General Assembly
Economic and Social Council

Distr.: General
21 May 2003

Original: English

General Assembly
Fifty-eighth session
Item 106 (a) of the preliminary list*
Follow-up to the International Conference on Financing for Development

Economic and Social Council
Substantive session of 2003
Item 6 (a) of the provisional agenda**
Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions and the World Trade Organization (New York, 14 April 2003)

Note by the Secretariat***

Addendum

Summary of the hearings and dialogue of the Economic and Social Council with business interlocutors (New York, 21 March 2003)

* A/58/50/Rev.1 and Corr.1.

** E/2003/100.

*** The present note was prepared by the staff of the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat, in consultation with the Steering Committee of Business Interlocutors on Financing for Development.

Summary

In preparation for the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions and the World Trade Organization, held on 14 April 2003, on the theme "Increased coherence, coordination and cooperation for the implementation of the Monterrey Consensus of the International Conference on Financing for Development at all levels one year after the Conference" (Economic and Social Council decision 2003/209), the Council had conducted public hearings and an interactive dialogue with business interlocutors to the Financing for Development process. The event, chaired by the President of the Economic and Social Council, Gert Rosenthal (Guatemala), took place at United Nations Headquarters on 21 March 2003. The morning session featured panel discussions on the following four topics: (i) Identifying and eliminating business environment impediments to private investment; (ii) Enhancing information, analysis and communication of country opportunities, risks and investment transaction services; (iii) Improving developing country access to long-term finance for infrastructure development and domestic companies; and (iv) Establishing frameworks for collaboration and coordination between the public and private sectors in the implementation of the Monterrey Consensus. Each panel meeting consisted of presentations by business representatives followed by discussions with Council delegates, including questions from the audience. During the afternoon session, business interlocutors provided progress reports on specific initiatives and projects set forth by them at the Monterrey Conference, as well as new ventures. Salient substantive features of the proceedings of the morning and afternoon sessions are summarized below.

I. Morning session: hearings and dialogue with business interlocutors

1. The Chairperson of the meeting, Gert Rosenthal, President of the Economic and Social Council, opened the meeting and welcomed all panellists and participants. In his opening remarks, Ambassador Rosenthal highlighted the important role that the business sector had to play in implementing the Monterrey Consensus of the International Conference on Financing for Development.[1] He outlined the key topics on the agenda and the organization of work.

2. The moderator of the morning session, Moeen Qureshi, Chairman, Emerging Markets Partnership, in his opening statement, emphasized the following key points in order to focus the deliberations:

- One of the most significant international economic developments of the past several decades had been the significant growth of private capital flows to developing countries. The most attractive part of those flows was foreign direct investment, but the bulk of that was concentrated in a small number of countries. The central issue therefore was what could be done to augment foreign direct investment and to broaden the access of developing countries to it

- Much of the growth of foreign direct investment had been due to privatization and the opening up of the economies of several large developing countries to international investment and trade. For foreign direct investment to continue to grow it would be necessary to create a more receptive environment in developing countries, not just those that were undertaking large-scale privatization or had large domestic markets which foreign investors found attractive

- Experience had clearly demonstrated the important role and contribution of a public/private partnership in which Governments provided essential public services and assured an equitable and efficient investment environment, while the private sector provided entrepreneurship in a socially responsible manner

- The importance of domestic investor confidence. It was very difficult to attract foreign investors if domestic investors did not have confidence in, for example, the legal and regulatory system. Convincing the domestic investor was therefore a necessary prerequisite for attracting foreign investment.

3. In their opening statements on behalf of the business interlocutors to the Financing for Development process, Maria Livanos Cattaui, Secretary-General, International Chamber of Commerce, and Paul Underwood, Executive Director, Business Council for the United Nations, stressed the following points:

- A key feature of the Monterrey process was the recognition of the critical importance of mobilizing private sector investments from both within developing countries as well as internationally. The private sector constituted the dominant share of cross-border investments in developing countries and, overall, would have an increasingly important role in driving development

- Monterrey has seen the emergence of many ideas, projects and proposals for new mechanisms for financing development. Business representatives themselves had put forward numerous initiatives. However, in the year that had elapsed since Monterrey, it had become clear that there had been insufficient forward movement on those various fronts

- The business proposals put forward in Monterrey were potentially important contributions, but could only be successful with the full and active participation and support of national Governments and their international and regional organizations. There needed to be coordination and collaboration between business, Governments and multilateral institutions in various areas such as designing, implementing and financing new initiatives. Those entities also needed to work together to overcome impediments facing the private sector, implement measures that increased the supply and effectiveness of finance in developing countries and, finally, established a framework for measuring progress against the Monterrey Consensus.

Panel 1: Identifying and eliminating business environment impediments to private investment

Presentations

4. Ms. Cattaui stressed that foreign and local investors faced similar concerns. According to the speaker, the major impediments to private investment that needed to be overcome included cumbersome administrative procedures, lack of communication between business and Governments, unreliable information and difficulties in finding capital for new entrepreneurial ventures. Taken together, those and other difficulties created an unstable and unpredictable investment climate. The International Chamber of Commerce was engaged in a number of activities to address those problems. The activities were outlined at the afternoon session (see para. 19 below).

5. Clare Cowan, Chair and Chief Executive Officer, Venture Exchange Network, reviewed the importance of venture capital investment in driving sustainable development in developing countries. Ms. Cowan also addressed the possible measures that might be implemented to facilitate greater venture capital investment in developing countries. According to the speaker, one of the solutions could be the establishment of a multi-stakeholder team representing the private sector, Governments and multilateral organizations. The group would aim to leverage domestic and multilateral resources to make transparent investment opportunities and also mitigate the risks associated with foreign direct investment in developing countries.

6. Frank Fernandez, Chief Economist, Securities Industries Association, drew attention to the importance of developing local capital markets in developing countries. According to Mr. Fernandez, a viable financial market infrastructure was still lacking in most developing countries and, as a result, investors tended to focus on just a few countries that had adequately deep and liquid markets.

Discussion

7. The following key points were raised:

- One delegation pointed out that good institutions were needed not only for attracting capital but also for retaining domestic resources. The importance of business advisory groups as a way of educating both Governments and investors was also emphasized

- Another delegation expressed concern about prospects for foreign direct investment at a time of world economic slowdown. In response, a business interlocutor pointed out that it might be an opportune time for developing countries to build up investment attractiveness to prepare for the next round of capital flows when global growth resumed

- It was noted by delegates that some emerging economies could not avoid financial crises despite having relatively sound financial systems. In that regard, it was also pointed out that to deal with excessive volatility, countries such as Malaysia had had to adopt capital controls. While agreeing that in some cases capital controls might have provided a respite from volatility, a business interlocutor nevertheless emphasized that that was not a long-term solution and should not substitute for economic and financial reforms

- A delegation expressed concern about the problems facing countries whose economies depended on raw materials. A number of business interlocutors agreed that the developed nations could help matters here by improving market access and ending subsidies for their agricultural products.

Panel 2: Enhancing information, analysis and communication of country opportunities, risks and investment transaction services

Presentations

8. Barbara Samuels, President, Samuels Associates, pointed out that in the absence of adequate information, investment by the private sector was unlikely to be forthcoming. The problem was that available information in many developing countries remained inadequate and lacking in credibility. There were of course numerous impediments to obtaining and communicating reliable information, including high research costs, gaps and biases in information, incomplete disclosure, inadequate timeliness and inadequate resources in developing countries. Possible solutions to those problems included public-private partnerships, with support from donors and technology firms, to improve the quality of information and investor access to it. Complementary to that would be the development of policy consultation mechanisms for developing country Governments to communicate with domestic and foreign investors on investment impediments and possible remedies.

9. James Mutende, former Manager, Uganda Commercial Bank, stressed that inadequacies in information were a major problem for domestic investors, especially the considerable discrepancies in financial information coming from a variety of sources and government agencies. Government and the private sector should discuss how to overcome those problems.

10. Mr. Fernandez spoke about the importance of information in crisis prevention and resolution. In that context, he stressed the importance of having ongoing country debtor-creditor communications that would improve the relations between sovereign debtors and creditors as well as the sovereign debt workout process. The private sector had set forth an integrated approach, encompassing proposals for enhancing creditor-debtor relations, crisis prevention and resolution, including code of conduct and legal clauses, such as collective action clauses. According to the speaker, that

approach was more comprehensive than the Sovereign Debt Restructuring Mechanism (SDRM) advocated by the International Monetary Fund (IMF). That comprehensive approach promoted debtor-creditor consultations and information exchange before problems became unmanageable.

11. Robert Sheppard, Managing Director, J. R. Sheppard & Co. LLC, spoke about information required by investors who financed infrastructure projects in developing countries. According to Mr. Sheppard, it was very difficult in practice for investors to find the necessary information to analyse properly the risk of placing money in infrastructure projects. They would also be helped if more details were provided by the official sector on successful projects as well as on the lessons learned and experiences gained in project financing in different developing countries.

Discussion

12. Participants raised the following points:

- Business interlocutors emphasized the importance of Governments and businesses working more closely in order to understand the needs of the other party
- Many speakers stressed that better information was very important to eliminate the difference between perceived and actual risks. In that regard, a business representative also emphasized the great importance for developing countries of ensuring a sustained flow of information to the markets in all times, good and bad. That action would help sustain debt flows and credit relationships
- Business interlocutors and delegations alike pointed out that better information should help investors to differentiate between developing countries and enable them to understand more fully different institutions and environments
- Some delegations questioned the extent to which rating agencies provided reliable information to the market.

Panel 3: Improving developing country access to long-term finance for infrastructure development and domestic companies

Presentations

13. Crocker Snow Jr., President, Money Matters Institute, briefly reviewed the impediments to long-term finance and possible solutions. He pointed out that there were not enough mechanisms for risk-sharing between the official and private sectors through mechanisms such as guarantees, co-financing and insurance. A solution to those problems could be public-private partnerships and forums to develop new innovative financing and risk mitigation schemes. Mr. Snow also argued that developing countries with a strong base in information technology tended to be more attractive for investors, since information technology was needed to communicate and market products.

14. Mr. Sheppard, noted that, historically, the greatest part of the financing for developing-country infrastructure projects had been provided by commercial banks, often in conjunction with officially backed export credit agencies or multilateral agencies. Recently, however, commercial banks had, in general, retreated from developing-country project financing. As a result, the necessity of having properly

structured transactions to obtain financing from capital markets had become more important. The international capital markets were the largest and deepest pool of financing in the world and, in conjunction with local capital markets, which represented an essentially untapped source of funds for infrastructure projects, could make a huge contribution to economic development, if effective transaction structures were developed.

Discussion

15. The main points raised by participants were:

- One delegation commented that in public-private partnerships, the emphasis had so far been on the public sector. In that respect, the private sector should come with its own initiatives which, if worthy, should be recognized and assisted by the public sector
- The importance of new approaches towards resource mobilization was emphasized. In that regard, the proposal by the British Chancellor of the Exchequer, Gordon Brown, to create an international financing facility that could leverage funds from international capital markets using future official development assistance outlays to service the instrument was seen by several participants as a constructive suggestion
- One delegation highlighted the importance of government intervention in promoting capital market development
- Some delegations raised questions regarding the efficacy of rating agencies and the transparency of their evaluation process. A business representative from a credit rating agency argued that the work of rating agencies was becoming more transparent. For instance, rating methodology and analysis of any rating changes could be found on the web sites of leading credit rating agencies
- It was also pointed out that source countries could take appropriate actions to facilitate foreign investment to developing countries.

Panel 4: Establishing frameworks for collaboration and coordination between the public and private sectors in the implementation of the Monterrey Consensus

Presentations

16. Mr. Underwood said that the Monterrey Consensus emphasized the importance of private capital. However, the private sector could do more only through cooperation and coordination with the public sector. In that respect, the Financing for Development secretariat could establish a framework to facilitate communication, including regular meetings between business and government representatives. He emphasized three specific difficulties. First, business representatives had difficulties in communicating directly with key players in Governments and multilateral organizations. There was as yet no facility to send e-mail directly to them. Secondly, there was as yet no clear monitoring mechanism to measure progress made by Governments in implementing the Monterrey Consensus. Thirdly, there was a lack of funding to support the implementation of the numerous initiatives proposed by business representatives in Monterrey and its aftermath.

Discussion

17. The following points were made:

- The need to establish periodic reviews of projects at quarterly meetings at the United Nations with meaningful participation from Governments and business was stressed by business interlocutors. A mechanism for ongoing communication through e-mail would also be valuable
- There seemed to be agreement on the usefulness of joint expert groups targeted on critical problems and results. Donor countries, regional development banks and international financial institutions should support those initiatives. Moreover, it was suggested that benchmarks for the performance of all stakeholders (developing country Governments, donor country Governments, international organizations and the private sector) should be jointly established and monitored.

II. Afternoon session: briefing by business interlocutors on the status of private sector initiatives on financing for development

Overview

18. During the afternoon session, business interlocutors provided progress reports on the specific initiatives and projects set forth by them at the Monterrey Conference as well as new ventures. Those initiatives were described in detail in the handout distributed by the business sector, entitled “Recommendations for moving from words to actions from the Coordinating Committee of Business Interlocutors on Financing for Development”. The document is posted on the Financing for Development web site: www.un.org/esa/ffd. The key points made regarding those projects during the meeting are highlighted below.

Presentations and discussions

Initiatives sponsored by the International Chamber of Commerce

19. Ms. Cattaui presented the following initiatives:

- Investment guides had been published in cooperation with the United Nations Conference on Trade and Development (UNCTAD) for seven least developed countries in Africa and Asia, with the objective of enabling them to attract investment. That was done through surveys (involving local and international investors and domestic Governments) that provided information on the needs and impediments facing businesses and also facilitated the provision of unbiased information for investors. Investment guides had been prepared for Uganda, Mozambique, Ethiopia, Bangladesh, Mali, Nepal, and Cambodia. Countries such as Benin, Guinea-Bissau and Madagascar had asked the International Chamber of Commerce to create investment guides for their countries as well
- The Investment Advisory Council for the Least Developed Countries had been established jointly with UNCTAD, with the objective of facilitating interaction between government and business representatives and providing least

developed country Governments with advice and recommendations that could help increase the level and quality of foreign direct investment. A number of projects had been realized as a result of that initiative, including in the areas of water and electricity

- The New Partnership for Africa's Development (NEPAD) Business Group comprised a number of business organizations around the world that the International Chamber of Commerce had put together in order to support the NEPAD process through strengthening local business and encouraging business-friendly measures by Governments.

20. Ms. Cowan described a Policy Action Group on Venture Capital that her company had established. The objectives of that Group included fostering the development of a more competitive and fair global market for venture capital and removing the barriers to the free flow of venture capital across international borders (in particular encouraging greater investment in developing countries). Through the establishment of a multi-stakeholder team representing the private sector and government and multilateral organizations, the Group aimed to leverage national and multilateral resources so as to mitigate risks for investors and better inform them of opportunities.

21. Both speakers encouraged more Governments to participate in the aforementioned initiatives.

22. A number of points were made during the discussion following the presentations. The view was expressed that venture capital tended to flourish more in those societies where there was less of a stigma attached to failure and where people were more willing to take the necessary risks to get involved in starting new companies. Another point was that there were different types of venture capital investments that spread out across a range of sectors, including infrastructure. In addition, business interlocutors emphasized the need for good business practices in developing countries, pointing out that venture capitalists had a fear of corruption, unusual trade practices and the lack of the rule of law. They also pointed out that regulatory impediments existed to venture capital investments in a number of developing countries.

Initiative sponsored by the Money Matters Institute

23. Mr. Snow provided a briefing on the Global Horizon Fund Program, which had been sponsored by both the Money Matters Institute and State Street Global Advisers. The programme would be established as a linked series of four to five private equity funds, each for a different region of the world, that would aim to direct equity investments in early stage and emerging growth companies, buyouts and privatizations. Capital commitments of up to $1 billion would be sought from a combination of private sources, such as corporate and institutional funds and public sources, including regional development banks and multilateral agencies. With respect to the United Nations, Mr. Snow suggested that it would be welcome to make an intellectual contribution to the implementation of the initiative.

Initiative sponsored by Samuels Associates

24. Ms. Samuels presented the Global Information Clearinghouse Web Portal including Government-Investor Networks. The proposal was an endeavour to bridge

the information gap between investors and Governments at the domestic and international levels. The Clearinghouse would provide investors with credible, timely information on countries and markets in the developing world through a web site that was designed to meet the needs of the specific user. Beyond that, though, the Government-Investor Networks could be established as part of the Clearinghouse to provide a direct communication platform between countries and investors.

25. The proposal had received financial assistance from the Ford Foundation and the Government of Norway. Two pilot prototypes of information and Government-Investor Networks relating to Ghana and Mauritius had been prepared and could be viewed on the Internet. In addition, the Government of Switzerland had committed itself to fund a pilot project to develop an Intranet technology platform for Government-Investor Networks, enabling developing country Governments on a cost-effective basis to communicate directly with existing and targeted investors on investment impediments and possible remedies. The Government of Nicaragua had committed itself to participate as a pilot country.

26. During the discussion period, strong support was expressed by a member of civil society, who urged Governments to provide support for the initiative.

Initiative sponsored by Securities Industries Association

27. Mr. Fernandez proposed interim steps to improve sovereign debtor and creditor relations and the process of restructuring sovereign debt. He outlined an integrated approach set forth by seven major financial organizations representing major sovereign creditors worldwide that encompassed proposals for enhancing creditor-debtor relations, crisis prevention and resolution, including a recommended code of conduct and legal clauses, such as collective actions clauses. He also pointed out that an Internet platform connecting debtor Governments with their creditors, such as that being developed by the Global Information Clearinghouse Initiative (see para. 24), could serve as a cost-effective means for implementing those proposals.

28. The discussion focused on the importance of facilitating communication and dialogue between sovereign creditors and debtors. Mr. Fernandez stressed that enhanced communication between creditor and debtor should work to prevent the accumulation of external debt. Moreover, having a web-based platform connecting debtors and creditors, such as that being developed by the Global Information Clearinghouse Initiative, would enable the exchange of expertise and the sharing of experience and lessons among investors as well as the Governments of developing countries.

Initiative sponsored by the Business Council for the United Nations

29. Mr. Underwood reiterated the need for cooperation and coordination between the private and public sectors in order to implement the Monterrey Consensus as well as the numerous initiatives that business representatives had proposed in the area of financing for development.

30. Mr. Sheppard elaborated on an initiative that he had been working on, relating to encouraging capital markets financing of infrastructure in developing countries. The initiative had been sponsored by the Business Council for the United Nations and had also received support from the Department of Economic and Social Affairs

of the United Nations (through financing a consultancy assignment and hosting an expert group meeting on the issue). The discussion paper on the project was posted on the Department's web site (http://www.un.org/esa/papers/htm; Title: Capital Markets Financing for Developing Country Infrastructure Projects). The Global Information Clearinghouse was currently developing a web-based discussion forum service to enable members of the expert group to work in specific topic areas on an ongoing basis.

31. During the discussion on the initiative, participants emphasized the need for developing local capital markets by improving legislative and regulatory environments. It had also been pointed out that there was a need for mitigating various risks by way of political risk guarantee and mechanisms such as a liquidity facility for the devaluation of currency.

Recommendations

32. A number of important points were raised during the opening speeches, presentations and discussions between business representatives, delegations and other stakeholders that were present. They included the following important assertions by business interlocutors:

- **Paying heed to the needs of local investors was an important step towards attracting investors from abroad. In many senses, convincing the domestic investor could be considered a prerequisite for attracting foreign investment since overseas and local investors shared similar concerns. Key obstacles to conducting business identified by both those entities included cumbersome administrative procedures, the lack of communication between foreign business and local Governments, unreliable information and difficulties in finding capital for new entrepreneurial ventures**

- **The absence of adequate/credible information and policy consultation mechanisms were factors that both discouraged investment in developing countries and contributed to macroeconomic instability and crises. It was important that both Governments and the private sector coordinate and cooperate to develop mechanisms that promoted regular consultations and information exchange between different groups of public and private players**

- **Given the high levels of uncertainty facing investors in developing countries, it was increasingly important to have public-private partnerships and forums that developed new innovative financing and risk mitigation schemes. There was also a need to develop transaction structures that attracted funds more effectively from the international capital markets to finance infrastructure projects in developing countries**

- **A framework should be established to facilitate communication, cooperation and coordination between public and private sectors in implementing the Monterrey Consensus. The Financing for Development secretariat could play an important role in establishing and organizing the framework. There was also a need for cooperation between public and private sectors in raising finance to ensure the implementation of numerous initiatives proposed by business representatives in the area of financing for development. Governments, multilateral institutions and**

business also needed to work together to implement measures that increased the supply and effectiveness of finance in developing countries, to overcome impediments facing the private sector and, importantly, to establish benchmarks for measuring progress against the Monterrey Consensus.

Notes

[1] *Report of the International Conference on Financing for Development , Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.