United Nations A/CONF.227/5

Distr.: General
4 May 2015

Original: English

Third International Conference on Financing for Development
Addis Ababa, 13-16 July 2015

Summary of informal interactive hearing of the General Assembly with representatives of the business sector held as part of the preparatory process for the third International Conference on Financing for Development (New York, 8 April 2015)

Note by the President of the General Assembly

I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 68/279, in which the President of the General Assembly was requested to prepare summaries of the informal interactive hearings with representatives of civil society and the business sector which could serve as inputs to the preparations for the third International Conference on Financing for Development.

2. The informal interactive hearing with the business sector on financing for development was held on 8 April 2015. It comprised an opening segment and three interactive panel discussions focusing on infrastructure financing, small and medium-sized enterprises and finance, and responsible investment and environmental, social and governance considerations throughout the investment chain. A summary of the key messages and proposals from the hearing is set out below.

II. Opening segment

3. Statements were made by the Acting President of the General Assembly, Nicholas Emiliou (Cyprus), speaking on behalf of the President of the General Assembly; the Secretary-General; the Secretary-General of the International Chamber of Commerce, John Danilovich; and the Executive Director of Instituto del Tercer Mundo and the Coordinator of Social Watch, Roberto Bissio.

4. The Acting President of the General Assembly emphasized that the new transformative post-2015 development agenda being formulated would require the mobilization of substantial resources for its implementation. He called upon participants to propose measures and actions for businesses to enhance their participation in, and contribution to the achievement of, sustainable development. He underscored that the commitment of the private sector was vital to the success of the Conference and to the implementation of the post-2015 development agenda. Increased investment in infrastructure, including energy, water, transport and

agriculture, would be critical to supporting economic growth, employment, structural transformation of the economy, environmental sustainability and social inclusion.

5. The Secretary-General emphasized that a successful outcome of the Conference would be crucial for securing an ambitious post-2015 development agenda and a comprehensive agreement at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in Paris in December 2015. Stressing that all sources of funding must be tapped, he invited the private sector to be partners in supporting and financing sustainable development, including through partnerships and collaboration.

6. Mr. Danilovich stressed that businesses were part of the bedrock of society, creating products and services to make life easier but also providing jobs to, and crucial investments in, local communities. He underscored the importance of an enabling environment to allow companies of all sizes to operate effectively and contribute to society. He noted that several surveys had shown that limited access to trade finance was the greatest barrier to small and medium-sized enterprises looking to trade internationally. To increase access would require an appropriate policy response to address supply-side constraints in the financial sector.

7. Mr. Bissio stated that businesses were key actors in sustainable development, but that they did not all have the same role. Small enterprises were major generators of employment and needed to be able to operate in a fair environment. He referred to the process at the United Nations to elaborate an international legally binding instrument on transnational corporations and other business enterprises with respect to human rights, noting that that would be in the long-term interest of small and medium-sized enterprises and host economies.

III. Panel presentations and interactive discussions

A. Infrastructure financing

8. The moderator of the panel was the General Manager of Strategic Planning and Development Effectiveness of the Inter-American Development Bank, Veronica Zavala. The panellists were the Managing Director of the Emerging Africa Infrastructure Fund, Orli Arav; Partner and Chief Executive Officer for North America of the Abraaj Group, Tom Speechley; Chief Financial Officer of GeoGlobal Energy, Michael J. Discenza; Founding Partner of InfraShare Partners, Glen Ireland; and Mayor of Rabat, Fathallah Oualalou. Some of the key messages and proposals from the panel are set out below.

9. Speakers emphasized that unmet infrastructure needs were large, and that there was an urgent need to bridge the gap between demand and supply in infrastructure investment, especially in developing countries, both in terms of quantity and quality. A strong enabling environment that included stability, good governance and transparent policies and regulations was required.

10. It was pointed out that infrastructure comprised physical infrastructure (such as roads, ports, telecommunications and energy) and social infrastructure (such as health care and education). Both categories were necessary in order to achieve the sustainable development goals. It was noted that considerable pools of capital were available for large-scale investment in infrastructure, at both the national and the

international levels, and that investing in developing countries could bring higher rates of return.

11. It was highlighted that project development and preparation was a major challenge to be addressed. Public funding was needed to help to prepare a pipeline of bankable projects and for taking the risk at the initial stage; multilateral institutions had public-private partnership units that could advise Governments on how to negotiate and prepare such partnerships.

12. Risk mitigation tools could unlock additional resources for sustainable development; risk pooling through, for example, blended finance and public-private partnerships had had a positive impact. It was noted that a financing facility established with donor money to support infrastructure investment in Africa had had positive results by engaging government resources and leveraging traditional commercial-bank financing. Governments needed to provide guarantees and a cushion at the beginning, given the importance of the demonstration effect to the private sector. With the further development of initiatives, however, resources used as support could be released and reallocated to new projects or areas.

13. Concessional financing from multilateral development banks was also highlighted as providing important support for leveraging private sector investment. A call was made for such banks to assume greater risks.

14. Tax exemptions and benefits relating to land usage were also noted as possible incentives, but speakers highlighted that, above all, clarity with regard to regulations, both those relating to concessions and those to taxes, and their uniform application, with a level playing field for all, were vital.

15. Given that risk-adjusted returns in developing countries were usually higher than investors thought, it was recommended that efforts should be directed to reducing that perception gap, an approach that was less expensive than measures to reduce risk. It was noted that sovereign credit ratings could block the ability of investors to finance good projects and that solutions to the problem should be found.

16. The education of investors to obtain a good understanding of local rules and regulations was important for projects to succeed. For that reason, there was great promise in efforts to unlock local private resources. More should be done to ensure that local commercial banks and other locally available funds developed better knowledge of public-private partnerships. Panellists further suggested that cost efficiency could be best attained by catalysing a number of projects of a similar type within a country or a region, given that doing so maximized foreign investors' efforts to understand the legal framework and to assess risks in a new investment environment.

17. Shared use of infrastructure to serve both industrial and social needs was proposed as a way to explore the full potential of bankable projects and mitigate difficulties in finding investors for social infrastructure. Governments, however, needed to have in place a vision and a plan of social infrastructure needs before the conception of industrial infrastructure projects.

18. With regard to health care, panellists recommended a compact between Governments, donors and the private sector to build health-care systems collectively and to bridge the gap between supply and demand. The impact of non-communicable diseases in developing countries was highlighted, with the cost of treatment for such

diseases sometimes dragging families back into poverty. Governments were called upon to reflect on the establishment of universal health coverage, a goal to which the risk pooling model could contribute.

19. It was expressed that local authorities in urban areas needed greater authority and capacity to manage their finances, urban infrastructure and service provision.

20. There was recognition of the persistent imbalance between local authorities and central Governments in the negotiation of public-private partnerships. It was noted, however, that funds were available to support capacity-building for Governments wishing to develop such partnerships. Having benchmarks in place could enable Governments to better understand which concessions were important for the demonstration effect. Blanket risk guarantees from Governments were not the solution and should only be required for a few years while a demonstration effect was being created.

B. Small and medium-sized enterprises and finance

21. The moderator of the panel was the Chief Executive Officer of the SME Finance Forum, Matthew Gamser. The panellists were the Chief Executive Officer of the Global Banking Alliance for Women, Inez Murray; the head of the Blended Finance Unit of the International Finance Corporation, Kruskaia Sierra Escalante; the Chief Operating Officer of Accion International, Esteban Altschul; and the Managing Director of Business Partners Limited, South Africa, Nazeem Martin. Some of the key messages and proposals from the panel are set out below.

22. Small and medium-sized enterprises were pivotal drivers of growth and employment and were critical to the promotion of sustainable development. They continued to face many of the challenges of 20 years previously, and access to finance remained a major obstacle, in particular, access to credit. There was a call for a sense of urgency in looking for solutions to the problem.

23. Innovation and information-sharing, rather than traditional banking approaches, had greater potential for more active participation in providing financing to small and medium-sized enterprises. A wide range of entities and innovations existed that could provide finance and complement bank lending, including large companies, crowd funding and e-commerce.

24. Several examples of innovative approaches were presented. They included the development of online lending platforms, the use of algorithms and big data analysis of social and online data to facilitate assessment of creditworthiness; the use of overlooked data sources, such as formal credit bureau data provided by regulators and Governments to facilitate access to finance; and several forms of blended finance, including donor funding, government resources and more traditional commercial finance, with mechanisms including co-lending, first-loss protection with public funds, capital risk as partners and equity investments.

25. The example was also presented of a company that developed a specific financial product for small and medium-sized enterprises. The product comprised, in general terms, finance in the form of debt with favourable interest rates plus a percentage of the enterprise’s turnover rather than relying on owner’s equity. The package was accompanied by technical assistance determined through a due diligence analysis with the client.

26. Technical assistance was as critical as finance. The provision of mentorship, expert support and financial education that helped to put in place financial management systems, cash flow management, marketing strategies and human resources plans were highlighted, among other services.

27. Strategic partnerships for technical assistance and education could be developed, with civil society providing training, with international financial institutions supporting incubators and with the use of donor resources to finance assistance at zero interest and national training institutions. The stability of funding for technical assistance and the role of Governments were both vital. Financial intermediaries, investors and regulators were also said to benefit from capacity-building in terms of supporting and providing financing to small and medium-sized enterprises.

28. The establishment of a specific and more flexible regime on what should be understood as collateral for small and medium-sized enterprises, in order to enable such enterprises to leverage their assets, was another area with the potential for substantial impact. Moreover, small and medium-sized enterprises should have access, to the greatest extent possible, to local currency funds, given that they were not well suited to take on exchange rate risks. The use of intermediaries could facilitate such a process. It was also noted that limited access to trade finance was the single greatest barrier for small and medium-sized enterprises looking to trade internationally.

29. Companies in the informal economy, including rural and women-led companies, faced many obstacles, especially with regard to access to finance and reliable data. Possible incentives to formalize them included tax relief or exemptions. Greater efforts were needed to target women entrepreneurs and to address the gender inequalities prevalent in the financial sector.

30. The importance of small and medium-sized agricultural enterprises was underscored, and a recommendation was made for the zero draft of the outcome document of the Conference to include a reference to access to technical assistance and inputs in the paragraphs that already covered the need for financing infrastructure in the agricultural sector. With regard to the issue of financing cooperatives and social and solidarity economy organizations, it was recognized that financing institutions still had difficulties in developing specific due diligence processes and financing schemes.

31. Technology was recognized as a critical element in finding solutions to support small and medium-sized enterprises. Partnerships, including between banks and financial technology firms, could help. Online training, faster and direct contact between small and medium-sized enterprises and investors, more transactions by cell phone, the provision of tools to help to manage cash flows, the development of the potential of online markets and the use of online tools to assess data on creditworthiness more quickly were possibilities to be explored further.

C. Responsible investment and environmental, social and governance considerations throughout the investment chain

32. The moderator of the panel was the Executive Director of the United Nations Global Compact, Georg Kell. The panellists were the Managing Director of the Dutch pension plan investor APG, Claudia Kruse; the Chairperson of the Board of

Trustees of the Government Employees Pension Fund of South Africa, Renosi Mokate; the Head of Corporate Services of the Nigerian Stock Exchange, Bola Adeeko; and the Head of Sustainability and Risk Management of Pirelli, Filippo Bettini. Some of the key messages and proposals from the panel are set out below.

33. As companies, markets and economies became more global and interdependent, businesses and investors were increasingly aware that their ability to make a profit and grow depended on the existence of a prosperous and sustainable society.

34. Voluntary initiatives based on principles were critical to paving the way towards mainstreaming corporate sustainability and responsible investment and could be an effective first step towards effective regulations. Such initiatives included the United Nations Global Compact, the Principles for Responsible Investment, the Sustainable Stock Exchanges Initiative and the International Integrated Reporting Council. There was, however, still a need to scale up for transformative change.

35. Promoting the adoption of environmental, social and governance considerations throughout the investment value chain could result in greater volumes of private investment in the sustainable development goals and greater impact on development. The adoption of environmental, social and governance considerations in private investments was becoming a driver of innovation and new investment opportunities that created long-term value for business and society.

36. Examples of the incorporation of environmental, social and governance considerations into the business decision-making process were presented by various actors. One panellist representing a pension fund for government employees explained how the fund embedded environmental, social and governance criteria and sustainable development objectives into its investment policy framework. The fund promoted investments that were aimed at addressing social and economic challenges relating to the social context in which it operated, including infrastructure development and investment in small and medium-sized enterprises and renewable energy.

37. One panellist representing a company dealing in pension fund asset management explained how it held companies accountable in relation to environmental, social and governance considerations and that it excluded non-compliant companies from its portfolio. It was important to create an environment that enabled the advancement of integrated reporting and encouraged private actors to adopt and communicate sustainability considerations. Integrated reporting could also help to overcome concerns over a lack of transparency, which constrained investment in developing countries, by promoting a better understanding of companies' strategies.

38. Stock exchanges also played a crucial role in promoting environmental, social and governance considerations and in leading by example, as was the case for the Nigerian Stock Exchange, which was in a developing country and had endorsed the anti-corruption call to action by the United Nations Global Compact. The Stock Exchange would present reports on corporate social responsibility and ask its listed companies to do likewise.

39. The Stock Exchange was undertaking further initiatives to contribute to sustainable development, such as diverting special attention to small and medium-sized enterprises to enable the provision of capital at scale on favourable terms, having particular listing requirements and establishing partnerships with other institutions to address financial exclusion by organizing financial literacy courses around the country.

40. From a company's perspective, the ability to create value not only depended on the financial statements, but also on a business model that included social and environmental strategies. The development of production plants in developing countries and the adoption of best practices in technology and of environmental, social and governance indicators, even when local laws did not require them, contributed to sustainable returns. The implementation of environmental, social and governance considerations could also lead to cost avoidance, as in the case of energy-saving strategies.

41. Policy changes should aim to enable investors to fully take into account environmental, social and governance factors in their investment decisions, rather than delaying or preventing investments. Reporting was essential because it allowed monitoring. Standard-setting for reporting in specific sectors, as was being done in the private equity industry, could lead to standardized reporting frameworks. Aside from institutional barriers, there remained a lack of capacity to allow the transformation of commitments to sustainable development into specific actions.

42. The promotion of dialogue between investors and companies on environmental, social and governance considerations was critical to further promoting responsible investment. The reference in the zero draft to integrated reporting should encompass a dimension on dialogue. Some groups, such as financial analysts, needed to be better integrated for that dialogue to occur. Quarterly reports could go beyond profitability and cash flow analysis to further discuss what was being done to promote environmental, social and governance considerations.

43. The great potential of regional approaches, especially with regard to infrastructure, the need for government reflection on increasing flexibility in pension funds, and regional synchronization of financial systems and stock exchanges, including the establishment of cross-border platforms for the region or platforms relating to individual goals, were identified as contributing to sustainable development. The importance of exchanges was highlighted as critical to raising significant resources. The role of multilateral and national development banks to facilitate risk management was also highlighted.