

**COMMUNICATION FROM THE EUROPEAN COMMUNITY
AND ITS MEMBER STATES**

The following communication, dated 6 June 2003, has been received from the Permanent Delegation of the European Commission.

**OVERVIEW OF TECHNICAL ASSISTANCE AND
CAPACITY BUILDING ACTIVITIES RELATED TO FDI**

I. INTRODUCTION

1. The European Union recognises the case for a multilateral framework in order to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly foreign direct investment. We also recognise the need for enhanced technical assistance and capacity building in this area. This paper aims to give a broad overview of the current and planned technical assistance and capacity building activities related to FDI, that the EU¹ is funding in developing countries.

II. BACKGROUND

2. The main aim of an investment for development framework would be to encourage and facilitate world-wide FDI flows, particularly to and from developing countries, and to contribute to the expansion of a more balanced pattern of trade flows. Trade and FDI go hand in hand. Two thirds of international trade flows are generated by FDI, and most FDI deterrents also have a negative impact on the export capacity of the countries in which they occur.

3. According to the economic literature, FDI flows and the capacity of host countries to fully benefit from FDI, depend on several factors such as: political and macroeconomic stability, level of infrastructure, size of markets, stable and transparent legal and policy frameworks, business environment, education and skills, and effectiveness of institutions. A multilateral framework would be crucial in improving the level of transparency as well as in increasing the predictability and security of the rules that apply in each Member country.² Thus, at least one of the determinants of FDI,

¹ The annexes only include figures on the EC Programmes and do not include TA/CB activities carried out individually by each Member State.

² Transparency and non-discrimination are widely acknowledged as important principles for FDI. Most governments have incorporated the 2 principles in their domestic laws and regulations. Moreover, many countries seem to recognise the case for international rules on investment, as shown by the 2,100+ existing Bilateral Investment Treaties (BITS) which usually include basic principles of non-discrimination and

namely stability and transparency of legal and policy frameworks, could be greatly enhanced by closer multilateral co-operation.³

4. At the same time we are aware that, in order to significantly foster investments in developing countries, particularly in those that have been marginalized by FDI so far, it is also important to improve the determinants of FDI through other means. Most of the efforts need to be done primarily by each host country. Developed countries have an important role to play in supporting the efforts carried out by developing countries.

5. The European Union and its Member States, taken together, is the biggest donor of development aid in the world. An important share of this assistance is directed to projects which, directly or indirectly, help developing countries to attract more FDI and to benefit from it. This might be done, for instance, by channelling funds towards private sector support, or towards investment promotion programmes such as the Asia-Invest Programme. Apart from this, other projects aim at improving important components of the enabling environment of FDI such as infrastructure, macroeconomic stability, legal frameworks, regional co-operation to extend the market size or human resource development.

6. The tables in the annex summarise the funds allocated through EC programmes to technical assistance and capacity building in the areas of infrastructure, macroeconomic stability, legal and policy frameworks, private sector support, human resources and institution building⁴. We have put together the beneficiaries in six regions or group of countries: ACP countries, Asia, West Balkans, Latin America, Southern Mediterranean / Middle East and Eastern Europe / Central Asia. The tables indicate the funds allocated for ongoing and programmed projects. All programmes and projects respond to specific demands from the beneficiary countries and are agreed with them since the programming stage.

7. The tables show, for instance for the ACP group, that the funding for TA/CB activities between 1996 and today, €3.5 billion, represents around 11% of the total FDI flows from the EU to ACP in the same period. In other geographic areas such as Latin America, where the TA/CB needs are different and FDI inflows have been growing significantly, the funding has been €75 million between 1991 and today, representing less than 0.5% of EU FDI flows to the region between 1996 and 2001. The CIS countries received €64 million and the West Balkans €43 million between 2000 and 2002, the

investment protection. European investors (see survey presented in the WGTI in 2000) have identified several problems that affect their FDI in developing countries, such as transparency and predictability of rules, that could be improved by international rules.

³ It has been noted that a multilateral framework would : 1) provide greater credibility to the policies of host countries, and reduce the risk associated with FDI; 2) reduce transaction costs that exist today due to the variety of existing FDI rules; 3) ensure enforcement of FDI rules through the WTO DS mechanism; 4) provide an incentive for countries to improve their FDI environment, rather than remaining hostage to domestic vested interests. See, among others, Sanna-Randaccio, *Why we need a MAID (a MAI for Development)*, Workshop paper, EIBA 26th Annual Conference; Balasubramanyam, *The Case for Extending the WTO System to Foreign Direct Investment*, Cordell Hull Institute Trade Policy Roundtable, 2001; Drabek, *A Multilateral Agreement on Investment: Convincing the Sceptics*, The Hague, 1998; Graham, *Fighting the Wrong Enemy: Antiglobal Activists and Multinational Enterprises*, Institute for International Economics, 2000; Moran, *Foreign Direct Investment and Development*, Institute for International Economics, 1998; Muchlinski, *Towards Multilateral Investment Rules? Key Issues in the Post-Doha Agenda*, paper based on research for UNCTAD Series of Papers on Issues in International Investment Agreements, 2003.

⁴ This exercise is different from the Doha TA Database. In the Doha Database, the European Union co-operation projects are classified according to the specific trade topic that they target. This exercise takes a broader approach and includes all projects relevant to the determinants of FDI. These factors, like e.g. private sector support, might also be important to other topics such as competition.

MEDA countries were allocated €1.7 billion and Asia €93 million between 1995 and today. Moreover, significant amounts for all these areas have been programmed for the 2002-2007 period.

III. CONCLUSION

8. In parallel with the trade related TA activities carried out in the context of the Doha work programme, the European Union is fully committed to continue to assist DCs in order to improve the conditions that determine their long-term capacity to attract and to benefit from FDI in a sustained manner. Within the EC, all the services involved in development assistance programmes work in close co-operation with the recipient countries with the aim of maximising the positive impact and sustainability of each project in the host country. We will also continue to improve the coherence of our TA/CB activities with our policies aimed at improving trade and investment conditions world-wide, in line with the objectives of the Doha Development Agenda.

EXPLANATIONS TO THE TABLES

Countries of the indicated regions:

ACP:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo (Kinshasa), Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome & Principe, Sierra Leone, Senegal, Seychelles, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe, Antigua, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St.-Kitts & Nevis, St.-Lucia, St.-Vincent, Suriname, Trinidad & Tobago, Cook Islands, Federated State of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

Asia:

Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Lao, Malaysia, North Korea, Philippines, Sri Lanka, Thailand and Vietnam

CARDS

Albania, Bosnia Herzegovina, Croatia, Federation Serbia and Montenegro, Former Yugoslav Republic of Macedonia, Kosovo

Latin America:

Argentina, Brazil, Bolivia, Costa Rica, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay, Venezuela

MEDA:

Algeria, Egypt, Jordan, Lebanon, Morocco, Israel, Syria, Tunisia, Turkey, West Bank and Gaza Strip and Yemen

TACIS:

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan

Area of Activity:

1. INFRASTRUCTRE

14010 Water resources policy and administrative management

Water sector policy, planning and programmes; water legislation and management; institution capacity building and advice; water supply assessments and studies; groundwater, water quality and watershed studies; hydrogeology; excluding agricultural water resources (31140).

210xx Transport

220xx Communications

23010 Energy policy and administrative management

Energy sector policy, planning and programmes; aid to energy ministries; institution capacity building and advice; unspecified energy activities including energy conservation.

2. MACROECONOMIC STABILITY (Objective; low inflation, stable exchange rates etc.)

15010 Economic and development policy / Planning

(Macro-economic, fiscal and monetary policy and planning; social planning; economic and social analysis and forecasting; structural reforms; development planning; organisational development; support to ministries involved in aid co-ordination; other ministries and government departments when sector cannot be specified.)

31193 Agricultural financial services

Financial intermediaries for the agricultural sector including credit schemes; crop insurance.

510xx Structural adjustment assistance with World Bank /IMF

3. LEGAL and POLICY FRAMEWORKS (including business regulation, rule of law, effective justice system etc.)

15030 Legal and judicial development

Constitutional development, legal drafting; institutional strengthening of legal and judicial systems; legal training and education; legal advice and services; crime prevention.

16110 Employment policy and administrative management

institution capacity building and advice.

The following has been left out: Employment policy and planning; labour law; labour unions; support programmes for unemployed; employment creation and income generation programmes; occupational safety and health; combating child labour.

31110 Agricultural policy and administrative management

Agricultural sector policy, planning and programmes; aid to agricultural ministries; institution capacity building and advice.

The following has been left out: unspecified agriculture

31310 Fishing policy and administrative management

Fishing sector policy, planning and programmes; institution capacity building and advice.

The following has been left out: ocean and coastal fishing; marine and freshwater fish surveys and prospecting; fishing boats/equipment; unspecified fishing activities

32210 Mineral/mining policy and administrative management

Mineral and mining sector policy, planning and programmes; mining legislation information systems, institution capacity building and advice.

The following has been left out: mining cadastre, mineral resources inventory ; unspecified mineral resources exploitation

33110 Trade policy and administrative management

Trade policy and planning; domestic marketing, trade, service industries, patents and trademarks.

Remark: Aid aiming at integrating the developing country in the world economy, including implementing trade liberalisation and WTO commitments, WTO accession and implementation issues, clearer laws and regulations affecting investors are shown under sub-group 3.

41010 Environmental policy and administrative management

Environmental policy, laws, regulations and economic instruments; administrative institutions and practices; decision-making procedures; seminars, meetings.

The following has been left out: environmental and land use planning; miscellaneous conservation and protection measures not specified below

4. PRIVATE SECTOR SUPPORT (Including support to SMEs etc.)

250xx Business and other services

321xx Industry

**5. HUMAN RESOURCE DEVELOPMENT and INSTITUTIONAL BUILDING
(including labour skills, training of governmental officials etc)**

11430 Advanced technical and managerial training

The following has been left out: Professional-level vocational training programmes and in-service training.

15020 Public sector financial management

Strengthening financial and managerial accountability; public expenditure management; improving financial management systems; tax assessment procedures; budget drafting; field auditing; measures against waste, fraud and corruption.

15040 Government administration

Systems of government including parliament, local government, decentralisation; civil service and civil service reform.

15050 Strengthening civil society

Community participation and development; co-operatives; grassroots organisations; development of other participatory planning and decision making procedures and institutions.

16320 General government services

General services by government (or commissioned by government) e.g. police, fire protection; customs; legal metrology, including administrative buildings.

The following has been left out: cartography, meteorology ; aerial surveys and remote sensing

16362 Statistical capacity building

Both in national statistical offices and any other government ministries.

16381 Research/scientific institutions

When sector cannot be identified.

240xx Banking and Financial Services

Custom reform (modernisation and simplification of border controls,) is an important part of trade facilitation and these activities are shown under sub-group 5.

Activities aiming at reducing technical barriers to trade (standardisation, TBT, SPS etc) have not been included in this exercise. University exchange programmes, restructuring of universities, and general improvements of education systems are not included either. Only advanced technical and managerial training have been taken into consideration and are mainly presented under sub-group 5 (some of the activities may however fall under private sector support).

Activities aiming at political stabilisation and its related support to civil society have also been left out.

DEFINITION OF THE ONGOING AND PROGRAMMING PROJECTS

Definition of an ongoing project

Ongoing projects may range from those actually in progress, to those where funds have been committed (projects in preparation) but not yet spent. In very few projects in the region Latin America, some projects might already be closed.

The duration of projects can overlap two programming periods (when projects have a longer term than the programming period). The projects financed on budget lines are subject to the yearly accountability of the Commission.

The year indicated for the ongoing period is the date when the first ongoing project started. However, most of the ongoing projects started later, usually in 2001 for the ACP countries, in 2000 for Asia and Cards, in the period from 1995-1998 for Latin America, in 1999 for Meda and in 2000 for Tacis.

Definition of a programming project

Programmed assistance is allocated to a given sector of activity, but the modalities for its commitment may not yet have been finalised. For the duration of project implementation, periods vary.

Annex

EC Technical Assistance and Capacity Building Programmes related to FDI

Region: African and Caribbean and Pacific Countries (ACP)

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	1998	1,494,034,873.38	2000-2007	2,370,730,000.00
2. Macroeconomic Stability	2001	822,295,734.90	2000-2007	1,300,550,000.00
3. Legal and Policy Frameworks	1996	409,601,884.00	2000-2007	895,250,000.00
4. Private Sector Support	2001	357,590,631.00	2000-2007	46,350,000.00
5. Human Resource Development and Institutional Building	1998	389,909,023.30	2000-2007	9,700,000.00
Total ACP	Total Amount ACP Ongoing Projects: EU FDI 1996-2001		Total ACP Programming: 4,622,580,000.00	
		3,473,432,146.58 31,893,000,000.00		

ACP: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Brazzaville), Congo (Kinshasa), Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome & Principe, Sierra Leone, Senegal, Seychelles, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe, Antigua, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St.-Kitts & Nevis, St.-Lucia, St.-Vincent, Suriname, Trinidad & Tobago, Cook Islands, Federated State of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.

EC Technical Assistance and Capacity Building Programmes related to FDI (cont'd)

Region: ASIA

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	1999	137,500,000.00	2002/3 – 2004/5	136,300,000.00
2. Macroeconomic Stability	-	0.00	2002/3 – 2004/5	0.00
3. Legal and Policy Frameworks	1995	144,500,000.00	2002/3 – 2004/5	248,100,000.00
4. Private Sector Support	1996	139,600,000.00	2002/3 – 2004/5	40,500,000.00
5. Human Resource Development and Institutional Building	1996	172,000,000.00	2002/3 – 2004/5	98,000,000.00
Total ASIA	Total Amount ASIA		Total ASIA	
	Ongoing Projects:	593,600,000.00	Programming:	522,900,000.00

Since sometimes projects are not classified yet according to the DAC codes, they might be shown under other sub-categories. This suggests that although the amount for projects for the macroeconomic stability is presented as 0, there might be some projects which help the macroeconomic stability but which are classified into another sub-group.

Asia: Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Lao, Malaysia, North Korea, Philippines, Sri Lanka, Thailand and Vietnam.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.

EC Technical Assistance and Capacity Building Programmes related to FDI (cont'd)

Region: WEST BALKANS (CARDS)

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	2000	111,154,200.91	2002-2004	432,400,000.00
2. Macroeconomic Stability	2000	15,620,916.00	2002-2004	9,800,000.00
3. Legal and Policy Frameworks	2000	40,800,000.00	2002-2004	323,100,000.00
4. Private Sector Support	2000	52,620,501.28	2002-2004	10,500,000.00
5. Human Resource Development and Institutional Building	2000	223,200,000.00	2002-2004	357,500,000.00
Total CARDS	Total Amount CARDS		Total CARDS	
	Ongoing Projects:	443,395,618.19	Programming:	1,133,300,000.00

Cards: Albania, Bosnia Herzegovina, Croatia, Federation Serbia and Montenegro, Former Yugoslav Republic of Macedonia, Kosovo.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.

EC Technical Assistance and Capacity Building Programmes related to FDI (cont'd)

Region: LATIN AMERICA

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	1994	53,711,516.00	2000-2006	124,000,000.00
2. Macroeconomic Stability	1997	58,177,040.00	2000-2006	58,900,000.00
3. Legal and Policy Frameworks	1993	133,894,587.00	2000-2006	345,000,000.00
4. Private Sector Support	1991	174,746,523.00	2000-2006	144,000,000.00
5. Human Resource Development and Institutional Building	1994	254,660,896.00	2000-2006	189,050,000.00
Total LATIN AMERICA	Total Amount LATIN AMERICA	Total LATIN AMERICA	Total LATIN AMERICA	Total LATIN AMERICA
	Ongoing Projects:	675,190,652.00	Programming:	860,950,000.00
	EU FDI 1996-2001	152,798,000,000.00		

Latin America: Argentina, Brazil, Bolivia, Costa Rica, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, Uruguay, Venezuela.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.

EC Technical Assistance and Capacity Building Programmes related to FDI (cont'd)

Region: SOUTHERN MEDITERRANEAN AND THE MIDDLE EAST (MEDA)

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	1999	158,500,000.00	2000-2006	96,000,000.00
2. Macroeconomic Stability	1995	292,000,000.00	2000-2006	130,000,000.00
3. Legal and Policy Frameworks	1996	160,000,000.00	2000-2006	316,000,000.00
4. Private Sector Support	1999	759,650,000.00	2000-2006	86,000,000.00
5. Human Resource Development and Institutional Building	1996	368,260,000.00	2000-2006	63,000,000.00
Total MEDA	Total Amount MEDA Ongoing Projects:	1,738,410,000.00	Total MEDA Programming:	691,000,000.00

Meda: Algeria, Egypt, Jordan, Lebanon, Morocco, Israel, Syria, Tunisia, Turkey, West Bank and Gaza Strip and Yemen.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.

EC Technical Assistance and Capacity Building Programmes related to FDI (cont'd)

Region: EASTERN EUROPE AND CENTRAL ASIA (TACIS)

Objective / Area of Activity	Ongoing Projects		Programmed Projects	
	Year, when the first project started	Total amount for ongoing projects in Euro	Programming Period	Total amount for programming in Euro
1. Infrastructure	2000	25,025,504.00	2002-2003	140,500,000.00
2. Macroeconomic Stability	2000	30,729,985.00	2002-2003	0.00
3. Legal and Policy Frameworks	2000	15,500,000.00	2002-2003	139,500,000.00
4. Private Sector Support	2000	30,289,528.00	2002-2003	116,000,000.00
5. Human Resource Development and Institutional Building	2000	62,600,000.00	2002-2003	47,600,000.00
Total TACIS	Total Amount TACIS Ongoing Projects:	164,145,017.00	Total TACIS Programming:	443,600,000.00

Tacis: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Source: European Commission, Directorate General (DG) External Relations, DG Development and DG EuropeAid, Eurostat.