United Nations A/58/555/Add.2

General Assembly

Distr.: General
19 November 2003

Original: English

Fifty-eighth session
Agenda item 104
Follow-up to the International Conference on Financing for Development

Summary by the President of the General Assembly of the High-level Dialogue on Financing for Development

Note by the Secretariat*

Addendum

Summary of the informal hearings of the business sector (New York, 28 October 2003)

Summary

In preparation for the High-level Dialogue on Financing for Development (New York, 29 and 30 October 2003), the General Assembly conducted informal hearings and an interactive dialogue with representatives of business sector entities that were in consultative status with the Economic and Social Council and/or accredited to the financing for development process. The event, chaired by Julian R. Hunte (Saint Lucia), President of the fifty-eighth session of the General Assembly, took place at United Nations Headquarters on 28 October 2003. The overall theme of the meeting was: "Business sector perspective on the implementation of the Monterrey Consensus: critical issues, success stories and next steps". The hearings and dialogue featured panel discussions on the following three topics: (a) making business-government linkages more effective in the implementation of the Monterrey Consensus; (b) concrete ways to mobilize private sector capital for the implementation of the Monterrey Consensus; and (c) enhancing policy coherence for the implementation of the Monterrey Consensus. Each panel session consisted of introductory remarks by the moderator and presentations by business sector representatives followed by discussions with delegates to the General Assembly, including questions from the audience. Salient substantive features of the proceedings of the meeting are summarized below.

* 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.

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1. The Chairperson of the meeting, Julian R. Hunte (Saint Lucia), President of the fifty-eighth session of the General Assembly, opened the meeting and welcomed all panellists and participants. In his opening remarks, he expressed satisfaction with the level of interest in the follow-up to the International Conference on Financing for Development. He drew attention to the important role of non-State actors, in particular the business sector entities, in the implementation of the Monterrey Consensus. He outlined the organization of the meeting and the topics to be discussed by the panels, and called for an open and frank discussion.

Panel 1: Making business-government linkages more effective in the implementation of the Monterrey Consensus

2. The moderator of the panel, Maria Livanos Cattaui, Secretary-General, International Chamber of Commerce (ICC), opened the session and introduced the panellists. At the outset, she described an ongoing project undertaken by ICC in cooperation with the United Nations Conference on Trade and Development (UNCTAD). The goal of the project is to assist the least developed countries in attracting investment by preparing and publishing investment guides for them. The guides were prepared for Bangladesh, Cambodia, Ethiopia, Mali, Mozambique, Nepal and Uganda. The objective of the investment guides is to enable those countries to attract investment. This is done through surveys (involving local and international investors and recipient Governments) that provide information on the needs and impediments facing businesses and also facilitate the provision of unbiased information for investors.

Presentations

3. Maggie Kigozi, Executive Director, Uganda Investment Authority, described the progress made by Uganda in creating an enabling environment to attract foreign investment. She stressed that the conditions needed to attract foreign direct investment were pretty much the same as those needed to encourage domestic enterprises and investment. These include an appropriate and enforceable legal and regulatory system, the rule of law, transparency, appropriate macroeconomic policies and political stability. As a result of its reforms, Uganda, which had ranked one hundred and sixty-first in the world in terms of attracting overseas investment in the early 1990s, moved up to fifty-eighth place in 2002. She also emphasized the importance of the ICC-UNCTAD investment guide in Uganda as a mechanism for providing credible information to potential foreign investors.

4. Eduardo Montiel, Director, Banco America Central, and presidential delegate for ProNicaragua, the Investment Promotion Agency of Nicaragua, spoke about using Government-investor networks to create business-enabling environments. He pointed out the need for increased policy consultation between the public and private sectors. With the support of the Government of Switzerland and as part of the global clearinghouse initiative, ProNicaragua was launching a web-based country-investor network to facilitate the exchange of information and opinions between the Government and potential investors. Both the Government and investors (both domestic and foreign) would post initiatives and proposals to which the other party could provide valuable feedback.

5. Alhaji Bamanga Tukur, Chairman, African Business Round Table, stressed the need to encourage partnerships between the public and private sectors so as to create viable rural industries in sub-Saharan Africa. These would be in line with the comparative advantage of the countries of the region, which are endowed with agrarian and mineral resources. The public sector would need to put in place consistent policies to encourage local and international investors to set up relevant industries to process the relevant primary products, thereby adding value and making them export-oriented. Donors and foreign investors could provide the necessary training and build capacity to sustain the industries. As much as possible, the labour force for such industries would be drawn locally.

Discussion

6. While attracting foreign direct investment was important, the need to retain domestic capital and prevent the flight of capital from developing countries was stressed. This should be done through the creation of an enabling environment for business, especially through a consistent and stable policy and regulatory environment, enforcement of the rule of law and transparency.

7. The importance of channelling foreign investment towards small and medium-sized enterprises and not just large corporations was also pointed out. The importance of small and medium-sized enterprises as a source of employment and wealth was reiterated, as were the regulatory and financial constraints facing that sector in many developing countries. In that respect, attention was also drawn to the importance of remittances of workers in foreign countries, which in some instances can contribute to investments in small businesses in their country of origin.

Panel 2: Concrete ways to mobilize private sector capital for the implementation of the Monterrey Consensus

8. The moderator of the panel, Paul Underwood, Executive Director, Business Council for the United Nations, opened the session and introduced the panellists.

Presentations

9. Frank Fernandez, Senior Vice-President and Chief Economist, Securities Industry Association, spoke about the proposal by major private sector financial organizations (representing investors in emerging market debt) to develop specific guidelines for sovereign bond issuances (collective action clauses) as well as a code of conduct for creditor-debtor relations. He pointed out that collective action clauses, developed in consultation with issuers, would facilitate debt restructuring while reinforcing creditors' rights. Brazil, Mexico and Uruguay issued bonds including such clauses, which did not affect the pricing of those bonds. Mr. Fernandez also reported on progress in developing a voluntary code of conduct, which would provide standards of behaviour and responsibilities for the main participants in emerging market finance. While a code of conduct is also being discussed by the Group of 20 countries, he called upon them to consult with and take into account the proposal of the major private sector financial organizations.

10. Dan Bond, First Vice-President, Ambac Assurance Group, emphasized the importance of public-private risk-sharing in encouraging financing by capital market investors of infrastructure projects in developing countries. The private sector can

finance some of these projects, but the public sector would need to put in place measures to mitigate the risks faced by private investors. Mr. Bond also stressed the importance of local currency and international bond markets in financing infrastructure projects. In particular, bond investors have a longer-term horizon than bankers, which is very appropriate for infrastructure ventures. He went on to describe a group of infrastructure experts, which was established with practitioners from relevant entities in the private and public sectors. The purpose of the group was to collaborate to facilitate public-private risk-sharing and to reduce impediments to bond financing of infrastructure projects in the developing world. An Internet-based discussion platform had been set up to facilitate communication among the members of the group. Mr. Bond called upon experts from developing countries to get more actively involved in those discussions.

11. Charles Chaumin, Senior Vice-President, Suez Environment, spoke on the issue of providing a vehicle for private capital to finance infrastructure projects. He outlined this in the context of the work undertaken by Suez Environment, which is involved in the operation and management of public services, including in the water and sanitation sector, in developing countries. Importantly, it facilitates the significant capital sums that need to be invested in such systems by operating the infrastructure and delivering the services to the end-users in a way that assures investors of their returns. However, Mr. Chaumin pointed out that the private sector could not initiate projects, which was the prerogative of public authorities, nor could it assume risks that it had no means of managing or mitigating (including macroeconomic risks such as devaluation). To overcome such problems, he called for international financial institutions to partially fund public projects and also to take into account the very long-term requirements of water and sanitation projects when structuring their loans. He also called for the examination of insurance schemes to help overcome the impact of sudden macroeconomic changes on contracts, including the effect of devaluation.

12. Mai Flor, Director, Business Development, Ondeo Philippines, outlined the lessons from private sector participation in the water sector in Manila. Although there had been gains from private participation (for example, water coverage and availability had improved), there had also been problems (faced in particular by one of the companies, Maynilad Water Services, a consortium of Suez Environment and Benpres Corporation, which won the concession to cover the west zone of metro Manila). According to Ms. Flor, those difficulties arose from the design of the scheme, which gave the Maynilad concessionaire 90 per cent of the Government's foreign debt to service, and were made worse by shocks emanating from the devaluation of the peso in 1997, which forced the company to raise tariffs. The main lesson from all this was that, while private participation in essential utilities such as water could provide significant benefits, its implementation and design needed to be thought through carefully. International financial institutions could also assist in addressing the issue of devaluation risk by perhaps allowing a portion of loans in local currency.

Discussion

13. It was pointed out that donor funding, in the area of capacity-building (for example, through building the institutions and structures to support local capital markets) or through initiating projects could serve as a catalyst for attracting private investment to developing countries.

14. Concern was expressed that, despite having implemented sound policies and a business-enabling environment, some least developed countries had failed to attract adequate private investment from overseas. The importance of implementing appropriate public relations measures to inform investors about their economies as well as having appropriate institutions to attract investment (such as investment-promotion agencies) was mentioned in that regard. The need to be covered by international rating agencies and to set up local rating agencies, both of which served to inform investors, was also emphasized.

15. The issue of protecting foreign investors and creditors in infrastructure projects against the risk of major devaluations was raised. The Overseas Private Investment Corporation of the United States Government had recently offered such protection via a liquidity facility that would provide foreign currency to a project when a major devaluation resulted in an inability to meet its debt-service obligations. That facility had been used in Brazil for financing of the Tiete hydroelectric generator. The facility could be used if output prices (say, for electricity) were adjusted in line with domestic inflation rates, and it should work best in countries with reasonably flexible prices and exchange rates. Providers of the liquidity facility should not be exposed to high risk, since, in accordance with the purchasing power parity theory of exchange-rate adjustment, inflation-adjusted output pricing would allow the projects ultimately to repay the facility. The question of how to make this kind of protection more widely available remains.

Panel 3: Enhancing policy coherence for the implementation of the Monterrey Consensus

16. The moderator of the panel, Rick Samans, Director of Global Issues, World Economic Forum, opened the session and introduced the panellists. In his introductory remarks, he pointed out that there were two dimensions to coherence. First, there was a need for greater integration between trade, aid and finance to increase economic growth and decrease poverty. Second, it was increasingly important to have more synergistic efforts and more cooperation between the public and private sectors and civil society. Multilateralism was practically redefined to involve all stakeholders.

Presentations

17. Parag Khanna, Adviser, World Economic Forum, and Visiting Fellow, Brookings Institution, spoke about the World Economic Forum’s global governance initiative. That project was intended to bring greater accountability to the questions of how much progress the international community was making towards a number of the important goals it had set and, in particular, how much effort was being expended by each of the key actors — Governments, international organizations, the business community and civil society — and to what extent they were cooperating in that regard. Annual reports would be prepared that would, first, summarize the progress made by the world towards specific goals in areas enumerated in the Millennium Declaration and other such commitments made over the past few decades and, second, assess the level of effort made by Governments, international organizations, civil society and the business community and the level of their cooperation in pursuit of each such goal. Mr. Khanna mentioned that one of the initial findings was that global stakeholders were committing only a small

proportion of the resources needed to achieve the goals. He also stressed that, although Governments bore the greatest responsibility for achieving those commitments, the private sector could make a substantial contribution by complementing the efforts of public authorities.

18. Hani Findakly, Vice-Chairman, Clinton Group, addressed the dual challenges of job creation and economic reform in developing countries. He pointed out that, while job creation was the single largest economic challenge that those countries faced today, the slow pace of reform was a major obstacle to creating jobs. Given that the pace of reform was, in turn, constrained by socio-political factors, the challenge facing policy makers was to find a way to break that deadlock and generate employment in the short term. Mr. Findakly argued that one way to do that was to create a better enabling environment for small and medium-sized enterprises by using venture capital to help them gain access to finance more easily.

19. Marie Cavanaugh, Managing Director (Sovereign Ratings), Standard & Poor's, spoke on the issue of providing sovereign ratings for Governments in sub-Saharan Africa so as to improve their access to international capital markets. She described how Standard & Poor's, in a project sponsored by the United Nations Development Programme, was expanding its sovereign rating coverage in sub-Saharan Africa. The agency recently assigned a "B+" long-term rating to Ghana and expected to assign several more first-time sovereign ratings under the programme. Sovereign ratings here, as elsewhere, argued Ms. Cavanaugh, should help in allocating savings and investments more efficiently, reducing information risk, promoting deeper and more liquid local capital and financial markets and signalling the Government's willingness to be open and transparent with creditors. Even if the sovereign Government was not an active commercial borrower, a sovereign rating provided a benchmark that could facilitate non-sovereign borrowing and underpin greater inflows of foreign investment. By fostering the development of financial markets, credit ratings could also help to retain domestic savings that might otherwise go offshore.

Discussion

20. A question was raised as to whether income distribution inequality was reflected in the ratings of sovereign debt. It was acknowledged that, while those kinds of indicators were not explicitly included in rating criteria, they could influence ratings implicitly through other indicators such as political and social risks.

21. The importance of understanding the social and cultural aspects of reform was emphasized. Legal conditions and the whole area of corporate governance had cultural and historical underpinnings that needed to be taken into account when framing policies.

Conclusions

22. **A number of important points were raised during the presentations and discussions between business representatives and other stakeholders who were present. They included the following important conclusions by business representatives:**

(a) **Particular attention should be given to the needs of local enterprises and investors. First, it should be recognized that a thriving local enterprise sector is often a prerequisite to attracting foreign investment, since local and foreign investors share similar concerns relating to an appropriate and enforceable legal and regulatory system, rule of law, transparency, appropriate macroeconomic policies and political stability. In addition, while attracting foreign direct investment is important, it is equally critical for policy makers to prevent the flight of capital from developing countries by paying heed to the needs and concerns of local investors;**

(b) **Small and medium-sized enterprises have a critical role as a source of employment and wealth, and there is a need to have policies targeted towards alleviating the financial constraints facing them and providing them with the necessary training. It was pointed out that venture capital could play an important role in that respect. In addition, a business representative from Africa called for partnerships between the public and private sectors to create viable industries in sub-Saharan Africa. The public sector would need to put in place consistent policies, while donors and foreign investors could provide the necessary training and build capacity to sustain the industries;**

(c) **There is a need for mechanisms to further policy consultation between the public and private sectors, at both the national and international levels. It is possible to use technology and the Internet towards that end. At the national level, Government-investor networks can play an important role in enhancing investor confidence. At the international level, the public and private sectors should consult and collaborate in a number of areas, including in the development of mechanisms to work out sovereign debt and in the facilitation of public-private risk-sharing to encourage capital market financing of infrastructure projects;**

(d) **While private sector participation in operating and managing essential utilities such as water can provide significant benefits, the design and implementation of such ventures need to be carefully thought out to ensure that they are sustainable. This is particularly important given the social importance of those sectors and the need to avoid unwanted effects, such as sharp increases in tariffs. Moreover, international financial institutions can support these ventures in a number of ways, including, for example, examining the possibility of using insurance schemes to help overcome the impact on private operators of sudden macroeconomic changes in contracts, including the effect of devaluation. International financial institutions can also assist in addressing the issue of devaluation risk by perhaps allowing a portion of loans in local currency;**

(e) **Coverage by rating agencies, both international and local, is desirable for countries wishing to increase the participation of private investors in their economies. Ratings can increase the confidence of investors and the credibility of policy makers, and can also promote the development of capital markets. Moreover, rating coverage can draw the attention of foreign investors to countries that have not previously been on their radar screens. However, to be most effective in attracting investment, rating coverage should be accompanied by improving policy fundamentals and transparency. The**

effective operation of rating agencies also depends upon the availability of accurate and timely economic and financial information;

(f) **The business interlocutors in the financing for development process emphasized the need for concrete action plans in two areas. First, there was a call for defining a process for ongoing coordination between the public and private sectors in the implementation of the Monterrey Consensus. They recommended that a database be compiled that would identify key experts in government and the private sector who would be responsible for implementing the Monterrey Consensus, assembling those experts in multi-stakeholder groups on specific investment impediments, conducting regional and country meetings to define and implement specific action plans and having progress reports given by all stakeholders at high-level meetings at the United Nations. Second, they called for the definition and dissemination of specific mechanisms and tools to mobilize private sector capital for development. This relates to several projects that have been developed by business representatives and are available for use and adoption by developing country Governments. They called upon Governments to work with them to continue to develop tools and mechanisms that assist in the implementation of the Monterrey Consensus.**