

## Foreword

Since the mid-1980s there has been a marked increase in international private capital flows with the growth of international trade and the increasing economic integration of business activity. Developing countries as a whole have witnessed significant increases in both portfolio flows and foreign investment. The bulk of these private flows, however, has been concentrated in a handful of developing economies, including several Commonwealth members, while the rest have yet to receive significant private capital inflows. Other economies have been faced with the problem of volatile movements in capital flows which have greatly complicated economic management and eroded some of the benefits of international capital mobility and economic reform.

There is considerable interest among Commonwealth members in ways to attract private capital flows and to minimise the risk of sudden surges in capital movements and to cope with such surges should they arise. The Commonwealth Finance Ministers Meeting in Bermuda in September 1996 discussed trends in private capital flows and their implications for economic development. In response to a request by Finance Ministers, I constituted a working group of senior finance officials to consider the role of national and international policies in encouraging private capital flows for investment. The Working Group on Private Capital Flows, under the Chairmanship of Mr. David Peretz, Deputy Director of the British Treasury, met in London this year. The Working Group's Report was endorsed by the Commonwealth Finance Ministers Meeting in Mauritius in September 1997 and the Commonwealth Heads of Government Meeting in Edinburgh in October 1997.

The Working Group concluded that, in general, private capital flows can bring notable benefits for economic development by increasing growth and investment. To ensure that the spread of the gains from increased private flows are maximised by all developing countries, the Group suggested action which should be taken by national governments, the international community and the Commonwealth. The Group stressed that the international community has a major role to play in promoting inward investment, particularly in countries that have had difficulty in attracting foreign investment, and in establishing multilateral arrangements to enable countries to cope with capital surges. As far as the Commonwealth is concerned, the Group recommended that it should do the following: develop a Commonwealth Code of Good practice for national policies that attract and sustain private flows; help groups of countries to develop regional strategies for investment promotion; assist countries to improve the regulatory and supervisory framework for their banking and securities markets; prepare a handbook of best practice in investment promotion; extend the Commonwealth Private Investment Initiative to new regions; and encourage the creation of privatisation trust funds and new mechanisms for risk insurance and guarantees. A number of the recommendations in the Working Group's Report are now being carried forward by the Secretariat. We are also undertaking a follow-up study of the lessons to be learned from recent developments in some currency markets and how countries can be protected against the destabilising effects of capital market volatility especially when it arises from speculative activities.

I warmly commend the Report and hope that it will be helpful to Commonwealth Governments in formulating national strategies for attracting foreign investment and minimising the risk of sudden surges in capital flows.

Emeka Anyaoku, *Secretary-General*