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FFD PREPCOM HIGHLIGHTS: WEDNESDAY, 17 OCTOBER 2001

Delegates gathered for the fifth and sixth sessions of the resumed Third PrepCom for the Financing for Development (FfD) process . In the morning, delegates met in Plenary for a presentation and then continued with informal consultations throughout the day on the Draft Outcome's first and second sections.

PLENARY

At 10:20 am, Co-Chair Jacoby convened the PrepCom and introduced Lennart Båge, President of the International Fund for Agricultural Development, who spoke on behalf of the World Food Programme and the Food and Agriculture Organization. He underscored the significant drop in ODA, and said that without the mobilization of new resources, the agencies' quest for a world free of poverty and hunger is unattainable. He called the Draft Outcome not "sufficiently specific" in mobilizing resources for food security, poverty reduction and sustainable development.

INFORMAL CONSULTATIONS

GLOBALIZATION AND DOMESTIC RESOURCES: In discussions on section one (globalization) and the first chapter of section two (domestic resources), SOUTH AFRICA specified more emphasis on multilateralism, international partnerships and the issue of capital flight, and proposed adding transparency and predictability to the global governance principles in paragraph four. On financing and conditionalities, he stressed adjusting goals and standards to national conditions. JAMAICA, on behalf of the Caribbean Community (CARICOM), asserted that despite a favorable domestic environment, countries who have agreed to conditionalities have not benefited from external financing. She said that mobilization of resources cannot be primarily internal because economies are interrelated. The RUSSIAN FEDERATION stressed the responsibilities of national governments for providing favorable conditions for FDI as well as social support for the needy. He suggested adding references to liberalizing national financial markets and donor assistance for mobilizing domestic resources.

The US dismissed key parts of the text as "woefully inadequate" and rejected it as a basis for discussion. He said that globalization is a fragile process that depends on continuous will and that one cannot enjoy its benefits without paying costs. He rejected numerous references in the text, including, *inter alia*, notions of inequitable globalization, increasing polarization, asymmetries in the system, international responsibilities for development, and global economic and social governance. He stressed that the goal of this process is not to strengthen multilateralism but to stimulate national actions in meeting country responsibilities. Noting that the market should determine investment flows, he objected to notions of a government role in income distribution and providing credit for all. He said that opportunities for country participation in decision-making are adequate.

The CZECH REPUBLIC called for clarification on country responsibilities for resource mobilization, and proposed elaboration of: specific nationally-driven poverty reduction goals and development strategies; linkages among economic, social, fiscal and trade policies; and coordination and partnerships at the national level. INDIA suggested clarification on global public goods (GPGs) and taking into account different development needs. CHILE underscored the importance of equity in development. MALAYSIA proposed further elaboration of poverty eradication, equity and co-responsibility. NIGERIA preferred references to the "global economic system" over globalization; and said that peace, good governance and accountability were necessary for ownership of development. THAILAND emphasized, *inter alia*: socially responsible macroeconomic policies and technical assistance. He noted that regional cooperation can strengthen surveillance efforts and supported financial crisis recovery measures. SWITZERLAND called section two a crucial pillar of the FfD process, and in paragraph eight proposed, *inter alia*: adding reference to medium-term frameworks, strengthening budget management capabilities and tax structure simplification. BENIN proposed that the FfD form a "mechanism" for mobilizing resources for LDCs. ETHIOPIA opined that good governance promotes "sector investment programs" and FDI. Describing how ODA shortfalls have posed problems for developing countries, he suggested trade as a tool for improving their economic outlook. The PHILIPPINES emphasized being "fully inclusive" as stated in paragraph one. Regarding paragraph nine, he contended the integration of gender in all financial sector aspects contributes "significantly" to advancing FfD goals.

INTERNATIONAL PRIVATE RESOURCES: In the second chapter of section two (international private resources), the G-77/CHINA said that the group would comment on each paragraph. In paragraph 11, on private flows, he contended: economies in transition don't share the same status as developing countries; and FDI should be directed toward a greater impact on development. He specified adding reference to the volume of FDI and dropping reference to investment agreements in paragraph 13, on promoting FDI. In paragraph 14, on measures to encourage FDI, he suggested clarifying domestic constraints and adding measures for addressing capital flight. In paragraph 15, on support for private investments, he proposed references to, *inter alia*, development banks and other financial institutions facilitating private sector interactions in FDI origin and target countries. In

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paragraph 16, on business obligations, he supported dropping references to socially and environmentally responsible investment and to good corporate citizenship. He said paragraph 17, on predictable financial flows, should underscore that ODA can play a vital role in expanding private sector investment.

The EU suggested separating principles from concrete initiatives. Boosting entrepreneurship is paramount, he said, but the text should have a pro-poor orientation and consider rights in the workplace. In paragraph 12, he said a true partnership encompassing all aspects of development and financing had to be more than just a bargain of certain policies in exchange for ODA. While noting that ODA is an essential financial source for the poorest countries, he maintained attracting direct private investments is the primary responsibility of developing countries. In paragraph 13, he supported reference to further analysis on FDI triggers and obstacles. Paragraph 15, he maintained, should give more attention to private-public partnerships, and paragraph 16 should include references to international accounting standards, the OECD guidelines for multinationals and the UN Global Compact. He proposed that paragraph 17 should include measures to discourage harmful competition for FDI and underscore that a stable domestic environment is key to a stable international system.

JAPAN called for de-emphasizing the BWIs and stressed the importance of providing a favorable environment for investment by sending clear messages to the private sectors. The REPUBLIC OF KOREA acknowledged linkages between private resources and development, and stressed the importance of corporate responsibility. MEXICO noted mobilization of resources required consistent macroeconomic policies, called for distinction between short and long-term capital flows, and said structural reforms are important for attracting direct private capital. PERU proposed development and updates of practical financial solutions and tools in the Draft Outcome and called for regional and multilateral institutions to establish a dialogue among institutions and companies. On behalf of the SIDS Pacific Island Forum, FIJI stated that developing countries should redouble their efforts in infrastructure development of information and technology projects. SWITZERLAND supported public-private partnerships to boost technology transfer and competition, and said ODA should serve as "leverage" complementing other financial flows. SOUTH AFRICA called for improving policy and regulation networks to facilitate private sector decisions related to FDI. NEW ZEALAND said FDI and private capital flows are a means for long-term development, and an environment conducive to FDI emphasizes the rule of law, intolerance for corruption and good governance.

NORWAY underscored innovative public-private partnerships, special investment funds and improved market access. CHINA stated that of US$127 billion of FDI, US$100 billion flows into developed countries. He challenged the PrepCom to move FDI to developing countries. MALAYSIA maintained that strengthening the host country's capacity to manage flows of FDI would, *inter alia,* reduce leakage from the host country. UKRAINE addressed FDI in facilitating transitions to a market economy and called for a separate paragraph reflecting the specific needs of countries in transition. CHILE noted differences in national circumstances, discussed the shortage and volatility of FDI, and identified mutual interest as a key to investment. BRAZIL noted the importance of making changes in national regulations, maximizing the mutual benefits of investments, and taking advantage of investment opportunities with the help of international institutions. INDIA said multilateral institutions should respect sovereignty. The BAHAMAS, on behalf of CARICOM, said that FDI is concentrated in a small number of countries and that creating enabling environments is necessary but not sufficient for ensuring FDI. She called for creating more investment agreements, arrangements for smaller economies, and government offices to facilitate investment. PARAGUAY said that FDI is something more than external resources and includes technology, marketing and organizational capacity. He stressed the need to open developed country markets to developing country products. GUATEMALA noted that FDI is just one type of capital flow and not all FDI is desirable. He suggested references to: the quality of investment; stimulating capital flows in both directions; and setting universal rules to ensure a level playing field and avoid competition among countries that depletes domestic public savings. HONDURAS advocated linking the FfD process to the World Summit on Sustainable Development, proposed inviting regional development bank representatives to participate in the Conference and stressed transparency and ethics. The PHILIPPINES urged analysis of FDI schemes in paragraph 13 and highlighted holistic approaches in paragraph 17. BELARUS stressed the role of stakeholders, including recipients of private investment, in paragraphs 15 and 16; and enhancing concepts of private sector and government cooperation.

PAKISTAN noted that private capital flows can build up inflationary pressures and that short-term capital flows are destabilizing and require technical safety nets. He called for mechanisms to ensure partnerships that benefit both donors and recipients. BOLIVIA said that implementation requires follow-up to the Conference and called for a political statement that defines such machinery. The RUSSIAN FEDERATION proposed multilateral institutions use international standards, accounting and reporting that is clear to investors. INDONESIA noted unclear ideas on the concept of GPGs, proposed reference to good public and corporate governance in paragraph seven and requested appropriate avenues to discuss "corporate citizenship." ALGERIA listed tax incentives, land grants, communications, and human resources as incentives for FDI. The DOMINICAN REPUBLIC stated that mobilization of resources should include: greater stability of the economy; capital flows that encourage privatization; and a transfer of financial resources from private banks, regional banks, and bilateral and multilateral resources.

PARTNERS AND STAKEHOLDERS: The WORLD BANK proposed discussion to clarify the role of private capital flows, and stressed the necessity of a good climate to attract FDI. At the national level, he encouraged "bridge-building" to help lubricate private capital and advocated investments "at home" that contribute to growth in a socially meaningful way. The IMF emphasized that peace and security are essential for investment. He supported evaluation of capital account liberalization and tailoring policies to the needs of individual countries in market liberalization. He said liberalization can raise investment levels but entails big risks if policies are inconsistent.

The ILO highlighted sound industrial relations that respect human rights, raise productivity and reduce poverty, and supported references to social security, pension schemes and workers' rights. The UN Industrial Development Organization (UNIDO) stressed the important role of small and medium enterprises and mobilizing partnerships. The UN Conference on Trade and Development (UNCTAD) proposed the UN create an ongoing forum to discuss FDI flows to developing countries, examine best practices and minimize negative impacts.

The Women's Environment and Development Organization said FfD could play an important role toward fulfilling the commitments of past UN conferences. The RURAL RECONSTRUCTION MOVEMENT, on behalf of the NGO Working Group on Mobilizing Domestic Resources, called on delegates to emphasize social issues including health, education, and gender. The INTERNATIONAL CHAMBER OF COMMERCE supported maintaining fiscal discipline, combating corruption and guaranteeing property rights.

IN THE CORRIDORS

A few delegates from capitals hoped that negotiations might take a break from politics and get down to the technicalities of financing for development. Others were overheard confiding their intentions for an ideological campaign, even as they consented to dip into a bit of line-by-line. Is it back to the 1980s, wondered an observer? Some delegates fretted that their negotiating bloc might be so busy on tactics it won't ever get around to strategy. A few delegates in a smaller bloc felt constrained by its conservative focus…

THINGS TO LOOK FOR TODAY

PLENARY: Delegates will meet in Conference Room 2 at 10:00 am to hear a presentation from Rubens Ricupero, the Secretary-General of UNCTAD. They will then continue discussing the Draft Outcome document, focusing on chapters in section two on trade, international financial cooperation and debt.