Informal Review Session on Chapter I of the Monterrey Consensus “Mobilizing international financial resources for development”

(15 February 2008, UN Headquarters, Conference Room1)

Mr Chair,

I am speaking as the representative of my own organization New Rules for Global Finance, and for many of my colleagues in the socially responsible investing world who believe that foreign direct investment by corporations must be realized within a socially responsible framework that promotes sustainable development. Under the right conditions we believe that FDI and private capital flows could make a positive contribution to financing for development.

Extractives:

As the representative of the government of Norway has just highlighted the extractives sector is in need of special attention. Much FDI in the extractive sector, for example, does not generate many jobs, has little integration with the local economy, demonstrates limited technology spill-overs and often has a serious negative impact on the environment.

While many international frameworks, standards and principles pertaining to consent, transparency, good labour, the environmental, society, and gender already exist, compliance and consistent implementation is very sporadic. The rapid expansion in private flows, combined with the power of the corporate lobby and the lack of binding regulatory frameworks means that even when good words exist – they do not translate into good deeds.

Private sector accountability for meeting international standards especially in the extractives sector is a prerequisite to achieving sustainable development. The absence of an effective regulatory framework which tracks, monitors, evaluates and enforces these standards continues to impede lasting progress in this area.

Liberalization of investment services:

The liberalization of investment in services – especially basic services such as health and the provision of water - has proven to be especially controversial where the profit motive has clashed with the public service motive. This has especially been true in loosely regulated environments which have resulted from pressure on developing countries to liberalize. The likelihood of a negative development impact in such cases is very high.

Short term Portfolio Investments

Shorter term capital flows in the form of speculative portfolio investments have often triggered financial instability both when they come in and when they leave and therefore need to be carefully regulated. This was successfully done in the past by Chile and then Malaysia after the SE Asian crisis. The pressure to liberalize the financial sector which is being visited on developing countries risks limiting the development potential which well-regulated financial flows can have, and risks increasing it’s the potential negative impact.

Conclusion and recommendations:

It is essential to address these problems if we are to capitalize on the financing for development potential of foreign direct investment and private capital flows.

Towards this – we have the following recommendations for this ongoing process

1) Voluntary standards and codes are important but have proved ineffectual in making FDI accountable to stakeholders. It is now time for this process to initiate the development of an international regulatory framework to ensure that cross border investment flows subscribe to high standards on taxation, labour (ILO core standards) social and environmental impact, anti-corruption and gender equality. – And it is time to end the race to the bottom - The WB doing business report, for example, penalizes countries that are trying to promote a decent work agenda – minimum wages and core labour standards. This is counterproductive and unacceptable.

2) The agenda for the liberalization of investment in services needs to be rethought – especially in the light of recent less than positive experiences especially in the area of basic services that are essential for life.

3) Recurring financial crisis, like the one precipitated by the current sub-prime meltdown, point to the need for an international regulatory framework which allows countries, especially developing countries to regulate (using speed bumps, prudential norms and capital controls) portfolio flows. This process also needs to make urgent progress towards developing such a framework. This should include providing for much greater transparency in the working of financial instruments, such as hedge funds, private equity and sovereign wealth funds.

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