ROUND-TABLE PANELLISTS CALL FOR RESOLUTE ACTION TO SHORE UP CONFIDENCE AMID GLOBAL FINANCIAL, ECONOMIC WOES

With the current financial crisis and economic downturn in the West almost certain to make corporations more cautious about future foreign investment, a panel of development finance experts in Doha, Qatar, agreed today that, while developing countries should adapt their strategies to prepare for the months ahead, the United Nations and global financial institutions must act resolutely to provide policy guidance and shore up investor confidence.

Starting the second day of its work, the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, convened a round-table discussion themed “Looking ahead: Mobilizing international resources for development -- foreign direct investment and other private flows”, during which Government and independent experts highlighted challenges and offered solutions to encourage and facilitate sustained investment in developing countries, bolster local investment capacities and remodel international financial policies and mechanisms.

The round table’s Co-Chairs were Denis Sassou Nguesso, President of the Congo, and Bob McMullan, Parliamentary Secretary for International Development Assistance of Australia. Moderated by Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), the panel comprised Hiroto Arakawa, Senior Special Adviser with the Japan International Cooperation Agency; Joyce de Ginatta, President of the Federación Interamericana Empresarial of Ecuador; Huguette Labelle, Chair of Transparency International; Trevor Manuel, Minister for Finance of South Africa and Special Envoy of the Secretary-General for the Conference; Avinash Persaud, Chairman of Intelligence Capital; and Kamalesh Sharma, Secretary-General of the Commonwealth.

Several panellists stressed that, while the developing world had worked hard in the six years since the adoption of the Monterrey Consensus to prove that trade, foreign and private investment, and good governance were vital in lifting living standards, those same countries, many of which had only recently appeared on the verge of explosive growth, especially in Africa, must now prepare for the spill-over effects of an economic crisis that had its genesis in the developed world.

Mr. Manuel said Africa had taken some “tough decisions” to initiate the macroeconomic and other reforms that had driven strong growth for nearly a decade. Now, however, the continent was faced with a financial rupture in the developed world that threatened to erase hard-won gains towards achieving the Millennium Development Goals. Indeed, foreign direct investment was certain to be withdrawn from presumed risky ventures and put back into dollar-based markets and activities.

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He said that coming up with a global response that addressed the current reality -- "one not driven by panic" -- was at the core of the Conference's work. International actors must be careful not to seek actions that produced the worst possible outcomes. Over the next 12 to 18 months there might be significant backflows of foreign investment out of the developing world, and there was bound to be some arrest of the speedy development witnessed in recent years. With that in mind, the Conference, and the wider United Nations, must consider what kind of message it would send. "We must show that we understand the problem. Global actors must also work with the financial institutions to ensure present, visible and capable economic leadership."

Mr. Arakawa pointed out that, according to several reports, world growth would diminish in both advanced and emerging economies, which might affect private financial flows. Since 1990, there had been a substantial increase of private flows and a small rise in official development assistance. However, private flows were volatile and tended to go to specific projects, while official development assistance was stable and focused on policy and institutional reform.

In order to achieve high sustainable growth, it was necessary to integrate with the world economy, to ensure mobility of resources, as well as high savings and investment rates. Official development assistance was important in mobilizing private investment, creating or maintaining an enabling environment and providing risk mitigation. Stakeholder dialogue was a requirement for establishing an enabling environment.

For his part, Mr. Supachai highlighted the "changing landscape of foreign direct investment", noting that, while it had tripled over the past six years, flows had not been evenly distributed. Rather, they had gone mainly to major emerging economies such as China, Brazil, South Africa, Saudi Arabia and Singapore. As a result, the poorest countries had received only about 3 per cent of total foreign direct investment flows.

He also highlighted the important emergence of investors from the global South who where, by and large, investing and partnering with their fellow developing countries. Foreign direct investment had consistently outpaced official development assistance in recent years, but some domestic entrepreneurs who lacked the competitive edge against better equipped and financed foreign companies might have been negatively impacted.

Mr. Persaud took issue with the "cozy consensus" that foreign direct investment was "good and other forms of finance were bad", adding that the view promoted by large companies that it was long-term money and that there would be transfer of skills was an overstatement of its virtues. Dividends generated by foreign direct investment would frequently be taken out by investors at the earliest sign of trouble, resulting in outflows that could be bigger than the original investment, and profits would often be repatriated.

He went on to say that transfer pricing was a major way in which FDI came out of a country. Large companies were good at "fumbling" how much money they were making. Equity investment was a good way to check such behaviour because equity participants did not wish to lose returns and required high standards of transparency. For developing countries to get the best end of investment there must be competition with other flows. Competition in financing helped in negotiating better deals.

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The real opportunities for development lay in sovereign wealth funds and the pension funds of developed countries, which wished to diversify equity into emerging markets, he said, disagreeing with Mr. Manuel about regulation. Rather than "comprehensive" regulation, there should be good regulation. Otherwise there would be bad comprehensive regulation.

Picking up that thread, Ms. Labelle said every effort should be made to ensure that foreign direct investment translated into effective development. Stakeholders should bring new solutions to the table in that regard and ensure that the right balance was struck between actions taken by Government, business and civil society.

She also called for identifying the right measures to encourage and retain investments for development, including ensuring transparent reporting and information disclosure by corporations; ensuring that intermediary institutions, such as credit agencies and auditing firms operated in a transparent way, with codes of conduct and disclosure practices that would ensure the highest degree of integrity; and ensuring that investing countries and home Governments acted with the highest standards of integrity and transparency.

Mr. Sharma noted that developing a foundation for home-grown enterprise, especially youth entrepreneurship, which was the "key to sustainability", was critical to growth in many developing-world societies. That went hand in hand with investment in education, training and job creation, especially for women. Infrastructure financing was particularly critical for Africa, where so much time and money was lost in transporting goods between countries or to and from transit ports.

On the role of the global finance institutions, Ms. De Ginetta said that in 2008, with all the available communication technology, the International Monetary Fund (IMF) and World Bank had missed the crisis despite the fact that concerns relating to the real estate bubble and abuses of speculators had been raised by economic actors. The Bretton Wood institutions were far removed from the cultural reality of countries and regions. The theory that devaluations produced competitiveness was false. They generated poverty and eliminated purchasing power. Bretton Woods had had its cycle, and there was a need to establish new regulations to avoid fiscal and financial abuses. The order of things must be changed to give investors security.

She said the only way to avoid speculation and channel capital flows to generate employment and balance demand and supply was to have worldwide regulations. It was important to eliminate local currencies and turn to regional currencies. Standards should be harmonized in order to minimize delays in providing comparable economic and financial information. The World Bank, the IMF and the Inter-American Development Bank must be modernized so that they could avoid a crisis instead of accelerating it. Alternative fuels should be developed so as to reduce the world economy's dependence on petroleum.

In the ensuing discussion, speakers pointed out that foreign direct investment funds went mostly to those developing countries that exported raw materials, which was a volatile market that could generate speculation. In that regard, they underlined the importance of diversification. One delegate pointed out that the debt initiative mentioned had had a very limited impact because of the financial crisis.

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Speakers also stressed that foreign investment should be linked to national priorities, although Mr. Manual disagreed, saying it was difficult to ask investors to determine what priority sectors were. Moreover, Governments had the obligation to protect investors.

Many speakers stressed the need for transparency and accountability on the part of both the private sector and Governments. A Member of Parliament from South Africa said it was regrettable that the draft outcome document had omitted parliamentary oversight. Lack of regulation in the financial sector required public oversight, for which Parliament was the supreme body.

A representative of the World Federation of United Nations Associations noted that “shady” pricing practices and abusive transfer pricing by multinational companies accounted for some $500 billion annually. There was a need to establish an international tax organization to address such matters and provide advice to countries.

The representative of Palau called for a greater focus on global warming and its impact on the development of small island developing States, suggesting that they be given a special status under which developed nations could be given incentives to invest in vulnerable countries as a way to promote development.

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