



**Mobilizing Domestic Capital:
Entrepreneurship and Corporate Governance**

John D. Sullivan,
Executive Director
Center for International Private Enterprise
1155 15th Street NW, Washington, DC 20005 • 202.721.9200 • www.cipe.org

*Remarks at the
Review Session on Chapter I of the Monterrey Consensus
"Mobilizing Domestic Financial Resources for Development"
14 February 2008, UN Headquarters*

I want to start by thanking Ambassador Abdelaziz and Ambassador Lovald for inviting me to speak with you. This is my second visit as part of the United Nation's review of the Monterrey Consensus under your leadership. As the consensus focuses on sustainable development – an issue of concern for all of us – I think it is essential to include the views of the business community on its implementation. In fact, we all must recognize the leadership role the private sector can play as a true engine of growth. It cannot, however, fulfill that role without proper government support to build an enabling environment for entrepreneurial activity. That enabling environment, of course, is exactly what the Monterrey Consensus seeks to describe and encourage member governments to adopt.

By way of background, the Center for International Private Enterprise (CIPE) is an affiliate of the U.S. Chamber of Commerce. At first glance, you might think that CIPE is part of the foreign investor community. Yet, over the past 25 years, we have had offices and programs in more than 100 countries. We have worked with domestic private actors – chambers of commerce, business associations, think tanks, and other civil society groups – all struggling to do what we are talking about doing here today: mobilize capital and develop a foundation for investment, job creation, and sustainable growth. I must emphasize that what we try to do is build up the capacity of domestic reformers, so that it is the local business community itself that puts forward their own solutions to their own problems. In many instances, it is a very difficult process as it has much to do with changing attitudes, perceptions, and (most importantly) institutions.

The Secretary General's 2007 report on the Monterrey Consensus (www.un.org/Docs/journal/asp/ws.asp?m=A/62/217) presents a big-picture point of view on the implementation of the action items outlined in the Monterrey Consensus. In fact,

implementation has been one of the big concerns with this ground-breaking document. One of the things that Secretary General stresses in terms of domestic financing for development is a focus on the foundation for entrepreneurship. This is particularly important from the point of view of the private sector. By private sector, I do not mean multinational corporations. I mean the full range of the private sector: from the informal or micro-entrepreneur, to the family firm (which represents the majority of firms in most developing countries), to those in countries that have stock exchanges that are big enough to mobilize private savings for listed companies.

As we talk about the private sector and mobilizing capital, let me remind you of the investor perspective – what are the issues that the domestic investor considers? To answer this question, I should quote one of your countrymen, Mr. Chairman. Hani Tawfik is one of the leaders of the Arab Private Equity Association. Responding to the question of why there is not more investment in the countries of the Middle East, Mr. Tawfik responded, “Deal flow.” Explaining the meaning of deal flow, he said, “I don’t get enough deals from private firms that are investable, that are bankable.” The American financier Richard King Mellon echoed a similar sentiment when mobilizing domestic financing to create the industrial revolution in the United States – he noted that there is no shortage of capital, but that there *is* a shortage of deals.

What Mr. Tawfik stressed in his comment to me is the importance of identifying the constraints to doing business as well as incentives for people to save and invest and move from the informal to the formal sector. To put together viable, fundable business deals, entrepreneurs need to have a sound legal environment, property rights, and predictability in government policy and regulation to name a few things. The Doing Business indicators developed by the International Finance Corporation are a good starting point for identifying many of the key reforms needed to foster entrepreneurship on a country by country basis (www.DoingBusiness.org). For example, if it takes years for investors to enforce a contract, as it does in many countries, deal flow will be very low.

To achieve the standards laid out in the Monterrey Consensus, country by country, group by group, we need to talk to the private sector, establish public-private dialogues, and create strategies for reform. While the Monterrey Consensus does a great job of identifying the need to create incentives, to put in place protection of property rights, and other key institutions, it doesn’t lay out a road map on how to generate reforms. As we move forward to Doha in this review of the consensus, we should take some time to consider various approaches to reform that have a proven track record.

For example, corporate governance is one such reform concept that is not specifically included in the Monterrey Consensus. In fact, until recently, corporate governance was not commonly considered a development tool. Throughout the successful emerging markets, much of the success we are seeing in mobilizing financing for development is helped along by putting together a corporate governance regime that ensures investment, the mobilization of domestic savings, and the protection and survival of family firms not listed on exchanges. Colombia, Egypt, and Lebanon are examples of countries that are working to put in place structures that create incentives to attract and mobilize domestic savings and provide safety and security for family firms.

In this regard, the banking sector is a useful tool to promote sound governance practices. The Philippines represents a huge success in this area. Former Philippines Finance Minister Jesus Estanislao has started a very impressive program with the Institute of Corporate Directors (ICD) in the Philippines. ICD has worked with the central bank to improve the ratings of both listed and unlisted banks. If you can improve the governance of banks and if you can get the banks to consider the governance structures of the domestic firms to which they lend, then there is a real chance for lowering banks' risk portfolio and increasing profitability. These kinds of things are being done in other countries as well. Corporate governance is one of the most interesting and exciting mobilization mechanisms for reform and it is not just the OECD engaging in this effort. (For more on corporate governance, visit www.cipe.org/programs/corp_gov/index.php.)

It is widely recognized that, in today's world, corruption constitutes a fundamental barrier to mobilizing financing for development. Fortunately, there are now some very specific techniques that can be used to combat corruption, such as transparency and international integrity pacts. CIPE has been working with Transparency International (TI) to create these transparency pacts in, for example, Colombia. Groups like the Colombian Confederation of Chambers of Commerce (Confecámaras) have worked with the Columbian government and cities like Bogotá and Medellín to reduce corruption in procurement processes, returning benefits to the people of the country and increasing efficiency in government spending. CIPE has also supported TI's effort to develop the Business Principles for Countering Bribery, which serves as a set of guidelines for companies that are willing to clean up their own act. CIPE is increasingly finding that citizens around the world are demanding that companies introduce principles of transparency and accountability; the Business Principles help companies answer those demands.

Another tool that is being used in countries all over the world to reach out to the private sector, target specific constraints, and create a reform program is the National Business Agenda concept. Right now, the Superior Council of Private Enterprise (COSEP) is working in Nicaragua with President Ortega's government to come up with very specific actions that can increase the profitability of small- and medium-sized enterprises. National Business Agenda programs are being implemented in Afghanistan, Egypt, Russia, and a number of other countries. These agendas counter specific problems with specific reforms that raise firm-level productivity and profitability. Improvements at the firm level increase job creation and address the issue of informality.

There is much to be said in terms of public sector reform that we will not address here. Briefly, there are some targeted public sector reforms relevant to this issue of stimulating domestic financing for investment. Ghana is an example of a country that stepped up to make very concrete governance reforms, pinpointing specific problems. Anyone can say, "Fix the tax system," but Ghana actually conducted a specific review of the public sector to determine how it could best improve performance. Much of this was helped by the New Partnership for African Development (NEPAD) peer review mechanism, which should be considered in the context of the Monterrey Consensus review.

A previous speaker said that reductions in income and equality will not occur as the result of market forces. That *may* be true without fundamental reforms. But we might instead ask: in how many countries do market forces operate on behalf of the poorest of the poor? Most of

these poor are, in fact, not even part of the market. Numerous studies suggest that as much as half of the economic activity in many countries is locked in the informal sector by a wall of red tape that creates barriers to entry. The Doing Business indicators referenced above provide ample evidence of how pervasive these barriers are. They are also the same barriers that inhibit deal flow – the development of bankable business opportunities.

These fundamental insights stem from the work of Hernando de Soto, who wrote *El Otro Sendero* (The Other Path), and also *The Mystery of Capital*. He identified that it took 289 days in his native Peru to legally register a firm and seven years to get access to property. Thanks to the efforts of many governments over a course of many years, that is no longer true in Peru. Mr. de Soto's creative thinking also stimulated the development of the Doing Business indicators. In fact, Hernando and former Secretary of State Madeline Albright are now chairing a very exciting initiative here at the UN, the Commission on Legal Empowerment of the Poor (legalempowerment.undp.org). Their work can make a substantial contribution to helping developing nations attain the goals of the Monterrey Consensus by creating specific roadmaps for reform.

At the end of the day, it seems that there is a supply and demand factor regarding political will. We must look to government leaders to provide the supply, but we also should look to the private sector, the NGO community, and broader civil society to become better informed of what they should demand in terms of reform. Reform comes by working on both sides of this equation with very concrete ideas. We have recently released a new study, *Strategies for Policy Reform: Experiences from Around the World*, that describes a variety of concrete approaches used in emerging markets and developing countries to put in place the kind of enabling environment prescribed in the Monterrey Consensus. Case studies include the work of Hernando de Soto on property rights for the informal sector, efforts to combat corruption and foster corporate governance, removing barriers to women's participation in business, and a variety of other efforts to build a positive business environment. I've brought copies with me and they are also available on our web site at www.cipe.org/publications/papers/pdf/PolicyReform_2007.pdf.

Mr. Chairman, thank you once more for the invitation to be with you. Your work is vital to helping the developing world attain the kind of sustained economic growth and democratic governance needed to reach the goals we all share.