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I. Chair's summary

A. Investment in the agricultural sector with a view to building productive capacities

(Agenda item 5)

1. In light of rising investment and related TNC activity in the agricultural sector in developing countries – acknowledging the opportunities and risks, and through a process of consultation with member States and other groups – the UNCTAD secretariat, FAO, IFAD and the World Bank Group had proposed a preliminary set of principles, called the "Principles for Responsible International Investment in Agriculture for Sustainable Development". These principles were the subject matter of the session. The principles were introduced by the secretariat, and they were followed by remarks on the topic by members of the panel, which consisted of the United Nations Special Rapporteur on the Right to Food, high-level representatives from governments and industry, and representatives of non-governmental organizations (NGOs). An interactive debate followed.

2. Speakers and delegates highlighted the growing magnitude of global food security concerns, which were due to a number of factors including population growth, changes in global demand, and environmental issues. In order to address those challenges, an increase in agricultural investment was deemed essential for the coming decades. Multilateral and bilateral official development assistance (ODA) had declined over the past years, and there was a need for more public assistance for agricultural development, and for significant new private investment in the sector. TNCs could potentially play an important role, but governments needed to proactively support positive impacts and limit negative consequences.

3. Various concerns were mentioned relating to foreign investment in agriculture in developing countries, with a stress on the fact that agricultural development in general, and FDI in particular, should not lead to the detriment of the poorest. The issues to consider included the danger of "land grab", the need for the alleviation of poverty and hunger, the consequences of price instability on commodity markets, and protection of the land rights of smallholders and local communities. More transparency pertaining to investment in agriculture was vital, not only on the part of governments, but also from the corporate sector.

4. The meeting was supportive of the development of guidelines for responsible agricultural investment for sustainable development, including further related work by UNCTAD and other United Nations agencies. It was argued that the process of developing guidelines should be transparent and inclusive. Consideration should be given to addressing some issues more carefully in the principles, such as environmental aspects.

5. Moreover, support from all stakeholders was needed. As one speaker pointed out, foreign investment in agriculture remained controversial, especially among farmers in developing countries. At the same time, another speaker stressed that the principles also needed to be supported by the private sector, so as to facilitate rather than deter investments. The importance of dissemination of the principles, of technical assistance and of other work (from specific policy-orientated research to the establishment of a platform to share best practices) was also emphasized.

6. In conclusion, it was underlined that the principles should aim at promoting beneficial FDI for agricultural development, rather than discouraging it altogether. The principles should help member States to establish policies and priorities. The principles should help investors to formulate investment strategies, and should help to guide their operational conduct. Development of the principles was an ongoing process, and

consultations with member States, civil society and private players must continue. UNCTAD should stand ready to be involved in this process, and should set up technical assistance programmes to ensure further dissemination of the principles – as well as the relevant capacity-building – once they had been accepted.

B. Investment Policy Review of Belarus

(Agenda item 5)

7. The meeting considered the *Investment Policy Review of the Republic of Belarus* (UNCTAD/DIAE/PCB/2009/10).

8. The Secretary-General of UNCTAD, in his opening remarks, stressed that Belarus had a lot to offer to investors, and congratulated the Government on the recent reform effort designed to create a more transparent and competitive business environment. Referring to the Investment Policy Review (IPR), the UNCTAD secretariat noted that Belarus had great potential for attracting FDI – among other things, by virtue of its strategic location between the Russian Federation and the European Union, its sizeable market, its highly skilled workforce and its well-developed infrastructure.

9. The UNCTAD secretariat also stressed that the recent reform had led to increased FDI inflows since 2007. However, it was noted that private investment in Belarus – including FDI – remained low in comparison to other countries of the Commonwealth of Independent States (CIS). This could be explained, in part, by the remaining constraints on business development, and on SMEs in particular. The constraints identified by the IPR included price controls, cumbersome administrative procedures and extensive controls, discrimination in access to production inputs, and low fiscal competitiveness.

10. The secretariat further reported on the strategy recommended in the IPR to attract increased FDI inflows and to support the development of SMEs through FDI. In particular, the IPR suggested improving FDI-specific regulations, for instance by upgrading the investment code, and by enhancing the general investment climate in areas such as fiscal competitiveness, competition policy and administrative efficiency. It recommended removing obstacles to the development of SMEs (including by reducing taxes and the administrative burden, and by removing price limitations) and adopting policies to foster SME development through FDI, such as strengthening the investment promotion agency, supporting entrepreneurship development, and designing linkages policies. It called on the Government to maintain its commitment to implement the recommendations and to foster private sector involvement in the economy, and called on the international community to provide its support.

11. The United Nations Development Programme (UNDP) in Belarus expressed appreciation for the IPR recommendations and stressed the contribution of FDI to human development, adding that the report was also a sign of the close cooperation between the United Nations system and the Government of Belarus. UNDP committed to support the implementation of the IPR recommendations and the efforts of the Government towards an improved investment environment.

12. On behalf of the Government of Belarus, the Deputy Prime Minister welcomed the IPR as an independent and objective study, which was timely and important to the reform process. After presenting an overview of recent macroeconomic and FDI performance in Belarus, he elaborated on the competitive advantages and investment opportunities of the country. In particular, he mentioned that Belarus was one of the few countries that had maintained a high level of economic growth in times of crisis, as reflected by the key economic indicators, which had been positive. Furthermore, indicating that Belarus was firmly engaged in a policy of privatization, he stressed that the approach chosen was one that would avoid mistakes that had been experienced by other countries.

13. The Government of Belarus fully endorsed the recommendations of the IPR, and was strongly committed to their implementation. It was reported that some recommendations to enhance the business climate had already being adopted, including a reduction of the tax burden on SMEs, the simplification of administrative procedures, and a revision of licensing requirements. The Government also pledged to pursue its efforts to further enhance the investment climate.

14. Delegations from the member States of UNCTAD commented on the IPR and its recommendations. They welcomed the recommendations and commended the efforts of the Government, which had significantly improved the business environment. Several member States also saluted the recently established customs union between Belarus, Kazakhstan and the Russian Federation, which was opening new perspectives for investment in Belarus and the region. However, some delegations expressed concern about the pace of certain reforms and their impact on foreign companies, mentioning that some discrimination persisted among public and private enterprises. They also encouraged the Government in its process of accession to the World Trade Organization (WTO), and called for the full implementation of the IPR recommendations.

15. Member States requested the secretariat to undertake investment policy reviews for other countries with economies in transition. In that regard, they called upon the international community to provide the required financial support for such undertakings.

16. Some representatives of the large international investment community present at the discussion described their investment experience in Belarus. They acknowledged that important measures had been taken by the Government to enhance the investment climate since 2007, making Belarus a better place to invest. However, they claimed that regulation remained cumbersome and changed too frequently, which made it challenging to plan and run a business. They argued, nevertheless, that the Government was responsive to dialogue and sought to promote effective collaboration.

17. As a sign of the Government's commitment to the IPR process and to the implementation of the IPR recommendations, Belarus and UNCTAD signed a new Memorandum of Understanding at the end of the meeting to formalize their collaboration.

C. Investment Policy Review of El Salvador

(Agenda item 5)

18. The meeting considered the *Investment Policy Review of El Salvador* (UNCTAD/DIAE/PCB/2009/20).

19. In his opening remarks, the Secretary-General of UNCTAD commended the Government of El Salvador for its open stance towards foreign investment and for the progress made towards putting in place a regulatory framework that was both attractive to investors and protective of the national interest. The smooth political transition of 2009 had demonstrated to the world the maturity of the country's democratic institutions, and had further solidified socio-political stability. He indicated, however, that much progress remained to be made in El Salvador to fight poverty and reduce inequalities. El Salvador could make better use of FDI as a means of building the competitiveness of domestic firms and lifting up the country's economy.

20. UNCTAD encouraged the Government to put in place policies that would maximize benefits from FDI in terms of human capital formation and infrastructure development, the upgrading and modernizing of domestic firms, and the development of new productive sectors and technology transfers. To that end, the IPR recommended three key strategies: (a) leveraging FDI in support of national competitiveness; (b) using FDI for sustainable development; and (c) utilizing the above two strategies for further investment promotion.

21. Member States recognized the positive steps that El Salvador had taken over the last couple of decades to achieve development through an open economy, citing, among other things, the privatization of state-owned enterprises and pension funds, the dollarization of the economy in 2001, the accession to bilateral and regional trade agreements, and the adoption of market-oriented policies. In that respect, it was considered high time for El Salvador to step up image-building efforts aimed at the investor community, in order to promote the country's stability, favourable investment climate and business potential. The use of the large Salvadorean diaspora as a "sales force" for the country was also mentioned.

22. There was consensus among member States that – particularly in the aftermath of the recent global financial and economic crisis – appropriate regulation was essential to ensure maximization of the developmental benefits of FDI. Member States supported the recommendations of the IPR for further improvements in El Salvador's legal and regulatory environment, including in the areas of corporate taxation, the customs service, the competition framework, and investment protection.

23. Following the recommendations of the IPR, delegates pointed to the need to further develop El Salvador's human capital, and considered the attraction of FDI in higher education to be a priority for the country. Some delegates mentioned that the shortage of highly skilled labour and the scarcity of English-speakers remained an obstacle to foreign investors. Therefore, participants encouraged El Salvador to lift the existing legal barriers to FDI in higher education in order to attract international institutions of academic excellence, and to join the Bologna Policy Forum to promote student and academic exchanges.

24. The creation of a strategy to attract "green" and "responsible" FDI to promote sustainable development, on the basis of the IPR recommendations, was encouraged by delegates, considering the increasing business opportunities in those areas and El Salvador's potential. Both fiscal and non-fiscal incentives could be designed to this end, including the adoption of a widely accepted methodology of carbon accounting at the national level.

25. Discussants supported the IPR recommendations on the need for the Government of El Salvador to pursue the involvement of the private sector in infrastructure development, particularly through public–private partnerships (PPPs). While it was acknowledged that the road infrastructure was of a high standard, and that private investors had already contributed to developing high-quality services in telecommunications and electricity, the lack of a functioning modern port was a key deficiency for an export-oriented country such as El Salvador. Delegates confirmed that making the port of La Unión operational under a concession contract as soon as possible should be a priority for the Government. Some countries offered to share their experience in attracting FDI and in utilizing PPPs to develop infrastructure.

26. Delegates pointed out the importance of export orientation in small open economies. El Salvador could benefit not only from attracting FDI, but also from internationalizing its home-grown firms by making them more export-oriented and by exploring further outward investment opportunities in Central America. Important steps to that end were being taken. These included the current efforts to maximize synergies in investment and export promotion, with the reforms at El Salvador's investment promotion agency (Agencia de Promoción de Inversión de El Salvador (PROESA)) and the country's export promotion agency, Exporta El Salvador, under the umbrella of the national commission for the promotion of exports and investment (Comisión Nacional de Promoción de Exportaciones e Inversiones (CONADEI)), and with a diversification of the country's trading partners, through the free trade agreements currently being negotiated between Central America and the European Union, and a bilateral agreement with Canada.

27. The need was mentioned to eliminate certain tax incentives and to review the free zone scheme to bring these into compliance with WTO rules. It was noted in this regard that El Salvador recognized its obligation and had already begun a process in dialogue with the private sector to readjust its fiscal incentives and free zone scheme to make these entirely compliant in the near future.

28. The Government of El Salvador stated that it had already started implementing a number of the recommendations of the IPR. It welcomed UNCTAD’s offer for further technical assistance, and vowed to continue to work in partnership with the secretariat on the IPR.