towards the beneficiary countries

Examples of successful efforts promoted by the PHARE Programme, are the creation of or support to FDI promotion agencies such as Czechinvest, the Romanian FDI promotion agency; and the Ostrava Regional Development Fund which has introduced the Czech Republic to the concept of regional development planning and which is attracting FDI to high-tech SMEs in the region.

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3 PHARE also allocated certain funds in 1999 to non-candidate countries such as Albania ( 101.5 million) and the Former Yugoslav Republic of Macedonia ( 7 million).

b. The TACIS Programme

74. The TACIS Programme is one of the key instruments of the EU for developing cooperation with the CIS. The Programme helps the region to move towards democracy and to develop capacity to operate in an international market economy environment. The recipients of EU assistance from this Programme are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Republic of Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

75. Recently, the EU has developed a new framework for relations with these countries, known as Partnership and Cooperation Agreements (PCAs). Each PCA establishes a strong political economic partnership between the EU and the partner country.

76. Another major development with implications for the TACIS Programme was the formal launch of the new round of EU enlargement process toward the east. With relation to FDI, this may create future changes in trading and investment patterns.

c. Example: Russia

77. In the Russian Federation the TACIS Programme is mainly concentrating on improving the FDI climate through the drafting of legislation (tax reform, insurance, accounting, bankruptcy, auditing, anti-monopoly policy), transfer of know-how (through consulting) and training. Conferences and workshops are also being organized. The Programme is focused on public institutions, as well as private companies which are assisted through a network of Enterprise Support Centers as well as SME development agencies. Assistance is also provided to large and medium-sized enterprises through a restructuring facility and an industrial cooperation initiative. The goal is to assist companies to restructure and modernize their management and to promote direct contacts between industries. The industrial round tables, organized with EU support serve as complements to the above approach. There is also a project to support the FDI promotion efforts of the Russian Foreign Promotion Centers.

78. The TACIS Programme rather than undertake investment directly gives technical assistance grants. There is still much scope for further assistance; in particular, there is an urgent need to develop and to ensure effective implementation of the new legal framework to improve the investment climate and raise investors' confidence.

X. UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

79. The United Nations Economic Commission for Europe (UN/ECE) as a regional economic commission has a special obligation to its 55 member States. One of the principal tasks of the UN/ECE is to assist in the integration of central and eastern European countries and the CIS into the wider European and international economy. UN/ECE work regarding trade and investment promotion is directly linked to this goal.

80. Almost all the international organizations reviewed in this document are global in their scope. In view of limited resources, most of them allocate

priority to the needs of the developing countries, especially the least developed countries. While their programmes for countries with economies in transition are important, their primary focus is generally elsewhere. The UN/ECE has a unique role to monitor the interests of the region and to develop programmes specifically targeted to its members' needs. The UN/ECE activities regarding FDI promotion are severely limited by the small resource base, but through careful focusing, the UN/ECE can significantly add value for the benefit of its member States.

81. In response to the mandate of its member Governments, the UN/ECE has worked in the area of FDI promotion for many years. The objective of its work is to improve the performance of countries with economies in transition in attracting FDI.

82. Through the activities of its Working Party on International Commercial and Legal Practice, UN/ECE has developed conventions, guidelines and regulations dealing with FDI. Because of its unique position, the UN/ECE organized, in 1997 together with FIAS, a Forum on the Prospects for Promoting Foreign Direct Investments in the Transition Economies. International and regional organizations active in promoting FDI in countries with economies in transition, the national investment promotion agencies from the region, as well as a number of representatives from the private sector participated in the Forum. This event, the first of its kind, identified benchmarks of best practices in investment promotion and contributed to the establishment and strengthening of the network among the participants. In addition, the UN/ECE is a member of the World Bank's Global Corporate Governance Forum where it exchanges views and experiences with other participants.

83. Problems of trade finance in transition economies have been one of the priorities of the Committee for Trade, Industry and Enterprise Development in recent years. The secretariat has prepared analytical reports on the subject and organized meetings bringing together representatives of the private sector, Governments and international organizations. At its third session held in June 1999, the Committee wrote in its work programme for 1999-2001 that its activities shall contribute to improving the ability of enterprises in the region to develop their trade finance capacities in support of investment and trade.

84. In the area of trade finance the secretariat collaborates closely with the private sector. Currently the UN/ECE is preparing a seminar on "Eliminating Obstacles to Efficient Trade Finance in Transition Economies: Practical Aspects" to be held on May 2000 in Riga. This event organized in collaboration with the Riga-based Baltic Transit Bank aims at bringing together companies from transition and developed market economies on the one hand, and government officials dealing with trade finance and promotion, on the other. It is hoped that the seminar will work out practical solutions to the existing trade finance problems, including new schemes for export finance; and develop some recommendations for governmental bodies concerned.

85. The UN/ECE has recognized expertise in enterprise development, especially in the areas of enhancing FDI, creation of enterprises, improvement in their competitiveness and the restructuring of industrial sectors. In recent years, attention has been focussed on helping member countries, particularly countries with economies in transition, to establish a clear, predictable and supportive environment for industrial and enterprise activities, as well as on integrating them into the European and global

economy. The concrete activities of the UN/ECE aim at the establishment of an enabling business environment conducive to FDI and growth of the private sector. This is done through the dissemination of best practice in enterprise development and guidelines on business development instruments (such as business incubators, technopoles and science parks).

86. The UN/ECE member States with economies in transition have a strong interest in attracting investment in the high technology industries associated with the information revolution and the Internet. One of the major barriers to achieving this goal is the increasing incidence of copying and piracy. Illegal copying discourages investment in two ways. Domestic companies have less revenue on which to build their business. Foreign companies will not invest where their rights are not properly secured. To tackle this problem, the Working Party on International Commercial and Legal Practice has established an Advisory Group on the protection of intellectual property rights for investment. The newly established Group, consisting of government experts and representatives of industries affected by weak enforcement, consults with policy makers on practical ways, training etc. to improve enforcement in individual countries. It also encourages local firms to make better use of their own intellectual property and thus to make them more attractive to investors.

87. The project "Capacity Building to Improve Trade Finance and Investment Prospects for the Russian Timber Sector" aims at improving the ability of participating enterprises to obtain trade finance and to attract FDI. The longer term objective is to improve the trade performance of the Russian forest sector by contributing specific trade facilitation, export finance and FDI components.

88. The project consists of the following activities:

- sustainable management practices for the Russian timber industry enterprises
- improved trade procedures in the timber industry
- innovative trade finance techniques
- capacity building for improved foreign investment
- timber port operations

Private sector and government organizations from the Russian Federation and abroad participate actively in the project. The latest developments in the project include a "Workshop on Sustainable Development and Certification in the Russian Forest Sector" held in St. Petersburg in December 1999 and a "Forum on timber port logistics" held in Rotterdam February 2000. The project activities currently focus on sustainable development, timber port cooperation and the development of biomass.

89. The UN/ECE has initiated several programmes to stimulate FDI in particular sectors of the economy, notably in energy, through its Gas Centre, in infrastructure, through the Build-Operate-Transfer Advisory group (EBRD is a member) and in Real Estate, through the Real Estate Advisory Group. All these groups and programmes undertake consultative meetings with interested Governments and international organizations, provide help and assistance in attracting FDI to these sectors and directly involve representatives of the



private sector. Many leading companies are actively participating in these advisory groups.

90. The technical cooperation programme "Promotion and Development of a Market-based Gas Industry in Economies in Transition - Gas Centre" was created in 1994 in response to the needs of transition countries for an efficient transfer of market-based natural gas policy and knowledge. The Centre is supported by over 30 institutions, mainly the major oil and gas companies operating in western and eastern Europe and North America. The Gas Centre provides assistance to Governments and gas industries in transition economies to facilitate the implementation of market-based policies, practices and principles. It acts as a focal point for the exchange of know-how, information and experience among companies, institutions and individuals from UN/ECE member States. It promotes cooperation and greater convergence and harmonization of norms and practices among participating companies and Governments. One of the ways to transfer knowledge is through a programme of seminars and conferences focusing on gas industry policy issues, reform and restructuring, legal and regulatory measures, contracting, financial aspects and FDI in transition countries.

## XI. CONCLUSION

91. Countries with economies in transition still have an enormous need for policy advice and technical assistance in order to (a) improve the national and regional environments for investment, including FDI, and (b) attract FDI, in particular to the least developed areas of the region. Even though many international organizations provide similar types of assistance in the fields of institution building, the creation of a favourable environment for FDI (laws and regulations, information, stable macroeconomic and political situation, growing markets), training and data collection, they cooperate to avoid duplication of work. Even though there are financial limitations by the donors and sometimes political obstacles in the recipient countries for the promotion of FDI in the region, all international organizations plan to continue their activities in this field in the future.

92. There are limits to the possibilities of investment promotion and assistance by international institutions. The FDI needs of the countries with economies in transition are too great for them to rely exclusively on international institutions' bilateral aid, the EIB and loans from international financial institutions. Action by private investors is crucial in this respect. A new opportunity for FDI in the region is in the field of environment (ecology), in particular in the countries that are negotiation full membership with the EU. However, the private sector needs to find an attractive business environment in the region. The UN/ECE and other international organizations are, within their mandate and disposable resources, doing their best to improve the 'playing field' for the attraction of FDI on the institutional side. As for the macroeconomic stability and economic growth (expansion of markets, one of the crucial elements for FDI) the task largely remains in the hands of national Governments and their astute economic policies.

93. The Committee for Trade, Industry and Enterprise Development is invited to note the contents of this report.

94. The Committee may wish to consider planning for a future forum on the promotion of FDI in the UN/ECE region in for insurance 2002. This could be associated either with the Committee session or with the session of the Working Party on International Commercial and Legal Practice.

Annex

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