Home country measures for encouraging sustainable FDI

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Background

The globalization of economic activity in general, and the growing role of transnational corporations (TNCs) in particular, have increasingly directed attention toward the environmental consequences of these developments. Increasingly, TNC activity in developing countries has become an issue for various normative initiatives at the international level, in the OECD and in the WTO. However, there remains a pertinent need to gain a better understanding of the environmental implications of TNC activity in developing countries. On this background, the United Nations Conference on Trade and Development (UNCTAD) and Department of Intercultural Communication and Management, Copenhagen Business School (DICM/CBS) in 1997 received a grant from the Danish International Development Agency (DANIDA) to conduct a study of environmental practices in TNCs. The project is called: "Cross border Environmental Management in Transnational Corporations". The project examines environmental aspects of foreign direct investment (FDI) in less developed countries by conducting case studies on environmental practices in Danish and German TNCs with operations in China, India and Malaysia. The project will produce a series of research reports on cross border environmental management seen from home country, host country as well as corporate perspectives. The reports will serve as input to a conference on Cross Border Environmental Management hosted by UNCTAD.

Abstract

This paper serves as substantive background input to the preparation of the pre-UNCTAD X seminar on "Making FDI Work for Sustainable Development".

It examines selected measures by OECD governments and their agencies to facilitate investment by their transnational corporations (TNCs) in developing countries that is supportive of sustainable development.

The achievement of sustainable FDI is the responsibility of many actors: governments of both the home and host countries, the private sector in both the home and host countries, environmental groups, and citizens. This paper examines what governments and their agencies have been doing to promote sustainable FDI in their transnational corporations operating abroad.

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A background note

By Dr. Riva Krut with Mr. Ashley Moretz[1]

1. Introduction

This paper examines selected measures by OECD governments and their agencies to facilitate investment by their transnational corporations (TNCs) in developing countries that is supportive of sustainable development.

The achievement of sustainable FDI is the responsibility of many actors: governments of both the home and host countries, the private sector in both the home and host countries, environmental groups, and citizens. One of the recommendations of the UNCED was that transnational corporations "introduce policies and commitments to adopt equivalent or not less stringent standards of operation as in the country of origin" (UN, 1993). This paper examines what governments and their agencies have been doing to promote sustainable FDI in their transnational corporations operating abroad.

Most of the work governments are promoting with their TNCs abroad is in the traditional export promotion area. As the market in environmental technologies is set to expand in the developing world, countries with competence in this area, such as Australia, Canada, the UK and the US, are working with their firms to meet this need. Australia's AusAID Private Sector Linkage Programme, US Agency for International Development (AID) US Asia Environmental Partnership (AEP), the Canadian International Development Agency's (CIDA) CIDA-INC are all active

[1] Consultant Cr.Riva Krut and Mr.Ashley Moretz both works for Benchmark Environmental Consulting. This paper is specifically prepared for UNCTAD and for the pre-UNCTAD X seminar, Making FDI Work for Sustainable Development. The compendium of government programmes included in this paper represents best efforts at data collection during the period 12 July 12, 1999 to 18 August 18, 1999, and should not be considered exhaustive. The presentation of this material does not imply the expression of any opinion whatsoever on the part of (the Secretariat of the UN/UNCTAD) concerning the named governments or their agencies and programmes. The majority of the OECD governments contacted responded by providing information, and every effort has been made to reflect their various contributions. None of these contributors are responsible for any factual mistakes or errors of omission.

examples of programmes in this area. The area of FDI, however, has had less attention from governments and their agencies.

The question of FDI and the environment was most recently addressed by the OECD Environment Policy Committee, Committee on International Investment and Multinational Enterprises, in a Conference on Foreign Direct Investment and the Environment, in The Hague in January 1999. The conference concluded that "promoting environmentally-friendly FDI was … a major task for source country stakeholders." The four measures they suggested to promote this included two for home (source) country governments and their agencies:

1. set appropriate environmental [or, in the case of this paper, sustainable development] standards to guide investor actions in their domestic and international operations
2. the environmental policies and procedures of government investment assistance agencies, such as export credit agencies, could be strengthened to address more effectively the environmental implications of their activities.

The other two measures highlighted for source country stakeholders were viewed as private sector issues; technology cooperation within the private sector, focussed more on clean technologies; and the greening of supply chains by providing training to foreign suppliers to improve environmental performance (OECD, 1999:6)

There are other areas where the issue of sustainable FDI and the role of TNCs are being considered, and standards are being set. The OCED has issued *the Guidelines for Multinational Enterprises* (OECD, 1991), which is currently under revision (OECD, *date*), and includes environmental obligations on investors. The multilateral investment banks have started to set standards for firms receiving loans, guarantees or grants. Perhaps the best known such initiative is that of the World Bank, whose *Pollution Prevention Handbook* was issued in August 1998 (World Bank, 1998a). This requires environmental assessments for projects deemed to have a significant environmental impact. (World Bank, 1999).

Also active in this area is the International Finance Corporation (IFC). In July 1998 the IFC adopted, for the first time, its own environmental and social safeguard policies. These policies, <u>Procedure for Environmental and Social Review of Projects</u> and <u>Policy on Disclosure of Information</u>, ensure that the IFC now reviews prospective projects for soundness before it invests, focusing on economic, financial, technical, legal, environmental and social issues during the project appraisal process. The IFC also will not support projects that use Harmful Child Labour or Forced Labour as defined by the ILO and the UN Convention on the Rights of the Child. (IFC, 1998a)

It is also the case that some international environmental agreements provide obligations on governments that can translate into obligations on TNCs -- the Montreal Protocol is an example of this. The most relevant and significant international environmental agreement currently under discussion for the theme of TNCs and sustainable FDI is the Cleaner Development Mechanism (CDM) of the Framework Convention on Climate Change (FCCC). Article 12 of the Kyoto Protocol, which establishes the CDM, "was written in part to allow a developing country…to benefit from project activities resulting in certified emission reductions (CERs)." The idea is that "developed countries could use CERs accruing from such projects to meet their own quantified emission-reduction commitments under the Protocol beginning in the year 2000. In the process, they assist developing countries in achieving sustainable growth and contributing to the environmental goals of the Framework Convention … Participation in the CDM 'may involve private and /or public entities.' In a typical project, a developed country sponsor would finance the construction of an environmentally clean power plant in a developing country in exchange for credit towards the developed country's emissions commitment." Mexico[2] has already started to take steps to facilitate their working with this instrument. One initiative is the establishment of a Mitigation Office within the National Institute of Ecology, which will help generate regional and sectoral projects for fuel saving and carbon sinks; and act as a promoter and intermediary for cleaner development mechanism projects.

A Washington DC-based environmental lawyer concludes that "the governments and industry of Mexico and the United States, and possibly some other nations such as Canada and some EU countries, appear well positioned to collaborate in the development of large-scale infrastructure projects incorporating CDM components." These would be enhanced, he continued, if governments could assure their home country TNCs that early reductions would be given credit under any mechanism eventually adopted to limit emissions of greenhouse gases." (Thomas, 1999). There are a myriad of questions to be answered before the next intergovernmental meeting in 2000 about how the CDM process will work, but this is clearly a very big opportunity for governments and their agencies to facilitate investment by their TNCs in developing countries that is supportive of sustainable development.

This paper sought to survey both OECD governments and OECD government agencies, to establish what, if any, policies and/or programmes they were supporting that would promote sustainable investments by their home country TNCs operating abroad. Efforts were made to contact all 29 governments and their agencies that may be working on this issue, and an informal survey was conducted. The information collected is assembled in the table at the end of this report. Information was assembled by country, Ministry and/or agency managing a relevant programme. Brief notes are presented on each of the programme objectives and on their activities. Website addresses are included where they exist.

Some examples were found of departments and agencies that are grappling with this issue directly, and/or have established operational programmes. Seven

[2] Note that although Mexico is referred to here as a developing country, it is a member of the OECD.

examples are discussed in this report of leading governmental policies and programmes to facilitate investment by their TNCs in developing countries that is supportive of sustainable development:

- The UK's Department for International Development (DFID);
- The USA's Overseas Private Investment Corporation (OPIC);
- Denmark's Danish International Development Assistance (Danida) and the Danish Cooperation for Environment and Development (Danced);
- Germany's German Investment and Development Association (DEG);
- Norway's NORFUND and the Norwegian Agency for Development Cooperation's (NORAD) Network Cooperation Programme;
- New Zealand's Asia Development Assistance Facility (ADAF)
- Switzerland – Federal Office for Foreign Economic Affairs (BAWI), Clean Production Centres (CPCs)
- Canada's Canadian Environmental Industries Strategy (CEIS), Canadian International Development Agency's (CIDA) CIDA-INC and CABSA progammes.

However, this paper cannot be a comprehensive catalogue of what OECD governments are doing in this area. In some cases, programs are initiated from the Ministry of Trade, in others, from the Ministry of Environment, in others, from the Foreign Ministry. Government agencies can be independent of these ministries, such as Australia's AusAID, or connected, such as CIDA. The relationship between the agency and its "home" Ministry is sometimes close, as with Danced; it is sometimes indirect, as with the NORFUND. In addition, the programs are changeable. Readers should understand that some of the programmes mentioned in this report may have been modified or even eliminated by the time the report is distributed.

II. OECD countries' policies and programmes supportive of sustainable development

1. U.K.: Department for International Development (DFID)

The UK DFID recently (August 1999) formulated a "DFID Approach to Responsible Business." DFID has an agreed objective to promote responsible business behaviour in the poorest countries of the world. DFID defines responsible business as covering a wide span of issues that "go beyond the narrower definitions usually associated with ethical trade. These include: the social, environmental, and local economic impacts of business; the influence of business on civil society, social cohesion and human rights; corruption; business and fair trade." DFID encourages voluntary environmental management, and is also working with developing country governments and the OECD to deal with the "totality of responsible business issues." Their work with the OECD includes sponsoring the OECD September 1999 conference on "The Role of International Investment in Development, Corporate Responsibilities and the OECD Guidelines for Multinational Enterprises" (OECD, 1999b). DFID has also established a new Business Partnership Unit (BPU) to strengthen their relationship with UK-based businesses.

The social dimension of the programme collaborates with business, trade unions and NGOs in the Ethical Trading Initiative. "ETI takes as its starting point internationally accepted labour standards including those in the ILO Declaration on core labour standards and rights at work" adopted in June 1999. One of the aims of the ETI is to engage with suppliers there to raise labour standards in line with the ETI code. This will require importers to influence suppliers and to bear some of the costs of supply chain improvement not underwritten by productivity increases. Another aim of ETI is to address human rights at work. The collaborative structure of the organization is seen as key to success in this area. Pilot studies are under way in projects in the wine industry in South Africa, horticulture and vegetables in Zimbabwe and garments in China. Also under this realm of business social responsibility, DFID has established a resource centre to assist businesses with technical support for social issues, such as designing a social code of conduct. The longer-term objective of the ETI is to become a tripartite membership organization (companies, trades unions and NGOs). DFID envisages a continuing support role, but over the medium term focussing more on capacity support for poorer countries.

On the environmental dimension internationally, DFID's business outreach includes supporting trade-policy instruments to promote better environmental performance through the EU's GSP Special Incentives Scheme that offers improved market access in return for satisfactory implementation of the International Tropical Timber Organisation standards. Also, DFID is keen to use the Cleaner Development Mechanism (CDM) of the Kyoto Protocol "to help developing countries identify appropriate projects which both reduce emissions and promote sustainable development through private sector investments." At home in the UK, DFID is also working on a review of environmental factors in UK voluntary codes of conduct.

In terms of local economic impact abroad, DFID is working with home country firms to strengthen links between businesses and small or micro businesses in host countries, through training and mentoring. The have also established a Challenge Fund that will provide matching funding, in a competitive and transparent way, for private sector bids against criteria that meet DFID's objectives." The Challenge Fund aims to mobilise the UK and international financial services sector to invest in and develop the capacity of financial services in poorer countries. Further challenge funds are envisaged in tourism, business linkages and trade development."

Other areas where DFID is seeking to influence the behaviour of its home country TNCs towards sustainable development are in a theme they call "civil society, social cohesion and human rights," where "the role of business, especially multinationals, is important in conflict and post-conflict countries. On the issue of corruption, DFID is working with the OECD and other UK agencies to develop an international code. They note that they "strongly support the efforts of International Financial Institutions to strengthen procurement systems for aid projects in ways which ensure that companies which behave ethically are not disadvantaged."

Finally, DFID is working on its own policies and those of sister organizations in the UK and internationally, that will also influence UK TNCs. They are developing a new code of conduct to be applied to its own supply chains, which will initially focus on the construction sector. They are developing strategies to influence other UK government agencies, such as the Department of ETR Exports Credit Guarantee Department (ECGD). They are collaborating with international assistance organizations, such as the international financial institutions and the World Bank Public Private Infrastructure Advisory Facility (PPIAF).[3]

There are several themes that emerge from the DFID programme of work that should be emphasized as they are important to this issue and they are not central to other government work. First is DFID's focus on procurement policies as an instrument of sustainable development. The OECD Conference on FDI and the Environment identified this as a key issue for investors (OECD, 1999, 6). The DFID realises that such a policy cannot be achieved without government support because the market could make additional environmental costs a disincentive for suppliers and TNC customers, and that governments have a role to play in this area. Another government agency working on supply chain environmental management as an instrument of clean production in Asia is the US Agency for International Development (AID) Asia Environmental Partnership (USAEP) program in Clean Technology and Environmental Management (CTEM). The CTEM progamme has, for example, provided technical assistance to United Technologies Corporation (UTC), a US TNC, for the environmental training of its suppliers in Asia. (USAEP, 1997; USAEP, 1999).

A second issue to emphasize in the DFID work is their recognition that the CDM offers quite new opportunities for governments to play a role in promoting sustainable development among its TNCs. Although this comment is aspirational at this stage for the DFID, the same idea is taking root in Mexican-US trade discussions. As already mentioned, the CDM represents very large opportunities for governments and TNCs to jointly work on sustainable investments in the developing world.

A third theme to emphasize about the DFID work is that their planned development of a broad voluntary Code of Conduct for their home firms operating abroad is echoed in Codes already established by other governments. In Canada,

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3 PIAFF has sustainable development and poverty eradication as its mandate, and aims to work through private sector actors to achieve this. PIAFF recognizes that this aim can only be achieved by a systemic (rather than a project-by-project) approach to infrastructure development, and offers its services to developing countries to meet this need. (World Bank, 1998b)

the Department of Foreign Affairs and International Trade established a voluntary "International Code of Ethics for Canadian Businesses" that establishes principles for environmental protection, human rights, business conduct and employee rights and health and safety. (Canadian Department of Foreign Affairs and International Trade, 1997). In the US, the "White House Apparel Industry Partnership Workplace Code of Conduct & Principles of Monitoring" (1997), focuses on the maintenance of clear labour standards by the firm for its direct affiliates and contractors, and the external monitoring of implementation. This Code focuses on labour issues rather than explicitly on environment or sustainable development, but it is included here because of the unusual requirements for external monitoring by independent monitors that have the trust of the local workers, and because it is an attempt to have international textile firms voluntarily manage the supply chain of their international (and national) business. Other programmes, such as the US OPIC programme discussed below, integrate obligations for the observance of workers' and human rights standards with environmental standards.

2. United States: Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation is an independent U.S. Government agency that sells investment services to assist U.S. companies investing in some 140 emerging economies around the world. A self-sustaining government corporation with current reserves of more than $3 billion, OPIC assists U.S. private investment overseas through project financing and political risk insurance. OPIC's mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas. To this end, OPIC works to assure that the projects it supports are consistent with sound environmental and worker rights' standards. In conducting its programs, OPIC also takes into account a country's observance of, and respect for, human rights. (OPIC, 1999)

Since 1985, OPIC has been required by statute to assess the environmental impacts of projects under consideration for political risk insurance and financing. OPIC's authorizing statute directs the Corporation to decline assistance to projects posing a "major or unreasonable hazard to the environment, health or safety" or resulting in the "significant degradation of a national park or similar protected area."

OPIC presents itself as a leader among bilateral international investment agencies in developing and applying environmental standards that it considers both reasonable and effective. OPIC requires public disclosure of environmental impact assessments (EIAs) for environmentally sensitive projects and adherence to current World Bank Group industry guidelines. OPIC once was the only government agency to make these demands, but, as is indicated elsewhere in this paper, countries such as the UK, Denmark, Norway and Germany are referencing international standards as well; NORFUND requires disclosure of the social and environmental impact of the project at all stages.

OPIC's EIA process includes environmental screening of projects that have major or minor potential environmental impact. They require an Environmental Assessment (EA) for every project considered. Because many of OPIC's foreign counterparts lack environmental standards, OPIC is committed to the development of common environmental standards for all countries.

OPIC's policy is to use the more stringent of current World Bank or host county environmental standards as the basis of its environmental review. Where there are gaps in World Bank standards, OPIC incorporates U.S. federal standards and standards set by other international authorities in its environmental assessment and decision-making process. Other Applicable Standards are actively sought out and imposed by OPIC. In addition to the World Bank Group 1998 Pollution Prevention and Abatement Handbook, the World Bank Group has issued operational policies on a variety of cross-cutting environmental issues, including Natural Habitats, Pest Management, Forestry, Projects on International Waterways, Involuntary Resettlement, Indigenous Peoples and Safeguarding Cultural Property. OPIC also supports Hydroelectric Dam Standards: certain large dam projects are categorically prohibited by OPIC. However, OPIC supports hydropower projects that have a minimal adverse impact on the environment and local inhabitants. While infrastructure and extractive projects, including commercial timber harvesting, in primary tropical forests are categorically prohibited, all other OPIC-supported projects involving extraction from natural forests, must be, and remain, certified by an independent non-governmental organization, such as the Forest Stewardship Council. OPIC also supports Ecotourism Standards -- all ecotourism projects must address the guidelines issued by Conservation International and the Ecotourism Society, that seek to balance profitability with ecological sustainability and respect for indigenous cultures.

To reflect the belief that developing countries must be incorporated into the development process, OPIC is required by U.S. law to notify appropriate host government authorities of investments being considered by OPIC that have the potential to pose significant consequences for the environment. OPIC is also required to provide the host government with information about standards and guidelines applicable to such investments that have been developed by international organizations or by federal environmental regulatory authorities of the United States.

OPIC also supports a tool derived from the World Bank called a "Cumulative and Associated (Connected) Impact Assessment." In considering project applications, OPIC takes into account in its decision-making process the overall environmental effects of which its involvement is part. The agency will avoid support where OPIC involvement in a project results in negative cumulative or associated impacts. Cumulative impacts can result from individually minor but collectively significant actions taking place over a period of time. Assessing associated or connected impacts recognizes that certain other industrial processes are directly and indirectly linked with the project being assessed and their environmental impacts must be incorporated into the environmental assessment.

The U.S. Government recognizes that any effective international effort to reduce greenhouse gas emissions must include meaningful participation by developing countries (Clinton, 1997). OPIC seeks to support this policy via mechanisms such as Joint Implementation and Climate Change Reporting. In an effort to support the management of global greenhouse gas emissions, OPIC tracks and reports, on an aggregate basis, the annual greenhouse gas emissions from its power sector projects, as well others with GHG emitting projects. This is particularly useful as project-based reporting has limitations.

In addition to its public reporting of initial EIAs, OPIC devotes effort to performance reporting during the project as well: they require performance monitoring and audit of compliance with OPIC's environmental and social conditions. OPIC's environmental assessment process is an ongoing one and continues through the full term of OPIC's relationship with the project sponsor. OPIC reserves the right to monitor projects' compliance with environmental representations and undertakings throughout the term of its insurance or financing. Monitoring may take the form of self-reporting by the investor of summaries and, in specified cases, raw data obtained from monitoring a project's environmental performance (emissions, effluents or other waste discharges) as well as its environmental impacts (e.g., on ambient conditions and biological resources). OPIC requires investors to submit annual self-monitoring reports for Category A (high potential environmental impact) projects. These annual reports must provide OPIC with regular testing results for any emission standards, effluent standards, ambient air limitations or water quality limitations that were represented by the investor. Monitoring may also take the form of third party evaluation, including compliance information developed by host government authorities, co-lenders and independent auditors.

OPIC also requires project sponsors to conduct, and certify that they have conducted, third-party independent audits for all projects designated as having a potentially significant environmental impact. The purpose of these audits is to evaluate a project's compliance with all environmental and social conditions (and underlying representations) that are reflected in OPIC's environmental or related social requirements with respect to the project and to validate the methodology used for all self-monitoring reports. At least one independent third-party audit must be conducted generally within the first three years of all Category A projects and the sponsor must provide certification to OPIC that OPIC's contract conditions have been met.

Another US programme of interest to this topic under discussion is the Pre-Investment Funding Programme (IFREE) sponsored by the US Department of Energy and USAID with support from the Rockefeller Foundation. It's goal is "to promote the sustainable use of renewable energy and energy efficient technologies in less developed and transitional economies." IFREE's Pre-Investment Funding Program shares the risks of project development with private sector companies by "sharing the cost of pre-investment activities that directly result in commercially financeable projects." (IFREE, no date).

Other countries are also working on the imposition of international standards on their home country private sector investors seeking to participate in FDI. In Austria, the project evaluation department of the Oesterreichische Kontrollbank Aktiengesellschaft (OKB) "makes an effort to ensure that the goods and services exported at a minimum meet Western European environmental standards." The German government refuses to promote any project that could be counter to international treaty obligations, such as the Montreal Protocol. (OECD, 1994: 20-21) NORAD has developed a system of environmental assessments (EAs) that reflect current OECD and World Bank thinking and standards. This system, under development since 1985, provides a method for NORAD to assess specific types of projects that are likely to have a significant environmental impact. NORAD has also invested in strengthening the World Bank standards (NORFUND, 1998). France has launched cooperative projects in coal-dependent countries such as China, Russia and the Ukraine, with the participation of major utilities and manufacturers, including EDF, GEC and ALSTHOM-STEIN INDUSTRIE. These cooperative projects promote the transfer of technologies that comply with current international regulation (France, Ministry of Foreign Affairs, 1998).

3. Denmark: Danida & Danced

Danida is a programme of the Danish Royal Ministry of Foreign Affairs. It oversees the Private Sector Programme (PS Programme). By cooperating with Danish companies directly, local (host country) companies benefit from Danida's various forms of support. The programme is based on three main components:

- Setting-up long-term, export-oriented cooperation between Danish and local companies.
- Establishing institutional frameworks and infrastructure capable of enhancing the commercial and investment climate.
- Commercialization and privatization of parastatals.

Danish assistance includes know-how and technology transfer, mapping out the potential of export markets and transferring higher environmental and work and environment standards to companies involved in the process (Danida, 1999).

Danida also funds the Industrialization Fund for Developing Countries (IFU), that participates in selected Danish investment projects in developing countries. The IFU was established as a self-governing fund by Act of Parliament in 1967, with the purpose promoting economic activities in developing countries through investments in collaboration with Danish companies. IFU participates as a shareholder in joint venture companies, and provide loans or guaranteesto investors. Normally IFU total involvement in a project does not exceed 25 per cent of the total investment, and is always smaller than that of the Danish partner.

The IFU requires that the project complies at minimum with host country environmental rules. As many of the host country environmental rules are less onerous than the Danish, the Danish partner to the project must also submit a "Best Practice Declaration", in which deviations from the Danish environmental regulations in critical environmental parameters are identified and quantified. At this level, the Danish environmental regulations are used as the standard. A third level involves an assessment of these critical environmental parameters based on World Bank Environmental Guidelines, in order to establish whether IFU can accept participation in the project. After funding, continuous monitoring of environmental indicators is required of project companies, particularly those that are of a high environmental impact or those that deviated significantly from Danish rules and regulations and/or World Bank Environmental guidelines. The IFU also assists in making sure that management in the project companies maintains this commitment, through an annual environmental status report. (IFU, 1998).

The Danish Cooperation for Environment & Development (Danced) was established in 1994 as part of the Danish EPA (itself part of the Ministry of

Environment and Energy) following the 1992 UNCED Conference in Rio de Janeiro. Its primary objective is to "contribute to the restoring of the global environment in accordance with" Agenda 21. In addition to its initial target regions of southeast Asia and southern Africa, Danced has expanded its focus to include South Africa, Namibia, Botswana, Lesotho and Swaziland.

Danced supports projects with the following objectives:

- Promotion of environmentally sustainable utilization of natural resources and the conservation of nature.
- Prevention and limitation of air, water and soil pollution.
- Promotion of sustainable use of energy.

By focusing on a limited number of environmental problems in a limited number of countries, Danced looks to build close cooperation between host country expertise and their Danish private sector counterparts in solving these problems.

One concern with opening up home country funds to their private sector actors for investment in the developing world is that home country firms will not be sensitive to the needs of the developing country recipient. The Danced Partnership Facility therefore works to ensure that the FDI need is defined locally before a provider is sought in their home country. The Danced Partnership Facility aims to promote the transfer of environmental know-how from Danish firms to Thailand and Malaysia through commercial cooperation between the private sector actors.

The Danced Partnership Facility takes in applications from the Asian companies for assistance. It provides support with travel expenses, preliminary feasibility studies, implementation of the project ideas and information activities. The projects have to be commercially viable. Participating Danish firms are typically SMEs, while Asian recipients can be much larger. Projects under consideration in 1997 related to the treatment of industrial wastewater, exploiting wind and solar energy, equipment for measuring pollution, help with environmental certification, and the management of chemical waste (Danced, 1997:10).

One completed Danced project was a Danish biomass incineration technology devised by the Danish firm EuroTherm. EuroTherm was positioned by Danced to help the Malaysian timber industry get more energy from less fuel. A request for assistance from the Malaysian timber industry was submitted to the Danced Partnership Facility. Danced provided funding for representatives of each side to visit each other’s facilities, for EuroTherm to produce a preliminary market survey, and for a more thorough analysis of the technical and financial aspects of the Asian plan. As of 1997, plans were to establish a pilot plant in Malaysia in the Spring of 1998.

4. Germany:German Investment and Development Association (DEG)

The DEG requires various assessments before investing in FDI projects. In addition to the economic viability of a project, the DEG requires an Environmental Assessment and an assessment of the ecological aspects of a project: what is planned to reduce negative impacts during construction and afterwards, and for the rehabilitation of sites. Like OPIC, the DEG references international standards: in this case of World Bank, IFC, EU, FAO, WHO, and EBRD. Their social assessments are intended to protect local communities from the impacts of building and the subsequent operation of development projects. Impacts on health & community, cultural goods and social structures are also considered, as well as child labor, activities particularly dangerous for women, and implementation of worker and human rights.

Examples of guidelines include the following: Damages from construction of a project should be limited or compensated elsewhere. Ongoing impacts should not exceed the existing resource limits. Waste should be properly disposed. The basic premise is the need for the greatest possible protection of the environment, which means reducing impacts on soil, air, water, plants and animals, closed manufacturing cycles rather than linear use of resources (e.g. water). In the areas of work of the DEG, particular attention must be regularly made in areas such as mining (social issues, moving people, post-mining re-vegetation, surface water protection).

A project is provided of a long-term loan that was granted to a project in Guatemala to a company that makes sugar. The new plant will burn the wastes and generate thermal energy for use in the facility. This project met the DEG social and environmental conditions: it will improve the country's infrastructure, support private economic development, and the operation was environmentally efficient: it used wastes as a renewable energy source or eliminated waste.

DEG does not limit its loans to German firms. They provide an example of a project they sponsored for the construction of a hydroelectric dam in Costa Rica, initiated in October 1995, in partnership with HydroQuebec (a Canadian TNC). DEG granted a long-term loan of up to 9 million DM. The issues encouraging DEG support were that there was a clear description of issues relating to the impacts; that it would improve infrastructure in the country, reduce dependence on imported oil, and support private economic development. The phenomenon of providing loans to non-national firms – so called "untied aid" – is also supported by programmes funded and managed by the Japanese International Cooperation Agency (JICA), Finland's Ministry of Foreign Affairs and by the Dutch Ministry of Foreign Affairs, Development Cooperation Division. Norway's NORFUND offers some untied aid (see below). The publicity surrounding the Japanese open bidding for ODA funding has encouraged agencies in Australia and the US to encourage their firms to bid for Japanese funds (Australia, Envirobusiness Update, 1998b; US ITA, 1997).

5. Norway: NORFUND and NORAD.

NORFUND – the Norwegian Investment Fund for Developing Countries – was established in May 1997, as a separate legal entity with limited liability. All the capital is provided by the Norwegian state. NORFUND's mission is to:

- Invest in profitable private enterprises in developing countries and promote business development in these markets.
- Support the realisation of viable commercial projects which balance social, environmental and economic considerations
- Contribute to the success of its co-investors by providing risk capital, subordinated loans and guarantees and expertise to Norwegian entities. Other loan vehicles can be provided for non-Norwegians.

One of NORFUND's two investment strategies is direct investment, where investments are made with a Norwegian partner, often in cooperation with a local partner. Here, NORFUND provides equity capital, relevant networks and expertise to a project. They require a well-documented business plan that demonstrates a profit potential and management expertise. They also require that projects in which NORFUND participates "comply with recognized international environmental and social standards, and with national legislation and regulations; [and they] require our partners to implement appropriate procedures to deal competently with the social and environmental aspects of their projects. These issues must be considered prior to an investment decision." (NORFUND,1998:19). A separate document has been published that outlines NORFUND's policies regarding these conditions.

NORFUND has attracted interest from Norwegian firms by active internal promotion and with an agreement with the Confederation of Norwegian Business and Industry (NHO) and other business organizations. NORFUND reports a rapid increase in demand for its services, and a strong concentration of investment in southern Africa. Examples are provided of projects, including facilitating the development by a Norwegian company, Norpalm, to successfully establish a subsidiary in Ecuador and introducing new Norwegian separator technology that reduces pollution from palm oil production and at the same time increases the amount of oil extracted from raw materials and thereby also increases productivity. (NORFUND, 1998)

Interestingly, Norway's attention to environmental issues in government programmes has only recently affected its export credit activities – which cover loans for exports and infrastructure project support. Norway has in the past not had environmental guidelines for Export Credit. But when the Norwegian Guarantee Institute for Export Credits (GIEK) pledged guarantees to Norwegian companies providing services to the Three Gorges project in China (Norsk Hydro, Kvaerner Energy and AGN), this received substantial domestic criticism. New guidelines were adopted in December 1998. The Ministry of Trade and Industry has said that the new guidelines would have excluded export guarantees to these firms. The new guidelines note that GIEK should be instrumental in making Norwegian export and investments respect the development of environmentally sustainable social and economic development in foreign markets where Norwegian business interests are involved. But the text of the guidelines is much softer. Requirements are that reports and documentation on environmental aspects are presented and that GIEK should treat environmental risks should be treated on a par with other risks. The guidelines also emphasize that the additional requirements on Norwegian firms should be on a par with other countries so that Norwegian firms are not put in a weaker export situation than their competitors. (GIEK, 1998; NorWatch, 1998)

The Norwegians have also adopted a regional approach to investment - a Network Cooperation Programme. Established in 1992, this is a temporary facility for cooperation between SMEs in Norway and India, Pakistan and Sri Lanka. In Norway, a private consultant company was engaged as the "National Focal Point" (NKP), who in turn hired 5-6 regional focal points (RKPs). There are four NKPs in the country. At the same time in India, a partner is also retained – in this case the Industrial Credit and Investment Corporation of India (ICIC). The job of the ICIC is to identify companies in India that wish to cooperate with Norwegian firms on particular projects. The companies work out company profiles that are sent to the NKPs in Norway. Norwegian companies interested in bidding on the project send their credentials to the firm. NORAD provides travelling expenses for Norwegian or Indian managers. NORAD can be approached for funds for the feasibility study. The programme also aims to sell licenses, to subcontract special parts for the Norwegian product or process development. Once a contract is in place, both companies have the option of applying for general NORAD support.

6. New Zealand: Asia Development Assistance Facility (ADAF)

New Zealand Official Development Assistance (NZODA) provides support for economic and social development in developing countries, especially in the South Pacific and Asia Regions. The Asia Development Assistance Facility (ADAF) is a regional programme of NZODA. Development funding, which is managed by the Development Cooperation Division, Ministry of Foreign Affairs and Trade, is appropriated by Parliament "to help promote sustainable economic and social progress in developing countries."

ADAF was developed to increase the involvement of New Zealand private sector in NZODA. ADAF provides partial grant support to private sector initiatives in project development, design or delivery in Asia. It offers scope for New Zealand enterprises to establish linkages and business relationships that are intended to "promote sustainable development." The primary prerequisite for accessing ADAF funding is that the identified activity must have strong developmental merit or benefit to the local stakeholders. Additionally, the New Zealand partner should be able to identify a commitment to development in Asia and that they have the appropriate expertise for the proposed task. This means that relevant Asia and development experience should be available and that the required partner relationship has been established before an ADAF proposal is submitted.

Over the past four years the ADAF has been involved in a range of project activities in agriculture, education, health, community development, resource and environmental management, eco-tourism, community forestry, micro hydro, telecommunications, manufacturing, human resource development, aviation, institutional development and public sector reform. Grants are provided for capacity building, project development or investment.

ADAF guidelines do not specifically reference international standards, as do the US OPIC, the German DEG, and others cited in this report. However, they do require a thorough preliminary analysis, including that "the downstream project proposed is consistent with the relevant host government development plans and priorities. Further, it is essential to consider the "direct and indirect benefits to the host country and socio-economic progress of the local stakeholders", and the proposal must include "a participatory method for maximum involvement of the local partner." The proposed business plan should include a strategy for equitable distribution of benefits (gender, marginalized groups, etc); [and] provision for monitoring of impact (technology uptake where relevant) and sustainability of the proposed project." (NZODA, 1999)

The Ministry of Foreign Affairs and Trade also reports that there are working on a Public/Private Partnerships Scheme managed by Sustainable Project Management (SPM), a non-profit organisation based in Geneva. Prior to 1999 they participated in the UNDP PPP scheme. "The aim of the scheme is to bring together public investors … and the private sector to address project possibilities and bring together public and private sector interests to work up a project financing arrangement and feasibility package. Recently, through this PPP scheme, a consortium of New Zealand companies secured exclusive rights to examine the feasibility of a waste water management development in the Philippines. SPM will now be working with the Philippines public sector and the New Zealand consortium to put together the formal partnership and help create a new company to perform the work." (Geidelberg, 1999)

7. Switzerland – Federal Office for Foreign Economic Affairs (BAWI), Clean Production Centres (CPCs)

The Swiss Federal Office for Foreign Economic Affairs (BAWI) oversees their Clean Production Centres. They have an active project currently in Colombia only, and plan to expand "soon" to Costa Rica, Guatemala, El Salvador, Peru, Morocco, Pakistan, Brasil & Indonesia. The concept behind the CPCs is "To promote the utilization of environmentally sound technologies and introduce produce production processes that are eco-efficient…in…developing countries, making use of Swiss know-how and technology whenever possible." Clean technology is defined as the following:

- Creation of an environmental-related information system (collaborating with Swiss Organization for Facilitating Investments (SOFI) to promote business contacts, promoting available Swiss technologies)
- Technical Assistance (organizing demonstration projects, performing LCA on products & companies, general risk analysis, introducing EMSs leading to ISO14000 certification)
- Training (on-the-job training for demonstration projects, specialized workshops...for specialized sectors)
- Financial Consulting (identify sources of finance and supporting the formulation of bankable projects) (BAWI, 1999)

Some of these activities are not strictly FDI and can be more accurately characterised as export promotion with a "green face." However, this theme was identified by the OECD January conference on FDI and the Environment as an important area for the private sector to work on. It is of interest, therefore, to see the range of public sector programmes supporting the export of clean technologies by their home country firms. The USAEP program in Clean Production and Environmental Management has already been mentioned. (USAEP, CTEM) In Australia, Environment Australia's Environmental Industries Focus Unit works to "encourage industry efforts to identify, develop, and expand commercial opportunities for Australian environment management expertise and technology…". (Australia, *Envirobusiness Update*, 1998). Japan's Ministry of International Trade and Industry's (MITI) and the Japan External Trade Organization's (JETRO) Green Aid Plan is designed to bring "…cooperative transfer and diffusion of energy and environmental technology to those countries, based on Japan's experience and technological expertise in environmental protection fields." (JETRO, no date)

8. Canada: CEIS, CIDA -- CIDA-INC and CABSA.

Active promotion of foreign trade and investment involves the proactive seeking of industrial contracts in developing counties for home country firms, and then staying with the process until the contract is in place. The types of support in this process can involve:

- Networks continually identifying appropriate business opportunities
- Networks alerting appropriate home country providers of an opportunity
- Funding the pre-feasibility and/or feasibility and planning meeting by a home country consultant who hopes to obtain the whole project contract for their firm
- Obtaining funding for the project from a variety of national and international commercial and governmental/ multilateral sources – often from other agencies in the home country government suite of development assistance services.

A good example of a proactive programme matching needs in a developing country with capacities in the home country is Industry Canada's Canadian Environmental Industry Strategy (CEIS). The CEIS includes the promotion of Canadian business abroad, to take advantage of the need for a sustainable development approach and the market in environmental technologies, which they project to become substantial at the turn of the century. The CEIS consists of 22 initiatives that support the growth of Canada's environmental industry. Ten of these aim to improve the industry's access to domestic and international markets. Some of the support activities are indicated in the list below:

- Developing domestic and foreign market intelligence
- Disseminating this intelligence via the Environmental Industry Virtual Office
- Transferring information about the environmental industry to Canadian trade representatives abroad
- Supporting the independent verification of performance claims on new environmental technologies and enhancing their international marketability
- Assisting Canadian firms to take commercial advantage of international agreements
- Improving industry awareness of federal export support through the Export Development Corporation and Official Development Assistance projects (Industry Canada, 1999).

Internationally, Industry Canada works though Canada's International Business Strategy (CIBS), which provides an umbrella under which CIBS and the Department of Foreign Affairs and International Trade partner with the private sector to coordinate Canadian trade and investment opportunities. Some examples of these programs in action can be seen in projects with CIDA-INC and CABSA (CABSA, 1999a and 1999b).

CIDA-INC was established in 1978 "in recognition of the positive role that private sector investment can have on sustainable development", and to ensure that these private initiatives had a better chance of succeeding with a government-funded "bridge between commercial and development interests." CIDA-INC attracts companies that are considering participation in basic private infrastructure projects (power, water, sanitation, telecommunication, etc). CIDA-INC offers to contribute to finding sources of funding for the project, and then to share the costs or pre-feasibility studies, contribute to reducing the costs of complementary training, in particular on social/ gender and environmental issues. Applicant forms have to show financial stability and that they are prepared to invest in the developmental aspects of the project (training, social/ gender and environmental impact.)

An example of a CIDA-INC project is with the installation of wastewater collection and treatment facilities on Margarita Island in Venezuela. CIDA-INC supported Delcan, Inc. in obtaining two consecutive contracts with the Venezuelan Environmental Ministry, who in turn funded the work (costing nearly US$75 million) with a $58 million loan from Canada's Export Development Corporation and the Canadian Imperial Bank of Commerce that tied the assistance to the provision of Canadian goods and services; and a $15 million loan for local costs, with support, from the World Bank.

The Canadian Alliance for Business in Southern Africa (CABSA) is funded by CIDA, the Canadian International Development Agency. Programme objectives are guided by economic and development objectives in South African and throughout Africa. They integrate sustainable development objectives in their concern for supporting SMEs in the previously disadvantaged business community, job creation and sustainability.

CABSA works to develop long-term business linkages between Canadian and Southern African companies typically in the form of joint ventures which involve the transfer of Canadian technology, expertise and/or capital. CABSA is a proactive programme that looks for areas of opportunity appropriate for Canadian companies to establish themselves in South Africa. … Generally, we will approach Canadian companies who are active in industry sectors that seem to have above average potential in South Africa and , if they are willing to consider establishing a joint venture in South Africa, then we conduct a preliminary market scan, identify and qualify a number of potential partners, organize and help fund a business investigation mission and help prepare the company to make an application to CIDA-INC for assistance in conducting the feasibility studies and business plans. . We also accept project proposals from companies outside sectors we have identified as having high potential, however they must be very specific as to the niche they would be targeting and the value that their product/service could provide over and above what is currently available locally. Essentially CABSA tries to share the risk with Canadian companies who would not have otherwise considered doing business in South Africa, but for whom there is good opportunity to earn profit and contribute to the economic development of the region."

Officially, CABSA's primary objectives are to act as facilitator and catalyst in the promotion of long-term strategic alliances between Canadian and South African firms, both in the established and the Black Economic Empowerment (BEE) sectors. Secondary objectives are to survey, analyse and disseminate relevant information in order to increase awareness amongst Canadian companies of the long-term opportunities and challenges of doing business in the 'new South Africa'; to expose key South African decision makers in the public and private sectors to Canadian capabilities; to assist Canadian firms to penetrate the SADC market, using South Africa as a gateway to the region; to continue to provide Canadian assistance and support to SMME's in the previously disadvantaged South African business community; and to support projects which foster employment creation and sustainability in South Africa.

To qualify for the programme, company annual sales must be in excess of $1 million per year, they must be a registered Canadian company (Canadian affiliates of foreign companies qualify), all companies must pass a check of their creditworthiness and the project cannot be in "questionable sectors" such as arms, narcotics, etc.. Subjective criteria that we apply include a long term approach to business in South(ern) Africa, a willingness to make a local investment (financial, technological etc.), local value added at least approaching the Canadian content and the creation of local jobs.

Parts of these Canadian programmes, particularly the CEIS, are offered by nearly all the governments, in their traditional export promotion activities. Trade Missions are a popular method for governments to support home country executives. The Japan External Trade Organization (JETRO) dispatches overseas investment missions "as necessary to investigate the local investment environment in counterpart countries and to actively exchange opinions with those governments (JETRO, 1999). Environment Australia's Environment Industries Focus Unit (EIFU) promotes trade missions to Asia for Australian environmental firms (Australia, Environment Australia, 1999). Several country programmes provide market information to their home country firms on export promotion opportunities through government publications, trade enquiry services, video presentations, and the internet. Canada's DFAIT, the US AID and US International Trade Administration (ITA), the French government, Japan's International Centre for Environmental Technology Transfer (ICETT) are some examples. The Italian Instituto Nazionale per il Commercio (ICE) provides information about market opportunities to subscribing members on their internet site (although this is strictly for commercial opportunities). USAID Asian and Latin American officers speak at regional / state conferences that involve firms exporting environmental goods and services

III. Conclusion

Programmes to promote sustainable FDI occur within many of the OECD countries. They were located within a variety of government ministries, most commonly the ministries of Foreign Affairs or Environment or the offices of international development assistance. Some originate in the trade ministries. The table following shows the variety of institutional homes that such programmes may have.

The programmes themselves range in their scope and focus. Even within one country, the programmes are not always coordinated under one institutional home. Some are concerned with stipulating environmental and social conditions for supporting major investment projects in the developing world. These stipulate environmental and social impact assessments prior to and throughout the project cycle, on the lines of the World Bank Guidelines. Others see opportunities to achieve development objectives and simultaneously to promote domestic expertise in 'clean technologies'. Some offer a mixture of both, and place officers in developing countries to facilitate and support private sector partnerships between firms in both countries. A new feature here is that a developed country's smaller, specialized firms can now play a role in these partnerships. Some programmes are more aspirational and voluntary, and have developed voluntary Codes of Conduct for their businesses operating abroad.

IV. OECD Governments and their Agencies:

Table of Initiatives to facilitate Investment by their TNCs in Developing Countries that is supportive of Sustainable Development

The table of initiatives to be found on the following three pages presents the findings of the informal survey of OECD governments and government agencies requesting information about their programmes to facilitate investment by their home country TNCs that is supportive of sustainable development. Information is catalogued alphabetically by government. Relevant Ministries and Agencies are indicated, with their website addresses for more information; and then the relevant program is names and its goals and activities briefly described.

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