THE PRESIDENT
OF THE
GENERAL ASSEMBLY

12 March 2008

Excellency,

Summaries of the review sessions that took place on Chapter I of the Monterrey Consensus, "Mobilizing domestic financial resources for development" on 15 February, and on Chapter II, "Mobilizing International Resources for Development: foreign direct investment and other private flows" on 16 February are now available on the President's website and has also been e-mailed to your mission.

Each session was well attended and the interactive debates among all stakeholders were extremely substantive. I look forward to your continued support during the Financing for Development preparatory process.

Please accept, Excellency, the assurance of my highest consideration.

Srgjan Kerim

All Permanent Representatives, Permanent Observers
and Financing for Development Institutional Stakeholders
United Nations, New York

10/3/2008

Informal Summary of General Assembly Review Session 1
14 February 2008

Chapter I of the Monterrey Consensus, "Mobilizing domestic financial resources for development"

I. Introduction

1. The preparatory process of the Follow-up International Conference to Review the Implementation of the Monterrey Consensus (Doha, Qatar, from 29 November to 2 December 2008) was launched on 14 February 2008 with a Review Session on Chapter I of the Monterrey Consensus, “Mobilizing domestic financial resources for development”. The two Facilitators of the preparatory process, Ambassador Maged A. Adbelaziz of Egypt and Ambassador Johan L. Løvald of Norway, chaired the meeting.

2. At the opening of the meeting, Ambassador Adbelaziz read out the opening remarks of the President of the General Assembly, Dr. Srgjan Kerim. Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs presented the introductory remarks of Mr. Sha Zukang, Under-Secretary-General, Department of Economic and Social Affairs. The statements were followed by an initial panel discussion and an interactive dialogue by all stakeholders. Panel presentations were made by Mr. Nelson Barbosa Filho, Deputy Secretary of Economics, Ministry of Finance, Brazil; Mr. Carlos Braga, Director, Department for Economic Management and Debt Reduction, World Bank; Ms. Nilufer Cagatay, Professor of Economics, University of Utah, USA; Mr. Mushtaq Khan, Professor of Economics, School of Oriental and African Studies, University of London, UK; and Mr. John Sullivan, Executive Director, Center for International Private Enterprise, USA. (The views of the panelists in response to questions from the floor are also included in the section II - Panel presentations). After the panel presentations, a policy discussion took place among participants, including representatives of governments, as well as institutional and non-institutional stakeholders.

3. In his opening statement, the President of the General Assembly underlined the critical role of the Monterrey Consensus in forging a global partnership for development and achieving the Millennium Development Goals. Even as growth prospects have improved in developing countries, inequality between and within countries was still rising. Moreover, the recent financial turmoil could reduce demand in developed countries with significant spillover effects into emerging markets and developing countries. It was therefore crucial to promote equitable growth that leads to human development and supports opportunities and benefits for all. Calling climate change a major threat to long-term prosperity, the President underlined that the Financing for Development process had a special responsibility to support mitigation and adaptation efforts of member states.

4. The Under Secretary-General of DESA underlined that in the Monterrey Consensus countries reaffirmed the primary responsibility of developing countries to mobilize their domestic resources for development. Developed countries should be active partners in the development process. While many developing countries had improved their macroeconomic management, further regulatory and legal reforms were needed to enable the business sector. Private capital flows played an important role in supplementing developing countries’ domestic resources, yet the overall development impact of flows was limited by the concentration in a dozen fast-growing emerging markets. Increased efforts were needed to promote the reach and the development impact of foreign direct investment. In concluding, the Under Secretary-General emphasized that the current international financial turmoil further underscored the need for a robust global partnership for development.

II. Panel presentations

Role of government, governance and the growth imperative.

5. It is important for governments to have a vision of sustainable and inclusive development. A national development strategy identifying main objectives and policy orientation is necessary to make progress toward this vision. Such a strategy is the basis of good policy management. Economic growth should be one of the main objectives since it is a sine qua non of sustainable development. Since 2002, developing countries have made important progress in many areas of domestic resource mobilization and economic growth has accelerated.

6. Partnership as emphasized in the Monterrey Consensus is critical to supporting and facilitating development. A sound international economic environment is also essential. National ownership of policies is crucial for effective development management. Cooperation policies should consider streamlining conditionalities. Policy space is a key factor in the promotion of sustained economic growth.

7. A market-friendly environment will encourage private economic activity and promote growth but will not necessarily address income inequality. Government has a fundamental role in addressing market failure and ensuring an equitable income distribution. It should also address the issue of corporate governance to ensure conditions that attract investment and facilitate the survival of firms.

8. Increasing public investment in infrastructure and services for the poor is essential to support sustained and equitable growth. Sound public investment will pay for itself in the future.

9. Mobilization of private and public domestic resources is often constrained by institutional and political weaknesses in developing countries; this is a governance problem. Good governance at the international level is also critical. There is increasing consensus on the elements of good governance at the national level: participatory democracy, effective rule of law, gender equality, stable property rights and absence of

corruption. If such conditions are realized, individuals will feel confident to save and businesses to invest, and people will be served by an accountable government promoting social justice and providing for the common good.

10. In most developing countries, the realization of such conditions will require significant time, considerable financial resources and enormous political effort. For example, adequate consolidation of property rights requires not just a commitment form government but also the allocation of resources on enforcement, arbitration, protection and conflict resolution. This should not imply abandoning an ambitious agenda for institutional reform. Rather, it implies a pragmatic, selective approach that yields an impact on resource mobilization and efficiency of investment in the near future. There is historical evidence that this path had be taken by economies that were developing successfully.

11. A viable strategy for governance reform should identify narrowly defined and feasible areas and scale up results and should be linked to the national development strategy. These areas may differ among countries because the initial conditions and dominant market failures are different, as are their institutional capacities. One important potential area is the building of risk-sharing institutions. Another is anti-corruption strategies which should similarly focus on a few narrowly defined aspects that affect the implementation of critical national development policies and programmes.

12. Technical assistance in governance reform and institutional building is needed in most developing countries, but particularly in LDCs, LLDCs and SIDSs as well as countries emerging from conflict. International cooperation in support of pro-poor policies in low-income countries is important as well as in middle-income countries with large pockets of poverty.

13. Countries with small economies face a size constraint on growth and can benefit from regional cooperation in trade and investment.

Macroeconomic objectives and policies.

14. Sound macroeconomic policy should promote growth and employment, improve income distribution and enhance resilience to shocks. Macroeconomic policy should be sound, solid and flexible and adapt to long-term structural changes that are taking place in developing countries. It should also include counter-cyclical elements to counter short-run fluctuations. Two important elements of employment objectives are full employment of men and women and sufficient opportunities for decent work.

15. As low and stable inflation is a public good, monetary policies should be geared to this target. But there are many paths to low inflation. While high inflation has the potential to degenerate into hyperinflation and should be avoided, too low short-run inflation targets can lock the economy into a low growth path. Therefore, it is important to tune the speed of convergence to low inflation.

16. The amount of capital flight – legal and illegal outflows - from some developing countries is staggering. This might signal a weakness in macroeconomic policies. Capital flight is often a result of poor governance, lack of confidence in the national economic stability or more attractive investment opportunities elsewhere. Countries have to weigh whether removing restrictions to capital flows will aggravate capital flight or help develop the financial system. In any case, prudential regulation is fundamental.

17. Developing countries often face a balance of payments constraint. Exchange rate policy should be flexible and pragmatic to support sustained economic growth and other development objectives.

18. In recent years, there has been more emphasis on fiscal policy space which can be increased through mobilization of domestic revenue, more productive investments, improving expenditure efficiency and increased external aid. In many low-income countries it has been a major challenge to replace import tariffs with equivalent tax revenues.

19. A key objective of fiscal policy should be sustained economic growth which requires the mobilization of fiscal revenues in a sustainable manner. There is scope in most developing countries to increase tax revenue through effective tax collection, progressive tax rates, modernization of tax legislation and broadening of the tax base. Perceived accountability of national and local governments should be enhanced through the linking of tax collection and service delivery. Lessons from some countries show that some reduction in tax rates can increase compliance and simplification of the tax system can increase coverage. Mobilization can also be strengthened by more effective expenditures and sound debt management. Cautious management of government revenues from exploitation of natural resources is important as is insuring a fair share of commodity revenue flows.

Social policies, enhancing the domestic financial system and entrepreneurship.

20. The Monterrey Consensus commits to a holistic approach to people-centred development. Mobilization of human resources is important in achieving sustainable development. The qualification of the labour force is a key consideration of investors. Since to a significant extent the brain-drain is a result of "pull" factors, cooperation is necessary to counter this flow of skilled workers from developing countries and to create better domestic opportunities.

21. Gender inequalities persist in labour markets, credit markets and distribution of assets. The Monterrey Consensus needs to be strengthened regarding gender equality issues, giving more specificity to the issues included. There needs to be a better understanding of the role of women in development, moving beyond their roles as caregivers and labourers. Macroeconomic policies should be more coherent with other policies in terms of gender equality. Policies should go beyond gender budgeting and take into account tax issues, business cycles, employment and decent work for all and the unpaid "care economy". Reforms should also address the bias against women in property

rights. In social protection policies, it is important to consider family allowance policies privileging the mother.

22. Entrepreneurship is the basis of a dynamic economy. It is important to focus on the foundations of entrepreneurship. There must be incentives for creating and doing business. There should be public-private dialogue to establish and expand family-owned, small and medium enterprises. Important areas of reform include: strengthening corporate governance, anti-corruption measures, including principles of transparency and accountability, increasing the profitability of doing business and simplifying procedures for establishing new businesses. Development of the informal sector should also be targeted.

23. National development banks can address three areas of market failure in the financial sector of developing countries: the insufficiency of long-term finance, shortage of infrastructure investment and financing of small and medium-size enterprises. Better access to finance for small and medium-size enterprises is vital to development, including microfinance providers that serve women and small rural enterprises and households; hence, the importance of policies promoting an inclusive financial sector.

24. Remittances constitute a growing flow of resources to developing countries. This is opening new opportunities in local areas benefiting from such flows for developing the banking sector and new income-generating activities.

III. Policy deliberations

Review of progress and key strategic considerations.

25. Many representatives expressed satisfaction and appreciation for the panel presentations and said that the commitments outlined in the Monterrey Consensus reflected the critical need of enhancing the international economic environment and the implementation of development policies in key areas by developing countries. The key areas included macroeconomic policy-reforms, strengthened macro-economic and fiscal management, reform of legal and regulatory systems, increased investments in economic and social infrastructure, the development of the financial system – including an expanded access to micro, small and medium size enterprises, increasing public and private savings, strengthening governance, and intensifying the fight against corruption. There was a convergence of views that developing countries had made significant progress in most of theses areas. Such progress had been clearly reflected in annual reports of the major institutional stakeholders as well as in the reviews and analyses of scholars and NGOs.

26. Several speakers stressed that that the Monterrey Consensus was the foundation of the global partnership to achieve the internationally agreed development goals, including the Millennium Development Goals. While external resource flows had an important supporting role to play, sustained long-term development could only be achieved through successful mobilization of domestic resources. There had been positive

developments since the adoption of the Monterrey Consensus. Economic growth was accelerating and developing economies were achieving increased stability partly in response to an improved mobilization of domestic resources. Yet, in some regions growth acceleration had not always resulted in the improvement of human development indicators, and had not been inclusive or pro-poor.

27. Several participants highlighted that creating a positive investment climate was one of the most pressing tasks facing development. This required action in strategic areas: the national financial and institutional systems – particularly the ones that encourage entrepreneurial activity, public-private partnerships, national and local governance, human resource development, macroeconomic policies, the economic empowerment of women, and the incorporation of small scale producers into the broader economy. Some delegates stated that the private sector should take the lead in achieving sustainable growth and mobilizing domestic resources. In this regard, it was important to lower excessive costs and streamline bureaucratic procedures to register new business, formalize informal activities and expand existing firms. Some speakers stressed that implementing reforms to eliminate bureaucratic red tape, as well as putting in place and enforcing laws against corruption, should be a priority in many countries.

28. Numerous delegates pointed out that the efforts of all partners, including multilateral institutions, should encompass all the actions outlined in the Monterrey Consensus. Such actions were mutually reinforcing and a comprehensive approach would optimize the synergies between domestic resource mobilization, aid, international trade, private capital flows, and debt relief. Several speakers said that recent progress had made developing countries more resilient. They were better prepared to cope with the global deceleration of growth due to the current financial turmoil.

29. A large number of speakers pointed out that in key areas, where improvements in the international economic environment were necessary, progress was lagging: the Doha Development Round of Trade Negotiations had barely advanced; global financial markets remained volatile; and the outflow of highly trained and skilled persons from developing countries persisted, in part as many developed countries were systematically recruiting them while restricting the movement of the semi-skilled and unskilled workers. Policy space remained constrained and conditionalities remained strong despite the general view that they were counter productive. Moreover, progress had been insufficient in addressing the special needs of Africa, the Least Developed Countries, Small Island Developing States, and Land Locked Developing Countries and in confronting the development challenges of countries emerging from conflict.

30. In this regard, according to a number of participants, LDCs and SIDSs remained very vulnerable. For these countries, additional technical assistance support was necessary and ODA and debt relief continued to be required to bridge their savings-investment gap. Also for them, as well as for LLDCs, more external resources were crucial for infrastructure investments - a critical ingredient of sustained development. In addition, several representatives noted the special needs of countries transitioning to a market economy, which required support for the development of their legal systems.

31. Poverty eradication, according to many participants, was a crucial challenge for developing countries and the efforts to combat poverty required international support. Assistance was essential for LDCs. Yet, it was indicated that such support was also important for middle-income countries to complement their efforts in fighting poverty and inequity. Also, it was pointed out that climate change posed new challenges and this should be taken into account in the Financing for Development process.

32. A number of representatives indicated that on the road to Doha there should be more emphasis on analysis of successful efforts and lessons learned. A judicious incorporation of best practices in different policy areas could make a significant contribution to policy implementation and development. Economic freedom and investing in people fostered the mobilization of domestic resources. Some pointed out the importance of promoting and consolidating social cohesion. Others stressed that natural resources should be used to serve national interests. There were convergent views on the adequacy of no one-size fits all approach and that national ownership was critical for effective policy management and sustained development. There was also convergence on the need for small-size economies and particularly SIDSs to promote greater economic integration.

Macroeconomic policies and the mobilization of public revenues.

33. In the view of many representatives the mobilization of public resources and adequate fiscal policies were critical for sustained development. The link between the national development strategy and the reality of budget allocations were often in need of strengthening in developing countries. In order to fund essential public services and investments, it was important to enhance public revenues and use national resources effectively. There was considerable scope in many developing countries to raise additional revenues. This required a more effective and just tax system, including an efficient tax administration.

34. A large number of representatives noted the close link between improving governance and increasing the tax base and revenues. The willingness of taxpayers to pay taxes derives from peoples' trust in the ability of Government to meeting their needs. This was at the root of public accountability and required a transparent budgetary process, as well as transparent public finance management. The agenda for public finance and administration reform was ample, including areas such as public expenditure control, budgeting process, transparency in procurement, civil service reform, and tax administration. In this regard, strengthening international cooperation in tax matters, particularly through the UN, could be crucial.

35. Some participants pointed out the need for developing countries to further explore how monetary and fiscal policies could directly stimulate capital accumulation and economic growth. It was stated that in many developing countries it was important to scale-up public investments; in fact, the positive impact of public investment on competitiveness was often ignored. In a context where public expenditures are fully

covered by current revenues government could borrow to invest as long as public debt is sustainable and balanced over the course of the economic cycle.

36. Many representatives stated that trade liberalization and tax competition, regarding foreign direct investments, had eroded the tax base. Revenues from tariffs could not be easily substituted by new or higher taxes, particularly in LDCs. It was important, therefore, that LDC's development partners assist such countries in their trade and investment negotiations to prevent further erosion of their tax base. It was underscored that it was also important to strengthen multilateral cooperation on tax issues through the consolidation of the UN Committee of Experts on International Cooperation in Tax Matters. For countries rich in natural resources, the commodity boom had led to considerable higher revenues. Given the fact that some of theses natural resources could eventually be exhausted and that the high prices might end, it was important for governments to explore how to retain a greater share of the commodity rents and to channel these rents to a stabilization fund or to investments that could help to attain a more sustainable development path.

Human resource development and financial sector deepening.

37. Numerous representatives focused on investment in human capital as paramount to sustained development and the eradication of poverty. Strengthening human resources required enhanced, non-discriminatory education and health policies, basic infrastructure – particularly targeting the poor, better social protection, and active labour market policies leading to decent work for all. Further efforts were necessary in all these areas.

38. Many participants called for gender equality and the empowerment of women. Their contribution to development could increase markedly and benefit all; yet, the Monterrey Consensus had not paid sufficient attention to these issues. The women's role was critical in formulating and implementing poverty eradication policies. The gender aspects of development should be considered beyond the social sectors and encompass other policy areas such as economic growth, migration, the environment, peace building, and reconstruction.

39. The development of the domestic financial sector, according to many representatives, was of the utmost importance in numerous developing countries. It was central to the mobilization of domestic financial resources. A diversified, well regulated, inclusive domestic financial system that promotes and captures savings - and channels them to sound projects and ideas - was a key pillar to sustain development and a dynamic private sector. It was essential to provide adequate financial services, including long-term funding, to small and medium-size enterprises. Yet, new efforts by governments in this area should complement rather than compete with private financial activities. Some participants pointed out that national development banks could be instrumental in providing long-term capital for productive activities and financial resources for infrastructure.

40. A number of representatives stressed that widespread access to finance – developing an inclusive financial sector that provides a wide variety of financial products- was vital. It was essential to ensure financial services that reach women, rural areas and the poor. Micro-credit was important for micro-entreprises and small family firms. For many female entrepreneurs micro-credit was crucial to their success. Many speakers emphasized the importance of enhancing national and international efforts towards strengthening micro finance.

41. Many participants referred to the increasing importance of remittances for a substantial number of countries. The amount of these private flows continued to increase significantly. Additional measures were necessary to lower the cost of transferring such flows. Moreover, countries in which such flows originate could explore ways to assist migrants in increasing them. It was also noted that remittances could provide an opportunity at the local level to promote development and banking activities.

42. Various speakers pointed out that capital flight represented a major loss of resources for developing countries. According to some estimates annual amounts of legal and illegal outflows reached hundreds of billion of dollars. The factors that triggered such flows were several: inadequate macroeconomic policies, lack of trust in the national economy, funds obtained through illegal or criminal operations, deficient tax administration capacity, lack of transparency of cross border flows and insufficient international tax cooperation. It was important to increase efforts in all these areas in a way that addresses these factors and reduces the opportunities and incentives for such capital flight. A number of representatives stated that a global partnership was required to prevent transfer abroad of corrupt assets as well as to help their recovery. It was also important that all countries become parties to the United Nations Convention against Corruption and ensure that it is effectively implemented.

10/3/2008

<u>Informal Summary of General Assembly Review Session 2</u>
<u>15 February 2008</u>

Chapter II of the Monterrey Consensus, "Mobilizing International Resources for Development: foreign direct investment and other private flows"

I. Introduction

1. The 15 February 2008 review session on chapter II of the Monterrey Consensus was chaired by Ambassador Maged A. Abdelaziz of Egypt and Ambassador Johan L. Lovald of Norway. The meeting consisted of an initial panel discussion and an interactive dialogue by all stakeholders. The panel presentations were made by Mr. Mansoor Dailami, Manager, Office of the Vice-President for Development Economics and the Chief Economist, World Bank; Mr. Prabhat Patnaik, Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University, India; Ms. Molly Pollack, Executive Director, Chile Global Chile; Mr. John Simon, Executive Vice President, Overseas Private Investment Corporation, United States; and Mr. Rogerio Studart, Executive Director, Brazil, World Bank. (The summary views of the panelists in response to questions from the floor are also included in section II – Panel presentations). After the panel presentations, a policy discussion took place among participants, including representatives of governments as well as institutional and non-institutional stakeholders.

II. Panel presentations

Trends and policy frameworks in private resource flows to developing countries.

2. Private capital flows to developing countries have been on a strong upward trend, since 1970, with boom-bust cycles in 1982, 1984 and 1997. Such flows are being supported by domestic economic reforms, improved macroeconomic fundamentals and higher economic growth. This has been recognized by international financial markets and reflected in significantly lower bond spreads.

3. The impact of the recent financial turmoil on emerging markets have been limited so far, but private capital flows are expected to decline somewhat in the short term due to a moderation in global growth and tighter credit conditions. However, the prospects for increasing private capital flows to developing countries are positive in the long-run, driven by their age-population structures, cost advantage and promising medium to long-term outlook for investment and growth. It was noted that the current financial turmoil did not start in developing countries as was the case in previous crises.

4. Since the International Conference on Financing for Development in Monterrey, many developing countries, including a considerable number in Africa, have improved policy fundamentals and growth prospects and are attracting increasing levels of private capital inflows and a number of investment funds. Foreign direct investment has grown at

a healthy pace. The basic lesson is that countries need to have their house in order and maintain consistent and sustainable growth to attract foreign private capital. Since 2002, the percentage and absolute number of the poor has decreased in Latin America coinciding with a larger flow of FDI and other external flows.

5. Yet, gaps and weaknesses persist. While foreign direct investment has increased, it remains concentrated in a few countries. Despite the increase in private financial flows to developing countries, these have to an extent been the result of the rapid and unsustainable increase in liquidity, in the main developed financial markets including the mortgage and credit markets. Progress on reforming international trade has been limited and the international community has also failed to establish an international financial architecture that would enhance the level and stability of private capital flows to developing countries.

6. A number of developing countries have benefited from the recent increase in commodity prices. However, the extra revenue from this has in a number of instances ended up as accumulated reserves or been used to repay debt. This reserve accumulation could in many cases be put to better uses such as expanding infrastructure and productive capacity or more directly tackling poverty. In many instances, reserves exceed the levels necessary for prudential policy and protection against shocks; yet high reserve levels may generate improved sovereign ratings. Notwithstanding, countries have however established investment companies and sovereign wealth funds to use reserves for productive purposes, often investing in bond and equity markets. More consideration nevertheless needs to be given to how the high level of reserves in many countries can be employed in a manner that furthers development.

7. A significant development has been an increase in local currency debt issuance by both public and private sectors in some developing countries. The economic effect can be similar to increasing the stock of external debt when many of the creditors operating in the domestic market are foreign.

8. It is important to create a business-friendly environment in developing countries, strengthen risk-sharing mechanisms, promote public/ private partnerships and increase the domestic market through human capital development and measures to ensure that growth is inclusive. It is also needed to invest in infrastructure and foster regional integration and south-south cooperation. While developing countries should create appropriate incentives to attract productive foreign capital, they should be cautious of short-term and potentially destabilizing capital flows. In this regard, an appropriate sequencing of financial liberalization is important.

9. International institutions should support further infrastructure development, venture capital and other lending instruments, and facilitate business contacts and public/ private initiatives. They should also employ existing instruments and create new ones to expand their support to developing countries to attract stable and longer-term private capital flows.

10. The international community at large should ensure that there is an enabling international economic environment, including a fair trade system and a stable and inclusive international financial architecture. Trade agreements should consider incorporating labour standards. Countries should be on an equal footing to ensure mutual benefits from bilateral trade and investment agreements.

11. It is important that the business sector respects labour standards, becomes more socially responsible and gender sensitive and considers the environmental implications of their undertakings. They should be more transparent and respect national and international rules and principles.

12. Multilateral and bilateral efforts could strive to facilitate private capital flows to, and mobilize private resources within, developing countries. An example provided was the Small Business Finance Initiative for Latin American Banks that was recently launched by the United States, to help U.S. and local banks improve their ability to extend good loans to small businesses in Latin America. Moreover, the efficient movement of private capital needs to be complemented by the efficient movement of labor and, in this regard, developed countries should consider easing restrictions on labor mobility.

13. Further progress should be encouraged in strengthening private capital flows to low-income countries and to facilitate the financing of small and medium-sized enterprises, housing and private equity. There is also a need for cooperation to establish investment vehicles for low-income countries and to facilitate the dissemination of best practices in attracting sustainable long-term private capital from abroad.

Enhancing FDI flows and policies.

14. FDI continues to be the largest and most stable capital flow and is increasingly focused on services. While it is highly concentrated in a few large economies, as a percent of GDP its levels in low-income countries are on a par with those in middle-income countries. In absolute terms, FDI inflows are related to income per capita and low-income countries attract limited levels of these flows. Through facilitating the transfer of knowledge and technology, increasing employment generation, and enhancing productivity, cross-border linkages, competitiveness and entrepreneurship, FDI can serve to stimulate economic growth and reduce poverty.

15. In assessing the development impact of FDI, it is however important to distinguish between the different forms as there are conditions under which FDI does not contribute to development. Yet it can be particularly beneficial in the industrial sector, particularly when it is linked to manufacturing exports. However, where it takes the form of mergers and acquisitions, it may not augment the real resources of the economy; rather, its main impact might be to increase the supply of foreign exchange, leading to more accumulation of reserves or an unwanted appreciation of the exchange rate. Even greenfield investment can lead to a net employment loss when increased imported inputs replace domestic production or through the promotion of less labor intensive activities.

Moreover, in the effort of trying to attract foreign investment, countries may discriminate against local enterprises and erode the domestic tax base.

16. FDI can also be questionable in the extractive industries, where capital intensive corporations may predominate and where a large proportion of the revenues are repatriated overseas. Low income countries with natural resources should ensure that appropriate standards are being complied with and moreover should try to ensure that the revenues from this sector are employed to diversify their economy. FDI can sometimes also be volatile and negatively affected by global conditions.

17. Development finance institutions and bilateral donors can play an important role in attracting FDI to lower-income countries through risk-sharing or risk-mitigation techniques. They can also inform investors about prospects and thereby address the perception-reality gap faced by these countries and also provide finance tools, including risk insurance, that are not yet available in local markets in developing countries.

18. While certain views stressed the exploitative nature of FDI and its lack of impact on the local economy, it was also pointed out that FDI flows tend to be beneficial. In the latter case, FDI and economic growth can be mutually reinforcing. There is a need to reconcile these divergent views.

19. Developing countries must distinguish between different types of investments in international agreements. In particular, there is a need to ensure corporate social responsibility on the part of foreign investors. The Global Compact provides useful guidance in this regard. However, an assessment of the impact of patent protection in the developed world on technology transfer through FDI is warranted.

20. There is a need to reassess the measurement of FDI. There have been claims that FDI stocks, flows and profits are inaccurately measured and that ‘round tripping’ also distorts the actual levels of net direct investment from abroad.

21. South-South investment flows are becoming increasingly significant. They should be promoted as investors from the south possess certain advantages – use of similar technology and accounting systems, language and cultural affinity - when operating in other developing countries.

22. There may be a need for a multilateral regulatory framework for FDI. This needs to be looked at carefully given the fact that countries may need to discriminate in their treatment of different forms of FDI.

Investment in human capital, innovation and technological development.

23. There is a need for developing countries to promote innovation and technological development in order to accelerate growth. Public Private Partnerships, at all levels, can be a facilitating mechanism in this respect. The example of Chile was cited where PPPs have been successfully employed with a view to increasing the competitiveness of human

resources and productive sectors and services, by promoting and developing high impact innovations, technology transfer and management for the country. Still there is a concern with risk sharing under PPPs; the test will come in the event of an economic shock.

24. Expatriates can play a crucial role in the acceleration of technological change, business creation and investment capital in their countries of origin. They can assume the role of pioneer investors and impart market connections, technology transfer and training to their countries of origin. Their role in this regard has been illustrated in countries such as India, Ireland, Israel, China and others.

25. Developing countries also need to focus on strengthening human capital and should in particular endeavor to upgrade their stock of qualified human resources. This should be complementary to efforts to promote innovation and technological development and can be facilitated through investment in education as well as Public Private Partnerships and regional talent networks that promote knowledge exchange.

26. Countries and donors should support strategies to strengthen entrepreneurship. The highly-skilled diasporas have played an important role in this area in some countries and there is scope for learning from their experiences and scaling up their contributions in this respect. Governments could explore ways to encourage the entrepreneurial activities of diasporas in their countries of origin.

27. Measures should be undertaken to support small and medium enterprises, which are an important generator of employment creation in many countries. In this regard, where they are viable and have a beneficial impact, the backward linkages between larger enterprises and their smaller counterparts should be encouraged and supported.

III. Policy deliberations

Review of commitments and enhancing policies to mobilize international private resource flows for development.

28. Many representatives stated that the challenge was to stimulate foreign private flows which would lead to development. This also included facilitating private capital flows to a wider group of countries and maximizing their development impact. More needed to be done to create a supportive and enabling international environment for broad-based development.

29. A number of participants stressed that there need to be more initiatives by developed countries to provide incentives to their investors to invest in developing countries. At the same time, there was a need for a common understanding on what constitutes an enabling investment climate. In this respect, it was important that policy reforms relating to the investment climate are increasingly determined by developing countries, and this appeared to be happening in some instances.

30. Various representatives said that a number of LDCs have also undertaken measures to improve their business environment. Best practices need to be disseminated in this area. Of particular relevance are transparent, non-discriminatory and predictable conditions for investment, including an effective legal and regulatory framework.

31. Several delegates pointed out that, to reduce the possibility of financial crises, developing countries must have an effective system for monitoring and managing public and private sector external debt. It was also important to increase the transparency of private capital flows and to implement counter-cyclical policies that reduce the vulnerability of recipient countries to market volatility. It was also stated that short-term private capital flows are prone to instability and there might be a need for controlling such flows. It was also pointed out that credit rating agencies should rate sovereign risk according to objective and transparent criteria. It was stated that the agencies' activities should be under the auspices of international intergovernmental organizations.

32. Many delegates expressed the view that remittances have an important role in contributing to development and poverty reduction. Key issues relating to remittances included improving the quality and coverage of data on remittances, reducing the costs of remittances flows and enhancing their development impact. Overall, the legal, institutional and regulatory environments for remittances needed further improvement and one of the important issues in this regard was to strengthen the quality of local financial institutions.

33. Numerous representatives stated that it was important for policymakers at both the national and international level to strengthen oversight of financial market activities. International oversight institutions should adopt measures and strengthen existing mechanisms to prevent illicit transfers – such as tax fraud, money laundering, illegal capital flows, the abuse of transfer pricing by transnational corporations, corruption and financing terrorism. In this direction, it was suggested that countries should implement the recommendation of the OECD Financial Action Task Force.

34. Many participants emphasized the need to enhance national and international efforts to strengthen micro credit and micro-finance. Some stressed the importance of strengthening the grant element of the support provided by International Financial Institutions to development programs. The need to develop responsible and sustainable forms of tourism was also emphasized as well as the need to explore innovative initiatives to mobilize international private resources for SIDSs.

Foreign direct investment: policies to improve its development impact.

35. Many representatives underlined that the challenge was to channel greater levels of FDI to developing countries while ensuring that these investments are translated into sustainable development gains. In this respect, attention should be paid to the quality, as well as the quantity, of FDI. There was a crucial need to create an enabling domestic and

international environment to facilitate sustainable international flows of direct investment.

36. According to some speakers, attracting FDI was determined by a wide range of factors. A healthy domestic private sector is an important precondition for attracting FDI, as well as adequate infrastructure, qualified human resources and large and expanding markets. It was stated that, in many cases, lower income countries that lack large endowments of natural resources have little to offer foreign investors. For these countries, FDI can not be expected to be a prime source of development finance in the immediate period, and official resources are necessary.

37. Several participants pointed out that the measures to promote investment should not take the form of outright liberalism. Indeed, the government should play an important role in facilitating flows of FDI to selected industries and the efficient utilization of external resources required a government development strategy. The sovereignty of national policies should be guaranteed.

38. It was noted that competition for FDI had resulted in significant incentives provided by developing country governments to investors as well as through bilateral and multilateral agreements. Recent years have seen a proliferation of international investment agreements at the bilateral, regional and interregional levels. Under TRIMs and TRIPs, developing countries had been constrained in the use of performance measures which would assist in encouraging investors to contribute to developmental goals. Hence, the proper balance had to be struck between the benefits from entering into international investment agreements and the need to secure sufficient policy space.

39. Various representatives stressed the importance that domestic policies facilitate technology transfers and local productive linkages of FDI. A key factor to achieve this was an adequate business environment for small and medium-size enterprises.

40. Some participants noted that multilateral investment agreements could be less effective than bilateral investment treaties. At the same time, bilateral investment treaties should ideally be negotiated on an equal footing. Development partners should assist developing countries, and especially LDCs, in their investment negotiations so that their legitimate interests are protected.

41. It was suggested that development partners and the donor community can play a role in encouraging FDI driven by fiscal incentives from home countries. This might serve to reduce the tax concessions demanded by foreign investors from developing countries. At the same time, private companies should be encouraged not to demand deep and long lasting tax concessions when investing in developing countries.

42. A number of speakers stated that the bulk of FDI into LDCs flowed into natural resource extraction and could have a limited role as a driving engine for sustainable development. It was argued that FDI into the extractive industries can have limited impact on employment creation and the repatriation of profits by investors diluted the

benefits of their activities. Given this, it was important that recipient countries discouraged the over-exploitation of natural resources, ensured that labor standards were upheld and strengthened transparency and accountability relating to the use of revenues, taking into account the standards set in the Extractive Industries Transparency Initiative.

43. It was pointed out that FDI through mergers and acquisitions does not necessarily increase the productive capital stock. Yet, it was noted that a large proportion of FDI to developing countries since 2002 represented longer-term investment and, moreover, had gone into green-field investment, expanding the productive capacity in the economy.

44. Many representatives underscored the fact that South-South FDI had been growing significantly and could impart a positive impact on development. Developing host countries needed to consider how to fully leverage the expansion of FDI from developing and transition economies.

45. The importance of promoting internationally agreed corporate social responsibility standards, which respect the environment and workers' rights, was emphasized by a large number of speakers. Transnational corporations should undertake necessary measures to increase the development impact of their investment, especially in LDCs, and should be encouraged to contribute to the sustainable development of local communities. It was pointed out that more emphasis should be given to promoting investments in the social sectors, with a view to addressing asymmetries in resource distribution, furthering social insurance and benefiting women and poor sections of society. The work undertaken within the UN system to develop guidelines for corporate social responsibility was welcomed.

46. Several speakers noted that an efficient physical infrastructure – including transport, electricity supply and communications - is a prerequisite for creating an environment capable of attracting investment and fostering development. Public investments in basic infrastructure are important for attracting FDI and facilitating local private investment. IFIs can also play an important role in facilitating private investment into infrastructure, especially in LDCs, through mitigating the risks investors face. FDI into critical infrastructure sectors could be pursued as a joint partnership between public and private sectors. To be successful, such partnerships should be clearly defined and structured.

47. Various participants pointed out that, while there has been some reduction recently in the degree of concentration of FDI, its expansion in recent years has been uneven. Despite significant improvements in their investment climates, many LDCs receive inadequate levels of inflows and remain marginalized within global production frameworks. It was important to strengthen and explore new bilateral and multilateral risk mitigation to facilitate greater flows of FDI to LDCs.

48. A number of participants indicated that, while developing countries continue to undertake and intensify efforts to put in place improved policy frameworks for FDI, the leading reformers have not always been the leading recipients of international direct

investment. Given this, domestic reforms had to be complemented by international measures, including by global and regional development organizations, in order to encourage the diversification and transparency of sustainable long-term private capital flows.

49. Some participants noted that the creation of larger markets through regional integration among developing countries could improve the ability of developing countries, especially smaller nations, to attract FDI. It was felt that this issue, namely the creation of larger economic space through regional integration, was not sufficiently addressed in Monterrey.

50. Many representatives emphasized that technical assistance in promoting FDI and building an enabling domestic environment is an important complement to domestic efforts. Indeed, it is important for countries to recognize the synergies that can exist between ODA and FDI and harness them for attracting more FDI and ensuring its development benefits.