

Recommendation on Sustainable Foreign Direct Investment in the Western Balkans Six

Background Information

The Recommendation on Sustainable Foreign Direct Investment (FDI) for the Western Balkans Six (WB6) is endorsed by the high-level government representatives in the WB6, following a proposal by the Joint Working Group on Investment (JWGI). This initiative, stemming from the Common Regional Market 2 (CRM 2) Action Plan 2025–2028, aims to guide WB6 governments in leveraging FDI to advance and achieve sustainable development goals relevant to the region.

Sustainable economic development is about creating long-term economic growth and development without compromising the ability of future generations to meet their own needs. It is a key component of the Sustainable Development Goals (SDGs), and meeting these commitments requires substantial financing. Alongside public and private investment, FDI is a vital resource for driving inclusive and sustainable development. However, beyond merely increasing FDI inflows, the quality of these investments is crucial. With global FDI flows increasingly shifting towards developed regions, the WB6 need clear guidance to attract sustainable FDI that balances investor interests with the protection of people and the environment.

In the WB6 context, sustainable FDI refers to foreign investments that, beyond investors' returns, contribute in a substantial and demonstrable manner to the economic, social, and environmental objectives of the investment host, as enlisted in key development policies and aligned with the SDGs, while ensuring no or minimal harm to the investment host.

The benefits of FDI vary across the WB6. However, as the WB6 work towards deeper regional integration and EU accession, they need to ensure a level playing field for FDI - one that helps preserve natural resources, improve human well-being, and support technological progress, while driving economic growth. To fully realise the potential of FDI in this direction, strong investment policies and institutional capacity are needed to align investments with developmental ambitions.

In this context, this Recommendation presents key high-level, action-oriented priorities aimed at attracting and enhancing the impact of FDI towards sustainable development across the WB6. A complementary Sustainable FDI Policy Toolkit is developed which provides a practical framework to support the implementation of these recommendations.

In the spirit of strengthening regional efforts to integrate sustainability into investment policy and promotion, the Recommendation was developed through a comprehensive consultative process led by the JWGI and facilitated by the Regional Cooperation Council (RCC). It builds on a gap analysis, which served as the background document and laid the groundwork for this initiative.

Preamble

WE, the high-level government representatives in the Western Balkans Six (WB6),

RECALLING our shared commitment to deepen regional economic integration, foster convergence with the EU Single Market, and jointly advance sustainable development across our region;

ACKNOWLEDGING the objective of Pillar V – Business Enabling Environment and Competitiveness of the Common Regional Market 2 (CRM 2) Action Plan 2025-2028 to establish a robust and competitive economic landscape aligned with EU standards and the goals of sustainable development;

RECALLING the commitments undertaken through the Sofia Declaration on the Green Agenda for the Western Balkans, including the integration of climate and sustainability considerations into economic policymaking;

RECOGNISING the critical need to accelerate investment flows that support the achievement of Sustainable Development Goals (SDGs) most relevant to the WB6 context, and COGNISANT of the imperative to align and support policies with the SDGs, particularly those related to quality education (SDG 4), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry and innovation (SDG 9), reduced inequalities (SDG 10), and climate action (SDG 13);

ACKNOWLEDGING that foreign direct investment (FDI) is a key source of sustainable finance and a driver of green and inclusive transition;

TAKING NOTE of the need to improve not only the quantity but also the quality and development impact of FDI attracted to the region;

RECOGNISING that sustainable FDI in the context of WB6 refers to foreign investments that, beyond investors' returns, contribute in a substantial and demonstrable manner to the economic, social, and environmental objectives of the investment host, as enlisted in key development policies and aligned with the SDGs, while ensuring no or minimal harm to the investment host;

RECOGNISING the existing status and diversity of approaches to integrating sustainability into investment policy and promotion frameworks across the WB6;

WELCOMING prior efforts and international guidance, including the OECD Council Recommendation on the FDI Qualities for Sustainable Development, the FDI Qualities Policy Toolkit developed by the OECD Investment Committee, and UNCTAD's Investment Policy Framework for Sustainable Development;

ACTING on the proposal of the Joint Working Group on Investments (JWGI), endorse the following recommendations, which can be implemented in a staged approach depending on the perceived level of complexity:

I. The WB6 to strengthen sustainable investment governance, including:

1. Establish a dedicated inter-ministerial mechanism within each of the WB6, or utilise existing investment councils, where available, to formulate sustainable FDI strategic framework and ensure cohesive oversight across competent institutions, particularly those responsible for economy, environment, finance, and labour.
2. Enhance the capacity of governmental institutions responsible for investment to identify sustainable FDI opportunities and to gain deeper insights into investor priorities and strategies.
3. Involve local governments, private sector stakeholders, trade unions, civil society organisations, and communities in the development of sustainable FDI policies through structured stakeholder engagement mechanisms, public consultations, and inclusive social dialogue, prioritising groups most impacted by FDI projects.
4. Demonstrate sustainability in government operations and economic activities to serve as a model for responsible investment practices.
5. Affirm active commitment of governments to sustainable FDI principles at regional and international levels to foster trust and align with global standards.

II. WB6 to work towards a coherent sustainable FDI policy framework, including:

1. Identify a primary guiding policy document for sustainable development, formulate sustainable development goals and objectives with clear priorities, timeframes, and measures to guide the sustainable FDI strategic framework development.
2. Review existing investment laws, investment frameworks, and regulations governing special economic zones with the view of enhancing their alignment with prioritised SDGs, where appropriate.
3. Create and regularly update a pipeline of sustainable FDI projects across sectors, clearly defining the expected FDI contributions to SDGs of highest or immediate priority.
4. Promote investor adherence to environmental, social, and governance (ESG) standards and Responsible Business Conduct (RBC) principles to ensure responsible investment practices.
5. Develop relevant investment guidelines for government representatives engaging with investors to incentivise FDI contributions to SDGs, such as through knowledge transfer via educational programmes, training initiatives, or research and development investments.
6. Streamline policy frameworks to minimise administrative barriers and bureaucratic inefficiencies, enhancing the ease of sustainable FDI implementation.

7. Strengthen judicial enforcement mechanisms to enhance investor confidence and foster collaborative partnerships in achieving prioritised SDG objectives.

III. The WB6 to prioritise investment incentives with sustainable development impacts, including:

1. Where possible, revise existing investment incentives to eliminate those that undermine the achievement of the SDGs, such as those that compromise labour rights or environmental protection.
2. Strengthen and target incentives towards investments that directly support the achievement of the prioritised SDGs.
3. Explore options to better link investment incentives with sustainability criteria, with the aim of encouraging financial and non-financial support that contributes measurably to prioritised SDG outcomes.
4. Introduce dedicated incentives to encourage linkages between foreign investors and domestic companies, universities, and research centres in sustainable investment areas, fostering knowledge transfer and innovation.
5. Provide technical assistance and financial support to domestic SMEs to help them integrate into FDI value chains aligned with SDG priorities, including through meeting sustainability standards, obtaining international certifications, and fostering innovation to enhance their competitiveness.

IV. The WB6 to focus on investment promotion of sustainable FDI opportunities, including:

1. Clearly define and strengthen the roles of Investment Promotion Agencies (IPAs) and Special Economic Zone (SEZ) authorities within the sustainable FDI governance framework.
2. Strengthen IPAs and SEZs capacity to understand and prioritise promotion of sustainable FDI through targeted promotions and campaigns.
3. Establish mechanisms to ensure that IPAs regularly receive up-to-date information on sustainable FDI projects across sectors.
4. Improve investment promotion and targeting by actively participating in events dedicated to sustainable FDI.
5. Develop investor journey roadmaps that clearly outline the steps for sustainable FDI from concept to implementation, ensuring a smooth and transparent process.

V. Where possible, the WB6 to undertake a reform of their International Investment Agreements (IIAs) through the lens of a new generation of IIAs, with a view to integrating sustainability considerations, including:

1. Embed explicit clauses in the preamble and substantive provisions of new and renegotiated IIAs to uphold environmental sustainability, labour rights, and responsible business conduct (RBC), aligned with international standards.
2. Incorporate carve-outs and exceptions in IIAs to preserve the right of the government to regulate in pursuit of public interest objectives, such as climate action, social equity, and public health, reflecting best practices from the new generation of IIAs.
3. Negotiate IIAs that explicitly affirm the respective commitments to relevant international frameworks, such as the Paris Agreement, the United Nations Framework Convention on Climate Change (UNFCCC), core International Labour Organization (ILO) Conventions, and the Universal Declaration of Human Rights, and support the effective implementation of these obligations where applicable.
4. Negotiate or renegotiate IIAs to ensure that domestic environmental and labour laws are not weakened to attract investment.
5. Incorporate clauses in IIAs that require investors to conduct thorough due diligence to identify, prevent, mitigate, and account for environmental and social risks and impacts associated with their investments.
6. Include provisions in IIAs holding investors liable, under the laws of the investment host, for actions or decisions related to their investments that cause significant harm.
7. Participate proactively in multilateral discussions to reform IIAs, ensuring that the WB6 adopt global best practices for sustainable investment frameworks.

VI. The WB6 to establish FDI sustainable impact monitoring and evaluation, including:

1. Establish a review process to ensure that sustainable FDI strategic framework's measures are effectively implemented and integrated into broader assessments of investment policy effectiveness.
2. Regularly evaluate the progress of FDI projects against defined timeframes using measurable indicators (e.g. job quality, carbon emissions reductions, gender equity) to assess alignment with sustainable development outcomes.
3. Report regularly on the progress of sustainable FDI projects within the sustainable FDI governance framework and to relevant government bodies, ensuring timely information sharing and awareness of impacts and challenges.
4. Create mechanisms to incorporate input from local communities, NGOs, and industry stakeholders to refine FDI strategic framework and promote inclusive, sustainable outcomes.

5. Implement public reporting systems to disclose FDI project outcomes, enhancing transparency, accountability, and stakeholder trust in sustainable investment efforts.

VII. The WB6 to foster joint regional sustainable FDI appeal, including:

1. Develop a unified WB6 regional branding strategy to position the region as a cohesive and sustainable FDI destination, emphasising shared commitments to prioritised SDGs, green commitments and alignment with EU standards.
2. Strengthen the role of the JWGI under the coordination of the RCC as a platform for sharing good practices regarding sustainable FDI.
3. Coordinate joint WB6 investment promotion efforts at international forums to attract sustainable FDI, showcasing regional cooperation and complementary strengths.
4. Facilitate regional partnerships among WB6 governments, chambers of commerce, and academic institutions to develop joint sustainable FDI proposals, leveraging the CRM 2 to enhance collective attractiveness.
5. Where possible, work towards harmonisation of WB6 investment policies to ensure consistent sustainability standards and a level playing field across the region, minimising harmful competition and fostering mutual support in attracting FDI aligned with the prioritised SDGs.

VIII. The WB6 are encouraged to apply the Sustainable FDI Policy Toolkit for the WB6 developed to support effective implementation of this Recommendation.

IX. The WB6 are encouraged to utilise JWGI under the facilitation of the RCC as a platform for exchanging information, good practices, and experiences related to the implementation of this Recommendation.