

**DRAFT OUTCOME DOCUMENT OF THE FOLLOW-UP INTERNATIONAL
CONFERENCE ON FINANCING FOR DEVELOPMENT TO REVIEW THE
IMPLEMENTATION OF THE MONTERREY CONSENSUS**

INFORMAL CONSULTATIONS: 8-10 September 2008

COMMENTARY BY
THE BUSINESS SECTOR STEERING COMMITTEE

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Business is deeply committed to supporting the implementation of the Monterrey Consensus, given the critical importance of the breakthroughs achieved by the United Nations and its member states. We firmly believe the Monterrey Consensus is an historic United Nations Achievement of huge proportions – provided we can act together to realize its objectives and set into motion the agreed upon action plans.

We very much appreciate the opportunity to contribute to this process on behalf of the Business Sector Steering Committee. Overall, we are generally pleased with the text and appreciate that the private sector is recognized as an important player and we are in agreement with many of the points that have been made. After a thorough review of the document, our committee has the following comments which focus on elements we feel have been omitted from the document for your consideration. In addition, the Business Sector Steering Committee, with its diverse composition from the business community offers ongoing, active involvement in the further refinement of the Doha Outcome Document in the coming weeks.

INTRODUCTION

Given the importance placed in Monterrey on the achievement of international development goals and the MDGs in particular, the document should be more explicit about specific poverty reduction measures (acknowledging aggregate growth as a necessary but not sufficient precondition). Moreover, we feel there needs to be a stronger statement on the part of public authorities acknowledging and promoting a leading role for the private sector in implementation of relevant activities.

Additionally, it is valuable to highlight the complementary roles of the public and private sectors (business, foundations, civil sector organizations) to foster the objectives. Development cooperation is a truly collective, inclusive process for all stakeholders, in line with their respective roles in society. Top-down approaches would ideally be paired with bottom-up/community-based initiatives.

The Introduction of the draft Doha Outcome Document recognizes the need for effective “actions and initiatives” and multistakeholder “global partnership for development” engagement,” but the Document

wording needs to be sharpened to reflect the: (1) urgency of change, and the (2) huge inefficiencies that today systemically impede results.

MOBILIZING DOMESTIC FINANCIAL RESOURCES FOR DEVELOPMENT

Paragraph 4

In this section we believe the private sector role should be acknowledged and recognized more explicitly. Economic growth and development must be stakeholder inclusive, socially responsible and environmentally sustainable.

ADD: “Critical actions include building government capacity to create business-enabling-environments, develop local markets, formulate investment projects, and negotiate with the private sector, through funding from development banks and donors.”

“Specific practical implementation mechanisms that increase the capacity of developing country governments to create business-enabling environments, such as Government-Investor Networks (GINs) and Sustainable Development Committees (SDCs), can serve as practical tools to enable cost-effective collaboration and consultation for all stakeholders on local, regional, and national levels.”

“We acknowledge the need for market solutions to deal with the challenges of development. We recognize the unique and indispensable role of private-sector actors in designing and implementing private-sector solutions. We therefore commit ourselves to support private-sector-led initiatives and solutions that are in accordance with international best practices.”

Paragraph 5

We believe that good governance is essential for effectively mobilizing all financial resources, not just domestic, however this paragraph conveys a weaker perspective. It would be useful to revisit the original paragraph 11 in the original consensus and compare the current version to the original, specifically in reference to democratic institutions and market-oriented economics – which were key areas. As international corporations are expected to subject themselves to international standards (e.g., Global Compact, OECD Guidelines for Multinational Enterprises), adherence by such companies is important: host governments in developing countries are urged to adopt such guidelines as well for their domestic business sector.

Paragraph 9

The document does not directly acknowledge the problem of ‘low level equilibrium traps’ confronting informal and formal sector micro-enterprises in LDCs, and the need to develop innovative forms of

finance that allow microenterprises and SMEs to leverage productivity enhancing investments. Microfinance, at least in the form of 'traditional' micro-credit, typically entails the provision of short term working capital and so has severe limitations in this respect. The business sector has a crucial role to play in addressing this issue and recent years have seen promising developments in commercial bank downscaling, double bottom line investment funds and the provision of 'patient capital' etc. These developments should be acknowledged and encouraged.

MOBILIZING INTERNATIONAL RESOURCES FOR DEVELOPMENT: FOREIGN DIRECT INVESTMENTS AND OTHER PRIVATE FLOWS

Some of the issues (notably 15, 17) in this chapter should be incorporated in the paragraph "Domestic resource mobilization", as most of these initiatives will have to be realized by mobilization of domestic technical and financial resources.

Furthermore, adequate, objective, core data availability & disclosure, and regular engagement with stakeholders should be part of a structured investor-relations policy, attracting the preferred investments, and also reducing the risk of undesired market volatility resp. excesses.

The structure of the document is generally clear, however the sharp distinction drawn between the mobilization of domestic and international resources for development tends to downplay the importance of factors that affect both. For example, infrastructure (paragraph 15) and the business enabling environment (paragraph 16) are clearly important for domestic and foreign investors. However, it could be: (a) more prominent by moving it forward; and (b) more specific, by itemizing more of the essential reforms such as property rights, removing barriers to the inclusion of the informal sector and the like. Special measures to assist countries to attract international private capital flows are important (paragraph 16), but so too is the principle of 'national treatment' for foreign investors.

Paragraph 16:

ADD to last sentence: "As for the mobilization of domestic capital, business-enabling environments are critical and require the adoption of practical implementation mechanisms that increase the capacity of developing country governments to improve public-private partnership and intragovernmental coordination, such as Government-Investor Networks (GINs) and Sustainable Development Committees (SDCs)."

Paragraph 17

We are supportive of the thinking behind paragraph 17, however, sustainability, corporate governance, CSR, etc. should be applied, equally, in domestic issues as well, especially the environmental concerns instead of putting linking it to attracting foreign direct investment. CSR and standards of good corporate

governance are important to ensure the quality of foreign direct investment and domestic investment alike.

It would be ideal to reword the 3rd sentence to "We will make stronger efforts to promote high standards of corporate governance and responsible business practices and seek to ensure that adequate human rights and environmental protection standards are upheld everywhere." Corporate social responsibility is interpreted in many different and often narrow ways (e.g. corporate social investment) and perhaps more importantly many companies do not use the term. The revised sentence avoids the debate. Similarly the social issues are much more than labour standards hence the suggestion of human rights.

Paragraph 20

The provision of 'objective high quality information' is 'vital for informed decisions by potential foreign investors'. This is equally true for small domestic investors that frequently lack access to basic market information and face disproportionately higher overheads in relation to market research, due diligence etc.

Add to last sentence: "Multilateral agencies need to support efforts by the private sector and NGOs to provide investors worldwide with investment-enabling information, including assessments and success stories, such as eStandards and the Development Finance Portal. Dynamic forums can also be established that allow developing country governments to comment on published assessment reports on their countries, including sovereign ratings set by credit rating agencies."

INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

Paragraph 24

Technology transfer will be greatly enhanced through trade liberalization that permits more participation in global supply chains, i.e., indirectly as a result of significant new liberalization. Therefore, it would be more ideal to limit references to technology transfer, which are not a direct topic of the negotiation.

Additionally, the limitation on opening services markets is too narrow. We seek ambitious, comprehensive and balanced services liberalization.

In reference to "policy space," we believe that the special and differential needs of each developing country are best addressed by phase- in periods, safeguards, and capacity building rather than "policy space," which is the opposite of the commitments that will ensure the predictability and participation in the global trading rules that is necessary to stimulate the benefits of such rules; e.g., the policy space of

undermines the notion of “predictable access to markets” in paragraph 25 (unless predictable market access is only something for developed markets to provide).

Paragraph 25

It would be ideal not to put so much weight on cost and benefit. Open trade is an established good general goal and the multilateral negotiation offers a unique opportunity for governments rebalance political interests for and against liberalization to permit opening markets (by opening other markets not just unilateral liberalization) and each government makes its own weighing of the political costs and benefits in the course of the negotiation.

Paragraph 27

The goal of the Doha round (paragraph 30) is to ensure “fair, balanced and equitable market opening commitments,” which may be redundant and misses the point that new market access commitments are needed to get the most benefits, and particularly among the developing countries, which will accrue the greatest benefits of such south-south liberalization. We should try to get at least “significant, balanced and comprehensive market opening commitments” as a substitute.

Additionally, one of the most common criticisms over aid for trade is that it will not be new money – just repackaging/reassignment of existing commitments. There should be stronger commitment from the heads of state regarding “new money.”

Paragraph 29

We suggest a more elaborate description of the term “triangular cooperation.”

Paragraph 30

It would be ideal to summarize what “outcome” from Accra that the heads of state welcome. Additionally, this paragraph should become part of the section “Introduction.” It is a core part of consistent, coherent and effective development cooperation.

Trade and commerce are indeed core drivers for development.

INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT

The aid and development cooperation architecture has indeed changed (with “smarter” aid; triple bottom line, patient venture capital; etc.) and the need for consultation, cooperation, standards-setting, transparency, impact assessments has increased. But such possible cooperation should foremost be organized by the beneficiaries. Additionally, we suggest that the heads of state request greater

coordination with the UN, since it can only ask for additional funding for its activities if it commits to improved efficiencies and greater coordination between the different UN bodies.

Paragraphs 34/35

ADD: “A fundamental weakness of the Paris Declaration and its implementation to date is the total disregard for the huge importance of the private sector in aid effectiveness, given its unequalled potential to leverage limited ODA. The Paris Declaration therefore needs to interface with the FfD Follow-Up process, insuring aid effectiveness in leveraging the limited ODA with private sector resources, including new emerging donors from the private sector and foundations.”

Paragraph 36

ADD: “To be effective, the joint proposal on donor effectiveness needs to have the open participation of recipient countries, new donors, and private sector investors. Aid effectiveness is impossible without evaluations of all donor programs by countries and targeted investors, and performance reports that include tracking of flows (both public and private.”

Paragraph 38

Delete the reference to the “airline ticket solidarity levy.” Organized business strongly opposes, in principle to the creation of earmarked taxes on a specific business sector for the purpose of funding and related public objective. This practice burdens the sector and distorts market allocation.

EXTERNAL DEBT

Debt sustainability is of the essence and transparency is playing a critical role therein. Countries should realize that FDI interest by the business sector may be affected if investment /bank flows by private sector may become “trapped”, pari passu with official funds, in case of a debt crisis. Barter-type transactions must be included in establishing external debt.

Paragraphs 43/44

ADD: “Another area of critical technical assistance is for developing country governments to have access to financial advisory on how to access private sector finance without incurring more public debt, for example, using targeted risk mitigation services from development agencies, offshore funding vehicles, and political risk insurance.”

Paragraph 45

Change to read "We recognize that a shift has occurred from official to commercial borrowing and from external to domestic public debt. This is creating BOTH new OPPORTUNITIES AND vulnerabilities. We note the need to address NEW CHALLENGES, including by improved data collection and analysis.

ADDRESSING SYSTEMIC ISSUES; ENHANCING THE COHERENCE AND CONSISTENCY OF INTERNATIONAL MONETARY, FINANCIAL AND TRADING SYSTEMS IN SUPPORT OF DEVELOPMENT

A much more inclusive architecture will engage and align much better the leading (developed and developing) countries whose policies may affect the stability, soundness of the international financial system.

Paragraph 48

Actions/commitments are unclear.

Paragraph 49

Is the action to improve co-ordination between ministries?

Paragraph 50

Actions/commitments are unclear.

Paragraph 51

ADD: "Enhanced financial information and transparency in the financial operations of public and private financial institutions, particularly banks AND INCREASINGLY SOVEREIGN WEALTH FUNDS, are key elements for a well functioning international financial system."

Paragraph 56

ADD: "Developing countries need to operationalize Codes and Standards based on their own needs and circumstances, applying them practically to enable the transparency and stable regulatory regimes needed to access to private capital. For example, the regulatory regimes for infrastructure services for energy, water, and other critical social services need to be self-sustainable with full cost-recovery, including transparent allocation of subsidies and funding mechanisms."

Paragraph 58

ADD: "Given the pivotal role of the private sector in providing development finance, as in the FfD process, it will be critical to ask for private sector suggestions in this review process."

OTHER NEW CHALLENGES AND EMERGING ISSUES

Paragraph 60

We welcome this point but commitment to action is critical.

Paragraph 61

Suggest inserting language to add references to the importance of the private sector in technology innovation and investment to address such crises:

"We also underscore the special challenges emerging from international commodity markets, particularly the abrupt rise in food and energy prices. We will mobilize additional multilateral and bilateral resources to assist developing countries, particularly the least developed and those that are most affected by high food and energy prices, in coping with the consequences of these higher prices, while at the same time recognizing the necessity of a substantial expansion in food production by increasing yields to meet increasing demand. Therefore, innovation in the agriculture sector needs to be given the highest attention. Investment in research and development of new technologies is also important and is particularly needed for farmers in developing countries that are not able to heavily invest in techniques for improving yields.

We reiterate that the global food crisis has multiple and complex causes and that its consequences require a comprehensive and coordinated response in the short, medium and long term by national governments, the private sector and the international community. We also take note of the establishment by the Secretary General of the High-Level Task Force on the Global Food Crisis and encourage its continued engagement with member states of the United Nations."

Climate Adaptation funding in developing countries may be as much as current levels of ODA flows: \$100bn pa. These amounts should be supplemental to existing ODA commitments. Innovative insurance schemes should enhance financial resilience for the poor. Mitigation efforts may be accelerated by offering official minimum price guarantees for CCS-projects (CCS: Carbon Capturing & Storage).

Commodities' price increases and volatility affect foremost the poor: these price developments are more a consequence of bad policies from the past than of today's speculators: corrective action must focus on fundamental approaches, rather than on fighting symptoms.

The "economics of ecosystems and biodiversity" need to be developed and considered by the government and business sectors. "Repairing our economic compass" is urgently warranted. Studies in this space (like the one undertaken by the EU Commission) to develop methodologies and toolkits

require priority attention. These may have profound effects (positive or negative) on the creditworthiness, resp. investment attractiveness. CO2 emission reduction pricing will be the driver of this process.

STAYING ENGAGED

FfD delivering as “One”: As called for in the Monterrey Consensus, FfD is the single global venue authorized for coordinating multistakeholders, the Bretton Woods institutions and others, ensuring the consistency and coherence of the array of international agendas related to financing for development. FfD must have the capacity and commitment to reduce costly fragmentation and further the alignment of financing for development activities, insuring coherence and consistency, and noting in a timely and effective manner inconsistencies, and possible synergies. Coordination needs to include the Bretton Woods institutions, WTO, OECD Paris Declaration on Aid Effectiveness, and other initiatives (Poznan/Copenhagen etc).

Follow-up must be on a multi-stakeholder structured basis that utilizes practical mechanisms for coordination and consultation; domestically the SDC and GIN (see above) should play a key role in creating ground up capacity; internationally INFRADEV and other tools advancing public-private collaboration can play an important role in enhancing the capacity of development agencies in mobilizing private sector resources. In addition, closer cooperation between UN and the World Bank, IMF, etc, incorporating partnership with the private sector, is warranted.

To achieve optimal results, FfD Follow-Up needs to have a defined structure with funding, tools, exchanges, and performance tracking:

- a) FFD FUNDING: A “FFD DONOR FUND” could be created, enabling support from across the public and private sectors, akin to the effective innovative funds that have been established (such as the Global Fund <http://www.theglobalfund.org/en/about/how/>).
- b) FFD TOOLS: As a practical means to enable the extensive coordination between multistakeholders needed for broad-based results, “FfD Tools” can be made available to developing country governments and development banks as cost-effective organizing frameworks that enable ongoing public-private collaboration on financing for development: As noted in the prior sections, multi-stakeholder “Sustainable Development Councils” (SDCs) could be created in each country to coordinate integrated diagnostics and develop consistent and coherent government policies and regulations in close and structured cooperation with business and civil society. Government-Investor Networks and INFRADEV Network can allow for 24/7 public-private collaboration between the actual practitioners.
- c) PERIODIC FfD MEETINGS: The FfD Office needs to organize FfD meetings with presentations of success stories, lessons learned, and proposals for advancing financing for development. Pilot

FfD Countries can report on successes, impediments, and share success stories for replication, enabling widespread benefits.

- d) FfD PERFORMANCE MONITORING & REPORTS: There needs to be systematic monitoring of FfD results reinforced with performance reports and targets. Examples include performance reports on official sector performance in using risk mitigation to mobilize private capital; and evaluations of development agency services provided by client countries and private sector companies.

Paragraph 64

ADD: “As we move into implementation, these multistakeholder bridges need to incorporate effective actions and initiatives aimed at creating concrete benefits for the full range of developing countries. To ensure success, there needs to be a defined FfD Follow Up Process, with a “FfD Fund” that provides needed resources, availability of “FfD Tools” to enhance developing country and development bank capacity for multistakeholder communication and partnership, periodic “FfD Meetings” focused on results and sharing success stories for replication, and “FfD Performance Reports” that are disseminated openly.”

“Follow-up must be on a multi-stakeholder structured basis that utilizes practical mechanisms for coordination and consultation; domestically FfD Tools focused on cost-effective multistakeholder coordination, such as the Social Development Councils and Government Investor Networks and GIN (see above) can play a key role in creating ground up capacity. Internationally INFRADEV and other tools advancing public-private collaboration can play an important role in enhancing the capacity of development agencies in mobilizing private sector and donor resources. In addition, closer cooperation between UN and the World Bank, IMF, etc, incorporating partnership with the private sector, is warranted.”

CLOSING COMMENTS

The key drivers for success are: (1) IMPERATIVE OF PRIORITY & URGENCY, (2) ALL-STAKEHOLDER INCLUSIVENESS, (3) OPTIMAL RESOURCE MOBILISATION and (4) EFFICIENT EXECUTION. A fully involved and engaged private sector this is imperative to help achieve these goals.

To further enhance the document's emphasis on the critical importance of reliance on private sector contributions to development, we propose to include concrete examples of : (1) private sector projects and products that will support development; and (2) government policies and initiatives that are essential to and/or conducive to private sector involvement in sustainable development. As a result, we have suggested proposed new language below (at the end of this document).

The Business Steering Committee offers ongoing, active involvement in the further drafting as well as the execution of the Doha Outcome Document, including, but not limited to proposing practical

measures and instruments to support its efficient and effective implementation, both internationally and in individual countries.

OTHER PROPOSED NEW LANGUAGE

"Examples of private sector activities that can contribute to sustainable development and to the achievement of the Millennium Challenge Goals in partnership with government, include:

- project financing projects (paying due attention to environmental and social concerns of the host country), including build, operate and transfer and similar projects, especially in connection with the development and operation of essential infrastructure such as energy and water projects, and transport (airports, highways and bridges);
- revenue-based local and municipal bond financing, including financing supported by wisely drawn property taxes, to fund local services such as schools;
- robust commercial banking and capital markets, in order to allocate capital efficiently, finance necessary inputs and imports, enable local entrepreneurs to finance their activities, and allow market participants better to manage risk (such as currency risk);
- flexible, properly priced property and casualty insurance to encourage the private sector to undertake necessary projects; and
- the use of private sector expertise to provide benefits through electronic transfer to allow better social service penetration into rural and underbanked areas.

"For its part, government must work to create and maintain a legal and structural environment that attracts and retains sound and productive private sector investment - domestic and foreign. Examples of government efforts and initiatives that are essential to the long-term participation of the private sector in the expansion of national economies and the realization of the MCGs include:

- a predictable legal environment and respect for the rule of law;
- transparency in the formulation and enforcement regulation, including public notice of proposed regulations and the opportunity to comment thereon and the publication of licensing criteria;
- an impartial judiciary and a professional administrative bureaucracy;
- subject to prudential considerations, the maximum possible level of market access and national treatment (irrespective of reciprocity) for foreign services firms and professionals in order to take advantage of global expertise and best practices; (PLEASE NOTE THIS DOES NOT REFER TO TRADE IN GOODS WHICH IS TOO SENSITIVE);
- an enforceable regime for creating and enforcing mortgages and liens on real and personal property; and

- the targeted use of tax incentives to encourage private sector investment in sound development projects."