Preparatory Process for the Third International Conference on FfD
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The private sector is an investment engine for sustainable development. Private investment plays a critical role in financing infrastructure, training workers, and creating income-earning opportunities – including for the poorest households and enterprises. To attract private investment, country financial systems in developing countries must function efficiently, capturing savings and channeling them to productive projects and ideas.

We believe that private international capital flows, particularly foreign direct investment (FDI), are key complements to national and international development efforts. Representing roughly one half of net resource flows, FDI is the single largest external resource for developing economies, including other private sources, such as portfolio equity and debt, and official sources, such as loans and grants. FDI makes raising rates of capital accumulation in both physical and human resources possible. FDI's full value lies in its unique ability to create jobs, stimulate competition, spur innovation, introduce new technologies, and elevate the skills of workers and managers.

The Addis outcome document must also recognize that capital will naturally flow to countries where investors believe they can get a good rate of return and their investments will be protected. To attract and enhance inflows of productive capital for maximum development impact, countries need to create a transparent, stable and predictable investment climate, with proper contract enforcement and respect for property rights. A stable investment climate also relies on sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably. Each country is primarily responsible for introducing and maintaining a transparent, stable and predictable investment climate that not only invites investment, but helps ensure that any volatility of short-term capital flows is transitory.

Both domestic and international conditions are necessary to facilitate direct investment flows to least developed countries (LDCs). Governments hoping to attract additional investment can put in place sound macroeconomic policies and necessary structural reforms that improve investment climates and attract development-enhancing capital. And supporting crucial domestic reform efforts is the complementary role of international institutions in promoting FDI.

After FDI, remittances remain the largest source of external financing flowing to developing countries. All countries should take actions to strengthen remittance markets, facilitate competition, and improve consumer protection to reduce to costs of transferring international remittances.

As we have noted, stable, inclusive and efficient financial markets have the potential to improve peoples' lives by reducing transaction costs, spurring economic activity, and

improving delivery of other social benefits, particularly for women youth. Expanding the scope and scale of financial services offered to the poor, older persons, women, persons with disabilities, youth, indigenous people and other underserved populations is important to help achieve sustainable development objectives.

In addition, the development of a sound and broad-based financial sector is central to the mobilization of domestic financial resources. A diversified, well-regulated, inclusive financial system promotes savings and access to financial services, and channels savings to sound projects that increase sustainable, long-term economic growth, generate revenues, and create jobs. An efficient market can help allocate finite resources to their best use, augmenting government efforts to meet society's needs.

Technological innovation is a promising way to advance financial inclusion because it often lowers the costs of serving low-income clients and makes the provision of financial services to this client segment viable. Mobile banking is one such innovation with dramatic potential for both scaling up and deepening access to financial services.

Public-private alliances can multiply the impact of external development assistance. Attention to successfully engaging the private sector in mutually beneficial development partnerships can mobilize additional sources of finance for development. The private sector also provides management skills, information technology, and can connect producers to value-chains. In turn, the public sector supports creation of the necessary policy environment and mitigates risk. At the global level, sector-specific funds and public-private partnerships have proven successful at driving investment to achieve results against specific goals, in particular leveraging significant private resources for health, agriculture, renewable energy, and infrastructure investment. Coordinating fiscal inputs into these mechanisms can enable them to better forecast and allocate financing over multiple years, thereby allowing countries to implement programs with greater financial security. Within the renewable energy sector, for example, external development assistance has shown great potential in minimizing investment risks and maximizing leverage for additional financing through public-private partnerships

Blended finance, and instruments provided by development finance institutions (DFIs) to leverage private finance can help reduce risk and attract greater private flows. In addition to development finance resources like loans and equity investments, risk management instruments such as investment guarantees and risk insurance provided by DFIs leverage additional private capital for development investment. Blended financing can facilitate investments that are just below the margin of commercial viability, and which otherwise would not be unlocked by enabling policies and a conducive institutional environment alone.