Mapping the global partnership for development

Investment and financial stability[1]

Global context

Total Foreign Direct Investment (FDI) reached $916bn in 2005, up by 29% over the 2004 level, but still considerably below the 2000 peak of $1.4 trillion. Flows to developing countries comprised just over a third of this amount at $334m, although the majority of this investment went to China, Hong Kong, Singapore and Brazil. FDI to Africa rose from $17bn in 2004 to $31bn in 2005, although again most of that was directed at a few countries – South Africa, Egypt and Nigeria. Most LDCs in Africa, with the exception of Sudan, received very little investment. Investment to South East Europe and the CIS countries was $40bn; to West Asia $34bn; to Latin America and the Caribbean $104bn; and to South and South East Asia $165bn (again skewed heavily by China and Hong Kong). Political declarations and communiqués on development have consistently emphasized foreign investment as a key driver of growth, competitiveness, technology transfer, and employment. The Monterrey Consensus stated that there was a need for 'the relevant international and regional institutions as well as appropriate institutions in source countries to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide'.

Pathways to development

Notwithstanding the potentially strong potential linkages between increasing investment on the one hand, and faster economic growth and stronger employment on the other, most recent analyses of investment in developing countries have explored whether the quality of investment is supportive of sustainable development – including social and environmental provisions. More investment is not always seen as a good thing as it may not be job-creating, or it can also lead to corruption, the weakening of democratic structures, and financial instability.

As with the other global issues under study, the amount of foreign capital invested by the international community will depend on both domestic and international factors. Arguably the biggest drivers of FDI are domestic: access to credit, business entry regulations, the enforceability of contracts, property rights, the size of the market, the existence of natural or other resources representing market opportunities, skills of the workforce, and corruption. But international policies and actions also play a role. For example, the existence of double taxation treaties and the provision of political risk insurance can support increased investment flows. And the extent to which investment translates into sustainable growth, jobs and poverty reduction will also depend on whether governments do all they can to promote backward and forward linkages in the economy, invest in skills, tackle bribery, improve transparency, and encourage the respect of international treaties and conventions on human rights, labour and environmental standards.

[1] The use of the term investment in this template relates to Foreign Direct Investment (FDI) and not domestic investment. FDI includes both Greenfield investments, Mergers and Acquisitions (M&As) and portfolio investment where this exceeds the 10% equity threshold of the acquired firm.

The template below provides a way of mapping how international policies and actions impact on the quantity and quality of foreign investment.	
Components of the model	**Proxy indicators and data sources**
External Policies and Actions that impact on investment quantity:	
- *Supporting the provision of political risk insurance* ▲ (global data)	• Eligibility of country X for coverage under political risk insurance programmes (MIGA, regional development banks, national agencies) *Data source: accessible via the Political Risk Insurance Center*
- *Supporting double taxation treaties to prevent overseas investors from being taxed at home and in the destination country* ▼ (local data)	• OECD members with whom Country X has a double taxation agreement • Non-OECD members with whom Country X has a double taxation agreement *Data source: Ministry of Finance*
- *Assistance provided to the country to secure sovereign credit ratings* ▲▼	• International partners that have given assistance to Country X to secure a sovereign credit rating *Data sources: Surveys of bilateral donors, regional development banks, multilateral agencies and donors*
- *Willingness to negotiate bilateral or regional investment treaties* ▼	• OECD members whose investment relationship with Country X is regulated by a bilateral or regional investment treaty • Non-OECD members whose investment relationship with Country X is governed by a bilateral or regional investment treaty *Data source: Ministries of Trade or Investment*
that impact on investment quality:	
- *Willingness to tackle bribery* ▲▼	• Proportion of the 10 largest investors in Country X (by country) that are signatories to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions[2], and the proportion that have completed Phase 2 Monitoring to evaluate whether countries are effectively implementing national

[2] http://www.oecd.org/document/21/0,2340,en_2649_34859_2017813_1_1_1_1,00.html

	legislation *Data sources: OECD Directorate for Financial and Enterprise Affairs and Ministries of Trade and Commerce* • Position of each of the top 10 investors in country X (by country) in Transparency International's Bribe Payers Index for 2006[3] *Data source: Bribe Payers Index*
- Commitment to ensuring trade agreements support human rights, environmental and labour standards ▼	• The proportion of Free Trade Agreements, Customs Unions or Economic Association Agreements that contain clauses on human rights, labour or environmental standards in respect of investment *Data sources: Ministry of Trade for list of list of trade agreements*
- Commitment to transparency in the natural resource extraction sector ▲▼	• The proportion of multinational companies engaged in natural resource extraction in country X that have signed up to the Extractive Industries Transparency Initiative[4] *Data sources: Ministries of Trade, Industry or Investment to determine natural resource extraction firms, and the EITI* • The proportion of multinational companies engaged in natural resource extraction in country X that are signatories to the Voluntary Principles[5] *Data source: Ministries of Trade, Industry or Investment to determine natural resource extraction firms, and the list of companies participating in the Voluntary Principles*
- Commitment of the international private sector to business operations that are supportive of sustainable development ▲▼	• The proportion of the 10 largest multinational companies (by value of country operations) operating in country X that are signatories to the UN Global Compact[6] *Data source: Ministries of Trade, Industry or Investment to determine largest multinational companies, and the list of companies participating in the Global*

[3] http://www.transparency.org/policy_research/surveys_indices/global/bpi
[4] http://www.eitransparency.org/
[5] http://www.voluntaryprinciples.org/
[6] http://www.unglobalcompact.org/
[7] http://www.equator-principles.com/

- Commitment of the banking sector to address environmental and social risks in project financing ▲▼	[*Compact*](#) • The proportion of international banks operating in country X that are signatories to the Equator Principles[7] *Data sources: Ministries of Trade, Industry or Investment to determine largest banks, and the [list of banks participating in the Equator Principles](#)*
that impact on financial stability: *- A harmonized donor response to a financial crisis or terms of trade shock* ▼	• Have donors agreed a harmonized and coordinated plan to deal with regional or country-specific financial crises or terms of trade shocks should they arise • Do donors recognize in their policy statements the need to financially support safety nets to help poor people cope with the effects of adverse shocks on their standard of living *Data source: Interviews with government officials and donor representatives*
- Financial assistance made available in light of a financial crisis or terms of trade shock ▲	• If a shock / crisis has been experienced, the size of the financial assistance package made available (from the IMF, World Bank and bilateral donors) in comparison with an assessment of the package needed to cope with the adverse shocks on the balance of payments and government revenues • The speed with which any financial assistance package is made available *Data source: World Bank, IMF, UN and civil society reports*
• Aid for investment ▼	Extent to which and ways in which, aid is provided and used to enable country X to engage with investment-related challenges and opportunities *Data source: Local data sources*
Key flows Investment in US$ ▲	• Total foreign investment • Investment as a % of financial inflows (public and private) • Investment as a % of GNI, compared with the developing country average

	• Investment per capita, compared with the developing country average • Greenfield investment as a % of total investment • Mergers and Acquisitions as a % of total investment • FDI per economic sector Data sources: UNCTAD FDI database, OECD / DAC, WDI
Country Context (of relevance to ivestment) Poverty and inequality ▲▼	• Proportion of population below $1 (PPP) per day • Poverty gap ratio • Share of poorest quintile in national consumption *Data sources: UN Statistics on the MDGs, national reports on poverty and inequality*
The size of the market ▲	• Total GNI • GNI per capita • Total consumption as a % of GNI *Data source: WDI*
Domestic 'enabling environment' *- Doing Business* ▲	• Country ranking under Criterion 6 of the World Bank's CPIA[8] *Data source: CPIA country rankings* • Political Risk Rating of the International Country Risk Guide Index *Data source: ICRG country ratings* • Business Environment Index [EIU Global Outlook Report] *Data source: EIU Global Outlook*
- Macroeconomic stability ▲▼	

[8] This includes (a) regulations affecting entry, exit and competition; (b) regulations of ongoing business operations; and (c) regulations of labour and land markets. http://siteresources.worldbank.org/IDA/Resources/73153-1181752621336/CPIA06CriteriaA2.pdf

	• Inflation rate under 10% for previous 3 years in Country X *Data source: WDI, Ministry of Finance*
- Trade policy ▲▼	• Country X is meeting its multilateral obligations under the WTO *Data source: WTO, Ministry of Trade*
- Perceived corruption ▲	• Country X's position in the Corruption Perception Index of Transparency International *Data source: CPI*
- Quality of infrastructure ▲	• Roads, paved (% of total roads) • Electricity (% of managers surveyed ranking this as a major business constraint) • Telephone faults (per 100 mainlines) *Data source: WDI*
Credit ratings ▲▼	• Does Country X have a sovereign credit rating? If not does it have stated plans to engage one or more credit ratings agencies? *Data sources: PRI Center country analyses*
Human capital (inc. workforce skills) ▲	• Adult literacy rate • % of workforce with tertiary education *Data sources: WDI, UN Statistics Division*
Tax structure ▼	• Does the country offer concessions to international investors? • Are double taxation agreements in operation? *Data sources: Ministries of Finance, Trade and Industry*
Existence of extractable resources ▲	• Proportion of the economy based in the extractive industries; or evidence of significant reserves[9] *Data sources: World Bank country reports, WDI, UNCTAD* • Is the country adjudged as EITI compliant?

[9] Including oil, coal, natural gas, forests etc

Investment opportunities through privatization ▲▼	*Data source: EITI* • Privatization programme ongoing by the government *Data sources: IMF country documents, World Bank country reports, Ministry of Finance*
Impacts Trends in: Economic growth ▲ Jobs created ▼ Income poverty reduction ▲	• Total GNI growth *Data source: WDI* • Employment rate / # of jobs created, and by gender *Data source: Ministry of Labour, Statistical Bureau* • GNI per capita growth - by gender *Data source: WDI, UN Statistics Division*