United Nations A/CONF.212/6/Add.3*

**Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus**

Doha, Qatar
29 November-2 December 2008

Distr.: General
1 December 2008

Original: English

Agenda item 9 (b)
**Multi-stakeholder round tables under the overall theme “Looking ahead: further cooperative actions in financing for development”, focusing on the following six major thematic areas**

**Round table 2**

# Mobilizing international resources for development: foreign direct investment and other private flows

## Summary of discussion

1. Round table 2 was co-chaired by Denis Sassou Nguesso, President of the Congo, and Bob McMullan, Parliamentary Secretary for International Development Assistance of Australia. Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development, moderated the panel. Presentations were made by the following panellists: Hiroto Arakawa, Senior Special Adviser, Japan International Cooperation Agency; Trevor Manuel, Minister for Finance of South Africa, Special Envoy of the Secretary-General for the Conference; Joyce H. de Ginatta, President, Federación Interamericana Empresarial of Ecuador; Huguette Labelle, Chair of Transparency International; Avinash Persaud, Chairman of Intelligence Capital; and Kamalesh Sharma, Commonwealth Secretary-General.

2. Mr. Supachai referred to the positive developments in financing for development that had occurred since the Monterrey Conference, such as trade expansion, improvement in macroeconomic discipline, surpluses in current accounts and the accumulation of foreign reserves in developing countries. In the light of the current financial crisis, that progress might come to an end. A new landscape would have implications for foreign direct investment (FDI) and for creating productive capacity for sustained economic growth. FDI trends since 2002 had been variable. Even though the total amount of FDI to developing countries had tripled, it had not been evenly distributed, with most funds to major emerging economies, such as Brazil, India and South Africa, while the least developed countries had received only 3 per cent of total global FDI flows. The direction of total net flows had shifted from North-South to South-South, with increased greenfield investment and a concentration in the extractive industries. FDI had consistently exceeded official development assistance (ODA). To prepare for difficult times, developing countries

* Reissued for technical reasons.

08-62587* (E) 080109

needed to set their own macroeconomic policies and mobilize funds from abroad for their own needs. FDI could sometimes have a negative effect on domestic business in terms of competition. Governments needed to be explicit in their policies and strategies in terms of where they wanted to direct FDI investments. It was important for financial relationships to be transparent.

3. Mr. Arakawa stressed that the current financial crisis would have an impact on private flows to developing countries. It was expected that real gross domestic product (GDP) growth would decrease from 8.0 per cent in 2007 to 6.6 per cent in 2008 and to 5.1 per cent in 2009, as a result of the slowdown of GDP growth rate in developed economies. The challenge ahead was to set strategies for sustained growth and inclusive development, which should include high levels of investment; macroeconomic stability; urbanization and rural investment; effective government; competition and structural change; export promotion and industrial policy; and infrastructure development. To promote FDI, there was a need for an enabling environment, created through policy reform and institutions, and for risk mitigation. In both cases, ODA could have a catalytic role in technical assistance.

4. Mr. Manuel noted that the current international financial crisis had exposed the failure of the existing crisis-prevention system. Regulatory systems in developed countries, aiming at better risk management and consumer protection, did not work and needed to be re-evaluated. A number of questions about underlying issues needed to be addressed, including the great volatility of capital markets and aspects of capital market innovations that were harmful to financial stability. The speaker also noted the need to address the spillover of the international credit crunch into a global recession, and underscored the impact of the crisis on risk appetite and the move of investment back to dollar-based securities and treasuries.

5. Mr. Manuel also referred to the interruption of good economic performance on the African continent and the setback to achievement of the Millennium Development Goals resulting from the crisis. He highlighted areas critical at the current juncture: coordinated global action in response to the crisis and its impact; the need to license, regulate and supervise all financial intermediaries; the need to overhaul and oversee custodial institutions, such as credit-rating agencies, that had not worked; and the need to revisit accounting standards. As for the implementation of Basel II, issues designated for internal risk management within financial institutions needed to be drawn out to be regulated by external institutions.

6. Ms. de Ginatta discussed dollarization and its impact on FDI. A solid currency allowed businesses — and not the Government — to have control over most of their decisions. In the case of Ecuador, the United States dollar had been adopted as the national currency and the local currency had been eliminated in order to regain the trust of economic actors. Ecuador’s macroeconomic plan was centred around the adoption of the United States dollar as its currency, which together with investment promotion policy had created a fiscal system that provided incentives; strengthened the country’s competitiveness; and ultimately promoted exports, improved legal security and reduced corruption and speculation. Annual inflation had been reduced from 91 per cent in 2000 to 1.39 per cent in March 2005. The scenario after the dollarization process also favoured the growth of deposits in the economy, from just under $3 billion in 1999 to over $10.5 billion in 2008. Regarding exports, non-petroleum exports had increased from US$ 3 billion in 1999 to $4.6 billion in 2007, of which non-traditional exports had increased from $1.15 billion in 1999 to

almost $3.0 billion in 2007. The activity of the real economy had been reflected in the growth of electric consumption by almost 40 per cent from 1999 to 2006. In conclusion, in Ecuador, the dollarization process had shielded the economy from political crisis, protected the banks and generated trust, which had in turn led to increased bank deposits. With those policy approaches, countries could achieve economic growth more easily as currency distortions were reduced.

7. Ms. Labelle emphasized that private capital flows needed to directly promote development in the recipient country; therefore, enterprises should not only focus on the short term. She noted that not all FDI was productive and there was a need to strike the right balance between the roles of the Government, the private sector and civil society in attracting and utilizing FDI. She suggested five ways to encourage productive and sustained FDI: (a) transparent reporting of revenues by corporations and payment of taxes and fees to the Government to ensure that there was no diversion to unwarranted personal gain and commitment to corporate social responsibility, with the Extractive Industry Treaty Initiative being an important mechanism; (b) ensuring that international corporations operated in a transparent way, with disclosure standards, to prevent conflict of interest; (c) supporting enforcement and monitoring mechanisms for regional and international commitments on transparency, such as the United Nations Convention against Corruption and the Organization for Economic Cooperation and Development Convention against Corruption; (d) ensuring, through source-country Governments, that companies acted with the same level of integrity abroad as they did within their national borders; and (e) enforcement of a transparent financial system and investment in infrastructure and human resources on the part of developing countries.

8. Mr. Persaud, in his presentation, debunked the myth that FDI was better than other forms of private capital flows. Over the long term, the outflow of dividends from profits related to FDI, when investors were nervous, could destabilize recipient country financial markets. Also, international corporations could use transfer-pricing to avoid taxation. Equity investment flows were not especially volatile; it was short-term loans which could not be rolled over in an adverse financial environment, such as during the Asian financial crisis, that could be destabilizing. The way to get the best financing arrangements for FDI was to encourage competition among investors. There was real opportunity in targeting the sovereign wealth funds and private pension funds of developed countries, which were obligated to diversify their portfolios. With regard to the reform of financial regulation, it was important to establish better regulation and not just more regulation.

9. Mr. Sharma noted the need for coherence in governance at the local, national and global levels. There also needed to be coherence in human development at those levels. Regional integration was also vital in order to attract private capital for development. There was a need to develop a solid foundation for entrepreneurship. With respect to the activities of international financial institutions, consideration also needed to be given to the type of funds made available for the development of small and medium-sized enterprises, with importance given to funds that promoted entrepreneurship by youth and women. There was also a need for more discussion on “aid for investment” in addition to “aid for trade”.

10. After the panel presentations, a policy discussion was held among participants, including representatives of Governments, as well as institutional and non-institutional stakeholders. The following points were made:

- Transfer of profits abroad by companies should be discouraged. There is a need to improve the visibility, transparency and predictability of investments. A strong regulatory framework is also important in limiting the volatility of private capital flows.
- In order to strengthen international tax cooperation, the United Nations Committee of Exports on International Cooperation in Tax Matters should be upgraded to an international tax organization.
- There is a need to increase ODA in areas that would enhance the functioning of the business sector.
- It is important to enhance the provision of long-term debt to entrepreneurs.
- There is a need to strengthen parliamentary oversight over the reform of financial systems.
- Particular attention should be paid to policy implications arising from the current economic crisis.