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The UNDP Round Tables and the private Sector

An issue Paper

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Abstract

UNDP Round Tables have been traditionally used to facilitate the dialogue between recipient governments, chiefly in the least developed countries (LDCs), and their main donors. In this document, written for UNDP as part of an evaluation of its Round Table process, we investigate the possibilities of using this mechanism also to encourage external private flows and to promote the development of the local private sector. We first look at the evolution of the financial resources going to LDCs and Round Tables countries and investigate the reasons these countries have not benefited as much as others from the recent increase in private sector financing. We then present the main ideas that came out of interviews we had on these issues with representatives of the private sector in developed countries. An analysis of the role of UNDP and UN agencies in promoting private investment through the Round Table process is then carried out. We conclude by making a few recommendations with regards to possible modifications of the Round Table process to attain the proposed objectives.

Résumé

Traditionnellement, les Tables Rondes du PNUD ont été utilisées pour faciliter le dialogue entre les gouvernements des pays receveurs, principalement parmi les pays les moins avancés (PMA) et leur principaux bailleurs de fonds. Dans ce document, écrit pour le PNUD comme contribution à une évaluation de son processus des Tables Rondes, nous étudions les possibilités d'utiliser aussi ce mécanisme pour encourager les flux privés extérieurs et pour promouvoir le développement du secteur privé local. Nous regardons d'abord l'évolution des ressources financières des PMA et des pays de Table Ronde et analysons les raisons pour lesquelles ces pays n'ont pas bénéficié autant que les autres de l'accroissement récent des financements privés. Nous présentons ensuite les principales idées émergeant d'entretiens que nous avons eu sur ces questions avec des représentant du secteur privé de pays développés. Une analyse du rôle du PNUD et des agences des Nations Unies dans la promotion des investissements privés à travers le processus des Tables Rondes est ensuite effectuée. Nous concluons par quelques recommandations quant à des modifications possibles du processus des Tables Rondes afin d'atteindre les objectifs proposés.

Key Words

F35 Foreign Aid
F42 International Policy Coordination and Transmission
G15 International Financial Markets

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Introduction

The organisation of Round Table meetings between the governments of interested recipient countries and the donor community was started by UNDP in the 1970's. This process was given a new impetus by the first Paris Conference on the Least Developed Countries in September 1981. The Conference adopted a follow-up mechanism, which foresaw the convening of periodic meetings between each LDC government and its main donors. Following the Conference, UNDP proposed to the governments of the LDCs (31 countries at the time, now 48), to assist them in the preparation of such donor meetings. The World Bank was not much interested in aid co-ordination at the time and many LDC's governments did in fact request UNDP to take the lead in organising such meetings. As of today, still, the majority of LDCs have, at least nominally, a Round Table process, while a smaller number have a Consultative Group. (An agreement between the Bank and UNDP has precluded the possibility of a country having the two processes concurrently). In 1990, the second Paris Conference on the LDCs re-affirmed the idea of follow-up meetings at the country level and confirmed the World Bank and UNDP in their roles as lead agency in these processes.

This document is based on an issue paper prepared for UNDP as a contribution to an evaluation of the Round Table process carried out in 1998. While the evaluation covered all aspects of the process, UNDP felt that special attention should be paid to the role the Round Table could play for promoting the development of the local private sector and encouraging the in-flows of private funds. Round Table meetings have traditionally been predicated as a mechanism to facilitate the dialogue between the recipient government and its main donors. Largely absent in this dialogue were the representatives of the private sector, from the recipient countries as well as from foreign corporations. Revisiting this approach appeared timely in view of the changes that had taken place during the previous decade, both in the financing of developing countries and in the policies of the main actors.

The 1990's have seen major changes in the pattern of financing of the developing countries as a whole. **First**, the total volume of aid (Official Development Assistance, in the OECD jargon) reached a peak, in nominal terms, in 1995 (US $ 89.3 billion) and then decreased (to US $ 76.8 billion in 1997). As a result, ODA as a percentage of the donor countries` GNP decreased from some 0.33 % on average during the 80's to about 0.22 % in 1997. **Second**, private flows dramatically increased during the current decade, from US $ 43.6 billion in 1990 to US $ 252.1

billion in 1997. As a result, the share of private flows in the total net financial resources of developing countries increased markedly, from about one third to over three quarters. Two types of private flows account for the bulk of these private financial flows: direct investment and non-bank loans. In 1997, for instance, these two forms of financing made up close to US $ 200 billion, almost three quarters of the private financial flows. Unlike the situation of the 1970's and 1980's, bank loans represented only a minor share of these private flows (about 8 % in 1997).

These modifications in the pattern of financing of the developing countries stem in turn from the changes in the policies of the various actors involved in the course of the decade. **Donor governments** have become more concerned about budget equilibria, at the same time that the end of the Cold War brought to a close one of the main rationales for aid. On the **recipient** side, a world-wide change in the prevailing economic philosophy, encouraged by the Bretton Woods institutions and the major donors, has led to policies more conducive to external capital and private sector development throughout the developing world. In turn, the **private sector in the developed countries** has responded to the opportunities offered by this new climate in the developing economies. Since the high level of debt overhang in many of these countries was discouraging international banks from increasing their exposure, flows of private capital have mostly taken the form of direct investments or non-bank loans.

These changes in the pattern of external financing of the developing economies should have direct implications for their governments, including those of the LDCs. In particular, it would appear that the capacity and effectiveness of the recipient governments for organising, monitoring and co-ordinating these flows should be affected by the changes in their origin, from aid agencies to private entities. This in turn raises the question of the role of the co-ordination mechanism established with the assistance of multilateral institutions, like the Round Tables and the Consultative Groups. Should their objectives and modus operandi be modified, in view of the fact that the larger – and growing – share of the external financing received by these countries comes from private sources? More specifically, could the Round Table process be modified to help recipient countries in mobilising and co-ordinating private resources?

To answer these questions, we first look at the evolution of the financial resources going to LDCs and Round Tables countries (section II). We then investigate the reasons these countries have not benefited as much as other developing countries from the recent increase in private sector financing (section III). We present the main ideas that came out of interviews we had, with representatives of the private sector in developed countries, on the Round Table process and the mobilisation of private funds (section IV). An analysis of the role of UNDP and UN agencies in promoting private investment through the Round Table process is then presented (section V). We conclude by making a few recommendations with regards to possible modifications of the Round Table process to attain the proposed objective (section VI).

1. The financing of LDCs and Round Tables countries

Before analysing how the Round Table process could be modified, we must first investigate how the changes presented above have affected the situation of the Round Table countries. To do so, we assembled figures on the financial inflows of the countries mostly concerned by the Round Table process, as opposed to the developing countries as a whole. Before looking at these figures, however, a note of caution is in order.

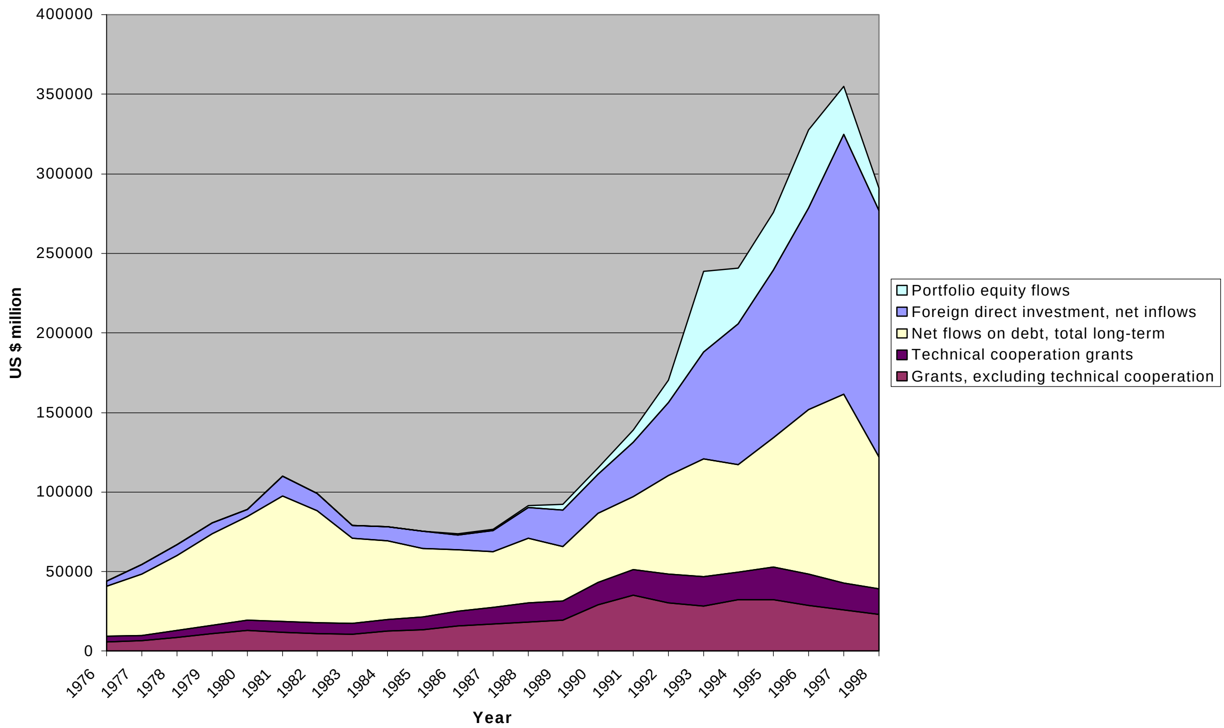
Data on the resource flows of the poorest countries are hard to come by. This is particularly the case if one looks for figures that are consistent across countries in their definition, measures, and calendar. In fact, only two sources of such data exist: the Development Assistance Committee of the OECD and the World Bank. They are however different in their content, approaches, definition and values, and the figures of these two sources might at times directly contradict each other's. With regards to groups of poorer countries (LDCs or sub-Saharan Africa), data are at times just not available. In all case, obviously, the figures have to be looked at carefully and interpreted with all due caution.

For the purpose of this exercise, we mostly used the data of the World Bank, to be able to have consistent series of figures on public and private flows, as well as on domestic investment. Even then, however, these figures come from two different World Bank sources (Global Development Finance and World Development Indicators) and their comparison is not always straightforward. Nonetheless, whenever the corresponding data are available from the DAC database, they tell a similar story - albeit with different numbers!

The World Bank (Global Development Finance) breaks the flows to developing countries into five main components: portfolio equity flows, net direct foreign investment, long-term debt, technical co-operation, and official grants. This does not quite correspond to a breakdown between private and public flows. The first two components (portfolio equity flows and net direct foreign investment) are clearly private, while the last two (technical co-operation and official grants) directly relate to public aid. Long-term debt flows, however, would include both public and private flows. In the case of the poorer countries (be they defined as the LDCs, sub-Saharan Africa or the Round Table countries), most of them would be subjected to agreements with the Bretton Woods organisations precluding the use by the government of loans on non-concessional terms, and the figures relating to long-term debt flows would essentially correspond to aid monies.

Bearing this in mind, the figure presented below shows the changes in the resources of developing countries over the period 1976-1996. The actual figures differ from those of the DAC mentioned earlier, but the directions of the changes are the same. The 1970’s and 1980’s did not show much variation, apart from a slow increase in grants and technical co-operation (which are both part of aid). During the 1990’s, however, these two flows reached a plateau and then began to decline. Meanwhile debt, foreign investment and portfolio equity flows increased dramatically until 1997, before falling in 1998. This recent fall was obviously linked to the Asian crisis and it may be hoped that, with the improvement of the economic situation, these flows will now resume their increase. Whatever the case, it is clear that the bulk of the developing countries’ resources is now composed of private flows (bearing in mind that, for developing countries as a whole, part of the long-term debt flows is made up of private funds).

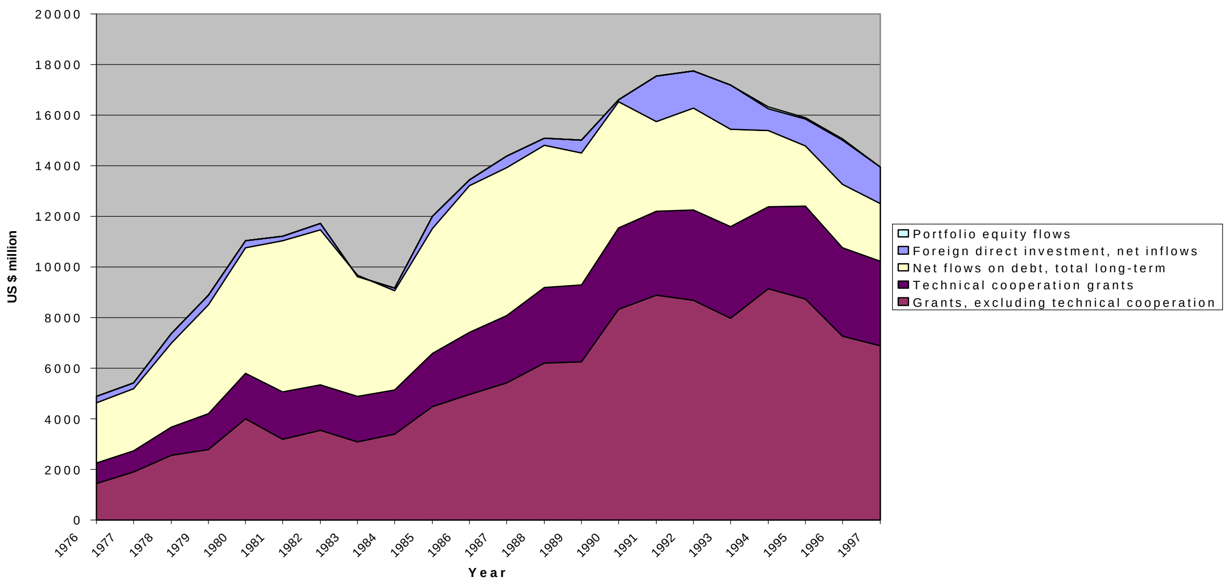
Figure 1 : External Resources of developing Countries



Source: Data from the World Bank's Global Development Finance, our calculations.

If we look at the LDCs, however, the picture is different. In their case, most of the flows of long-term debt correspond to aid resources. Taking that into account, we can see in Figure II that aid to LDCs reached a maximum in the early 1990's and then decreased. In the course of this decade, private investment increased, but to a limited extent: in 1997, foreign direct investment represented only about 10 % of the total resources (as defined here) of LDCs (as can be seen in the figure, portfolio equity flows, which are sizeable in the case of developing countries as a whole, barely register in the case of the LDCs). As it is, private flows to LDCs represent less than each of the three main components of public aid (grants, technical co-operation, long-term debt). More importantly, these private flows do not show a clearly rising trend, after the uptick of the early 1990's.

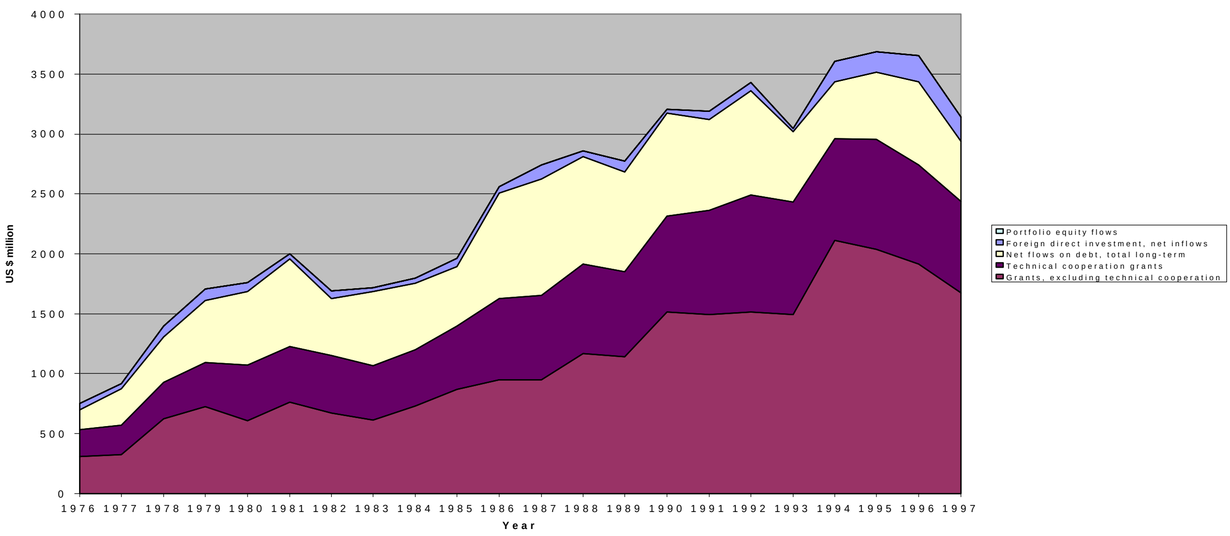
Figure 2 : External ressources of LDCs



Source: Data from the World Bank's Global Development Finance, corresponding to 45 out of 48 LDCs (Afghanistan, Kiribati and Tuvalu missing); our calculations.

The story is not noticeably different if, instead of the LDCs, we look at some of the Round Tables countries. Figure III below shows the corresponding evolution of the resources of a group of recently active Round Table countries. In their case, aid reached a maximum in the mid-1990's before declining. There is however no noticeable increase in foreign direct investment, which amounted to less than 7 % of the external resources available to these countries in 1997.

Figure 3 : External ressources of Round Table countries



Source: Data from the World Bank's Global Development Finance, our calculations.

The countries included in this group are: Bhutan, Burkina Faso, Burundi, Cape Verde, Central Africa, Chad, Comoros, Djibouti, Gambia, Lao PDR, Lesotho, Maldives, Mali Niger, Rwanda.

Not surprisingly, given the fact that most LDCs are in Sub-Saharan Africa, we also find a similar pattern if we look at the flows of resources to this region (not shown here).

Another way to measure the importance of private external flows for the development of various categories of countries is to compare externally-funded investment with the total investment in the country.[2] This comparison is however even riskier than the preceding exercise. While series of data actually exist (on domestic investment, and on the various components of private foreign investment), these are based on different concepts (the first one is derived from national accounts, the others from the information collected on financial flows). Gross domestic investment, as measured by the World Bank's World Development Indicators, includes all investments, irrespective of their source of financing – at least conceptually. This should be compared to an estimate of externally-financed private investment, but as we indicated, such an estimate is not immediately available.[3] As a proxy, we took the sum of foreign direct investment and portfolio equity flows.[4]

Figure IV below shows the evolution of the ratio of foreign-financed investment (as defined above) to gross domestic investment for all developing countries and for LDCs respectively. Given the difference in the concept of these two categories of investment and the less-than-reliable nature of their measure, it is preferable not to look for any meaning in the figures themselves; the trend over time for each group of countries is however more significant.

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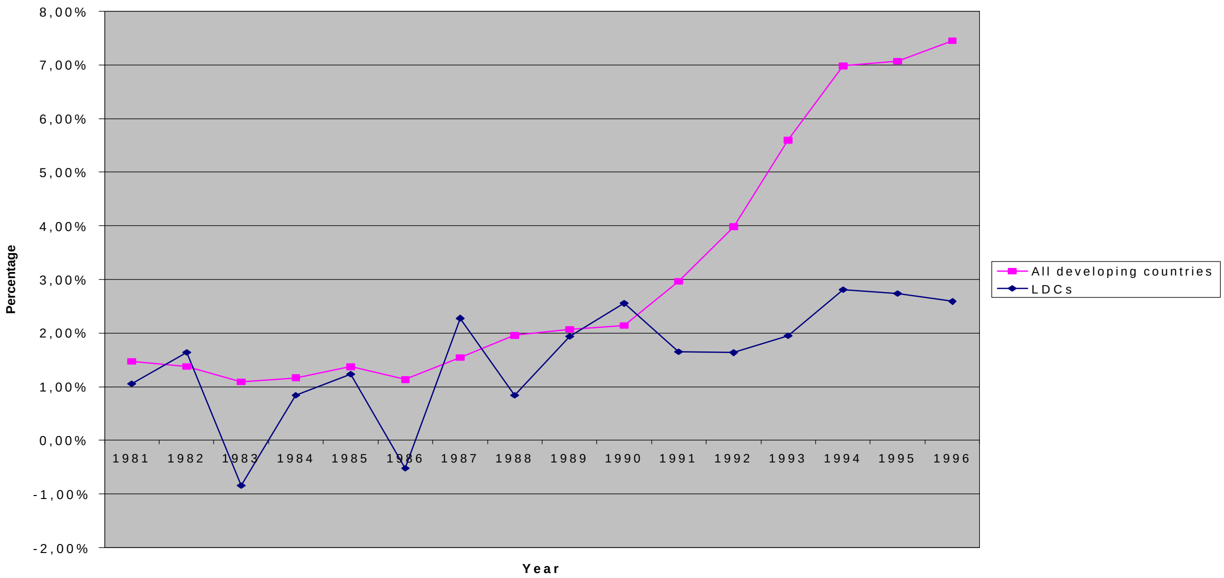
[2] Conceptually, it would be useful to compare externally financed private investment to total *private* investment. Unfortunately, no complete series of data on private investment are available for these countries.
[3] Such an estimate would in fact include the total value of foreign direct investment, plus portfolio equity flows, plus a share of long-term debt flows (the share corresponding to the flows originating from the private sector).
[4] For the reasons indicated above, this amount underestimates the actual value of foreign private investment, more so in the case of all developing countries (where debt is an instrument used to finance private investment) than it does in the case of the LDCs (where little private investment is actually financed by debt).

Figure 4 : Foreign investment as a ratio of a total investment



Source: Data from the World Bank's World Development Indicators, our calculations. Only the LDCs for which complete series of data exist for the 1981-1996 period have been included. These countries are: Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Central African Republic, Comoros, Congo, Ethiopia, Gambia, Guinea-Bissau, Haiti, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Samoa, Sao Tome, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Uganda, Zambia.

The above figure shows a significant increase around 1990 in the share of total investment made up by private investment for the group of all developing countries. For the group of LDCs, however, the increase is much less pronounced, even though the figure shows a rising trend during the period.

The main conclusions of this review are thus as follows:

- In the course of the 1990's, an upsurge of private flows has markedly changed the resource situation of developing countries. The poorer among them – be they the least developed, the Round Table or the sub-Saharan countries – have however not benefited much from this dramatic increase, even though foreign investments make up a larger share of their total investment today than one decade ago

- The bulk of resources available to LDCs or Round Table countries at the end of the 1990's still consist of aid funds: 90 % or more, with of course significant differences depending on the country.

- Given this situation, it would appear that the Round Table process should, for the foreseeable future, be chiefly concerned with public financing, that is with the traditional aid flows. Added to the sheer magnitude of the volumes of financing involved, there is also the fact that the "demand" for Round Table types of activities (co-ordination, policy discussion, funds mobilisation…) is currently more clearly established - if it were only because this process is well known by recipients and donors, who see the need for such processes more distinctly.

- At the same time, the reasons why the LDCs have not benefited as much as others developing countries from private flows should be investigated (this is what we try to do in the next section). To the extent that the constraints explaining this lag can be addressed through the Round Table process, this should clearly be a priority for these meetings. It appears likely, however, that modifying the ongoing situation will take considerable time in LDCs – as anything else would in countries with deficient capacities.

2. Why have LDCs proved less attractive to private funds?

As far as we are aware, no research work has been carried out to investigate why private funds have been less attracted to LDCs than to other developing countries. On the other hand, much research has been done on the determinants of foreign direct investment. Also, various research works have been carried out with regards to sub-Saharan Africa[5], where the majority of LDCs (33 out of 48) are located and where the Round Table process is the most active. In this section, we will present some of these main findings, extrapolating wherever possible to the case of the LDCs.

The research carried out on the determinants of foreign direct investment has generally relied on three approaches (aggregate econometric analysis, survey of foreign investors' opinions, econometric analysis at the industry level). No consensus emerges from these different studies; however some of their findings might be relevant.

It might be useful to distinguish, among the various determinants of foreign direct investment identified by these studies, those that can be taken as given (at least in the short run) and others that are determined, or at least influenced, by the policies of the host country and of its government. In the first category, we would include the size of the market and the resources of the country. Econometric studies find a correlation between foreign direct investment and the size of the market, proxied by the country's GDP. Other studies conclude that, more than the

GDP, its growth rate is a significant explanatory variable. This would imply that, in making investment decisions, international firms would be less interested in the actual size of the market than in its growth. The availability of natural resources is also an important determinant in the decisions regarding foreign direct investment.

These findings might have some implications for developing countries. While there is not much they can do about their endowment in natural resources or the size of their market (at least in the short term), efforts to increase the growth rate of the economy would bring, as a secondary benefit, an increase in foreign direct investment. Also, the creation of regional markets might be an encouragement to these capital flows[6].

There are however indications that factors such as abundant natural resources or large country market might be losing some of their relative importance, vis-à-vis other factors, as transnational corporations are modifying their strategies to adapt to a globalising and liberalising world economy. This would indicate that some of the factors that were largely outside of the host government's control might be losing some of their importance, while other factors, more conditioned by the country's policies, are now receiving more consideration. This might be good news for some of the resource-poor, small LDCs, which have failed so far to attract foreign direct investment.

In this second category of factors, political risk, the openness of the economy, the quality of the infrastructure (physical and institutional), incentives and the operating conditions, the existence of privatisation programmes, and labour cost and productivity have all been found to be significant determinants in the decisions of transnational firms concerning foreign direct investment. While economists might disagree on the relative importance of these different factors, it appears that most of them depend on the recipient country and on the policy of its government. As indicated below, it is unfortunate that LDCs presumably – and sub-Saharan Africa certainly - would score poorly in all of these areas. While this would have to be investigated and substantiated in more details, it would appear, on the whole, that LDCs have presented more political risk, that their economies have been less open, their infrastructures less efficient, their incentives programmes and working environments less attractive, and their

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[5] See the bibliography at the end of this paper for some of the most relevant research work.
[6] There is of course the possibility that some of the foreign investments that might have located in a LDC would go instead to a neighbouring, richer country if a regional market is created.

privatisation programmes less advanced than other developing countries. There are also indications that the cost of labour is higher, and its productivity lower, in sub-Saharan countries than in non-LDC, low-income Asian countries. Taken together, these deficiencies would then explain why LDCs (and sub-Saharan Africa) have failed to attract foreign capital. One implication is that, as these countries improve the situation in these various areas, capital flows should increase. This of course is easier said than done; it does however indicate that improving these political and economic conditions is a prerequisite to attracting foreign capital.

The research carried out on the specific case of sub-Saharan countries is on the whole in agreement with the previous findings. Several African countries have been wracked by civil wars in the course of the 1990's (Angola, Burundi, Congo, Liberia, Rwanda, Sierra Leone, Somalia, Sudan). This has obviously had a negative impact on their economies. It has also given them bad publicity, which has in turn reinforced the negative image the region already had in the previous decade.

Sub-Saharan Africa has had a disappointing record in the implementation of needed adjustment reforms. While Asian countries, and to a certain extent, Latin American countries had already carried out major adjustment reforms in the course of the 1980's, few African countries actually completed such reforms during this decade. It is only during the current decade that the pace of implementation has actually picked up – and even then, there have been many policy reversals. Few of these programmes have been successfully carried out to the end, and these were only completed a few years ago. This has led to two linked consequences. First, the time lapsed since these successful completions is still too short for them to have an impact on the whole region. Second, the continent still suffers from a reputation of having statist policies, which foreign investors consider inimical to the development of the private sector.

In part stemming from the above two points, Africa is rated as the riskiest region in the world by the three major risk-rating services. There are in fact indications that African countries are rated more severely than others with similar economic characteristics. Regrettable as this might be, it can presumably be explained by the above considerations, and by the time lag existing between policy changes and the image that rating services and investors have of the environment in any given country.

Most of these characteristics can presumably be extended to other LDCs, or at least to the Round Table countries. The latter are, on the whole, small and poorly known by the international business world. When they are known at all, their image is much influenced by past events and policies that have led to slow growth and the discouragement of the private sector. Even when this image does not any more correspond to present realities, it changes only slowly because of the lack of information.

The above analysis can be continued by identifying within the group of LDCs the countries that have proved the most successful in attracting private capital, and by investigating the reasons of their success. As a yardstick of the “success” in luring foreign capital, we took the ratio of foreign direct investment over gross national product. Rough as this indicator might be, it leads to some tentative conclusions. Out of the 48 LDCs, data are not available for 12 countries. For most of the others, the ratio is low, below 1 %. For the period 1995 to 1997, only 15 countries have had a ratio above 1 % every year; they are, in decreasing order of the ratio in 1997: Vanuatu, Angola, Cambodia, Solomon Islands, Lao PDR, Equatorial Guinea, Maldives, Cape Verde, Gambia, Uganda, Lesotho, Tanzania, Samoa, Zambia, Mozambique,

Looking at these 15 countries, it is easier to find individual explanations for their success than a common thread that would explain this positive outcome. Clearly, local, un-replicable characteristics have played a role. Mining and oil resources, for instance, have certainly encouraged would-be investors in Angola, the Solomon Islands, Equatorial Guinea and Zambia; so has the touristic potential of the Maldives. Others have had the benefit of a “coming out” effect, by opening up after a long period of isolation or war: Angola again, Cambodia, Lao PDR, Mozambique. The remaining countries do not share many common characteristics. On the whole, however, they would appear to have had steady governments over the current decade, as well as sensible economic policies – relative of course to other LDCs. This certainly would have to be investigated more in depth than can be done here. It is nonetheless interesting to find that the resource-poor African countries that have succeeded in attracting foreign capital have had policies that would, on the whole, be considered more adequate: Cape Verde, the Gambia, Uganda, Lesotho, and Tanzania.

It would thus appear that implementing sound economic policies would be a necessary condition to attract foreign capital. (What we found in the case of sub-Saharan Africa indicates that this condition might not be a sufficient one). It is nonetheless encouraging to find out that the evidence supports what would appear to be simple common sense.

The above analysis of the reasons international capital has not flown to LDCs as much as to other developing countries - and of the reasons certain LDCs were preferred to the others- leads us to two conclusions. The first is that, to the extent that the perception of a country's situation lags behind the realities, particularly in the poor, less known countries, changing the image that private investors have of the LDCs will be a lengthy process.

The second conclusion is that the task required of the Round Table process to bring about this change of perception should be twofold. The first, which has been a feature of this process in the past, is to assist the recipient countries in improving their economic policies. This task must obviously be continued and, presumably, deepened to cover certain issues that go beyond the traditional economic themes (by tackling, for instance, non-economic questions such as the rule of law or labour issues, which are of immediate relevance for potential investors)[7]. Necessary as this function of the Round Table process remains, it is however not sufficient. The second task to be addressed by this mechanism must therefore be to disseminate the information on the changes that have taken place among the investor community, so they are more aware of the new situation. It is only when their perception and understanding of the recipient countries have been modified that transnational corporations will consider the possibility of investing there.

3. Interviews with representatives of the private sector

To get a better understanding of the reasons certain countries would be more attractive than others for foreign investors, we interviewed representatives of the private sector in France (for lack of time, we were not able to expand our sample to firms or organisations outside of this country). Our correspondents belonged to private firms, to co-ordinating bodies of private French firms concerned with overseas investing, or to public organisations assisting the development of the private sector in developing countries. These interviews took place at the beginning of 1999.

We asked these various persons what would be the main reasons that would lead them to invest – or, alternatively, would discourage them from doing so – in a developing country. The factors

[7] It might be preferable, however, not to include all the issues of interest to the private sector into the agenda of the Round Table conference (as it is, this agenda might already appear crowded enough). These issues should in fact be discussed, as suggested below, in follow-up meetings with private sector representatives.

mentioned are very similar to those listed in the previous section, as coming out of the research on this issue: the stability of the country, its adherence to the rule of the law, its policy with regard to the private sector, the quality of the infrastructures, the effectiveness of the administration.

On the whole, these persons did not have specific ideas on how the Round Table process - which they were not familiar with – could help in attracting potential investor. They however indicated that they would welcome an opportunity to attend a presentation by a recipient government of its policies for the private sector in general, and for foreign investment in particular, and to discuss these issues with them. These representatives were of the opinion that, even in the case of one LDC (which, by definition, belongs to the group of the poorest and less well endowed countries), private firms in France would be interested and willing to travel to Geneva (or somewhere else in Europe) to avail such an opportunity. This indicates that there is apparently a "market" for the kind of meetings UNDP organised on Angola and Namibia, even when the recipient country prima facie presents less attraction for foreign investors. Our correspondents however stressed that it would be useful to make certain, before organising such a gathering, that similar meetings responding to the same perceived need do not already exist, to avoid any counterproductive duplication. They also insisted that the participants of the private sector to such a meeting would only remain interested in the process if the discussion led to some concrete follow-up.

With regards to the issues to be discussed, these private sector representatives indicated that, based on other experiences, there is not much difference between local and expatriate firms in terms of the issues they are most concerned with.[8] Nor are the positions these firms were likely to take on these issues different depending on the type of firm.[9]

Concerning the preparation of the documentation for these meetings, representatives of private sector co-ordinating bodies indicated that they would be willing to comment on, and react to, draft papers. They also indicated that, in most of the recipient countries, it would be possible to

[8] One of them indicated however that, in sub-Saharan Africa, there might be a tendency on the part of the government to be more predatory with regard to expatriate than to local firms.

[9] One of the persons we interviewed referred to the experience of the « Commissions Mixtes" held between the French government and an African government. Representatives of the French private sector participate in these meetings; in particular they have separate sessions with representatives of the local private sector and of the recipient government. In the course of these meetings, local and French private sector representatives are on the whole interested in the same kind of issues and are also in agreement on these.

find people (either in the local Chambers of Commerce or among the heads of private firms) who would be equally competent to do this. They however indicated that some caution should be exerted in selecting the person (or persons) who could be given this particular responsibility. The most competent person is not necessarily the head of the local Chamber of Commerce, and a good knowledge of the local scene can help. Here too, these representatives of private sector co-ordinating bodies in Paris indicated that they would be willing to assist in identifying, in the recipient countries, the best persons to comment, at the preparation stage, on the policy documentation prepared for a Round Table meeting.

4. Round Table process and private sector: the experience so far

While UNDP and the UN agencies have had a long experience in working with the private sector, using the Round Table process to promote private sector has not been attempted in any systematic way in the past. Given the difficulties in getting a comprehensive picture of Round Table activities (including the in-country meetings), the following presentation is sketchy, but presumably not too far from the truth.

With regards to the main Round Table meeting (the Round Table conference), few attempts have been made to organise systematic discussions with representatives of the private sector. In fact, this seems to have been done only in the cases of the Round Table meetings for Angola (Brussels, September 1995) and Namibia (Geneva, November 1995), where a special half-a-day discussion was organised between the government and private sector representatives (both local and foreign) on the day after the Round Table conference. These two meetings seem to have attracted a large audience from the private sector (above 50 delegations in each). We have not had time to assess fully the usefulness of these meetings; however, the few comments we received indicate that they led to useful exchange of information on the recipient governments' policies vis-à-vis the private sector and foreign capital.

Several features of these meetings have been useful:

- the separation of the Round Table meeting proper from the discussions with private sector representatives was appropriate. This kept each of the two meetings to manageable sizes, facilitated shaping the agendas in accordance with the interests of the different audiences, and led to more candid discussions.

- the location in Europe enabled expatriate firms not already active in the country to send a representative. The cost of travel to an African country would have discouraged all but the companies already strongly motivated if the meeting had been held there.

- holding the private sector discussion immediately after the Round Table meeting permitted some "piggybacking" on this meeting, using the same documentation, and availing the presence of the recipient government's team.

Other features of these two meetings might, of course, not be replicable. In particular, the interest created by Angola and Namibia may be in part attributable to their own circumstances (proximity of the South African market, petroleum resources, favourable climate associated to national reconciliation) and might not be found in the case of other, less well-endowed Round Table countries. Our discussions with representatives of the private sector however indicate that there is a demand on the part of firms, in Europe at least, for a frank dialogue with developing countries' governments (even in the case of the LDCs) on their policy regarding the private sector and foreign capital.

The participation of the private sector in the preparation of the Round Table policies and documentation (as opposed to its participation in the meetings in Europe) has apparently been even more limited. There does not appear to have been any systematic effort to get the reactions and comments of private sector's representatives on these documents prior to their finalisation and presentation to the Round Table meeting.

Nor does there seem to have been, at the local level, any systematic organisation of Round Table meetings especially concerned with the development of the private sector. UNDP had in the past organised such meetings, in a systematic manner but outside the Round Table process, in the late 1980's. Each Resident Office had been requested by New York to organise at least three of these meetings. While the shape, agenda and participation of these meetings had varied, as well as their usefulness, they had been considered useful at the time. This experience shows that UNDP can organise such meetings if so required, and can do it successfully.

There have nonetheless been a few in-country Round Table meetings concerning the private sector. Here again, the information is sketchy. Their usefulness varied with the quality of the documentation prepared. There are indications, however, that good, useful documents can be prepared. Chad is a case in point where, following the Geneva Round Table Conference (October 1998), UNIDO assisted the government in preparing a document on its policy vis-à-vis the private sector which was considered excellent by one of the private sector representatives we met. This document could be presented at an in-country meeting on this issue.

To sum up, UNDP's experience in using the Round Table process to promote the development of the private sector has been limited and not systematic. It nonetheless shows that it can be done, that good documents can be prepared and useful meetings organised. Nothing in UNDP's mandate stops it from being a more active actor in this area, in particular it can organise – in fact, it has already organised – meetings on the private sector, for the private sector which served a useful purpose. What seems requested now is to do this in a more systematic manner.

5. Conclusions and recommendations

We will first recapitulate our main findings before making a few recommendations.

LDCs have not benefited as much as other developing countries of the dramatic increase in private flows that took place during the current decade. In fact, it is not even clear that there was such an increase in the proportion of their external resources coming from the private sector, which, in the second half of the 1990's, still represented only one tenth of these resources.

Increasing this proportion will be a long-term process. It will require the continuation by these countries of their policy reform programmes, but also an information policy to disseminate more widely the positive changes that have taken place. As it is, LDCs in general, and Round Table countries in particular, will remain dependent mostly on aid funds for their external resources in the foreseeable future.

Private sector representatives in Europe confirm that the economic policy of a developing country, and its policy vis-à-vis the private sector, will be for them a major determinant in deciding whether to invest. They indicate that the policies that will encourage foreign capital to come in are not in fact different from those that will promote the indigenous private sector. Through their own organisations or directly, they are in touch with the local private sector and get information from them, positive or negative, on the government's policies and on the environment for private sector activities. These representatives are interested in fora that would allow them to get a better understanding of the conditions in a particular country and would welcome an opportunity to discuss these issues with the government.

UNDP's experience in using the Round Table process to develop private flows and promote the private sector has been limited and unsystematic, but rather positive so far. It shows however that this mechanism can be successfully used for this purpose. Nonetheless, one should not expect any immediate increase in foreign investments from this process, which will be a long-term one.

This leads us to the following recommendations:

1. The co-ordination and mobilisation of public aid should remain at the centre of the Round Table process, as it has been so far. This is where, so to speak, the bulk of the money is, and where the demand for the services that the Round Table process provides is well established, within the recipient countries and the donor community. In any case, one of the objectives of the Round Table process, i.e. assisting the recipient countries in reforming their policies, is a prerequisite for any development of private flows. To the extent therefore that this particular objective is achieved, a major hurdle to foreign private flows and the development of the private sector will be overcome.

2. While keeping the Round Table process centred on policy dialogue and the mobilisation of aid funds, active steps should be taken to also use this instrument to encourage private sector development and foreign private investment. This should be achieved by keeping the main stages of the process (the Round Table conference in Europe and the follow-up meetings in the recipient country) as they are now, while modifying some of their features to concurrently achieve this new objective.

3. The main features of the Round Table conference should be kept: a meeting in Europe, preferably Geneva, limited to the main donors, and devoted to discussions on the macroeconomic policies of the recipient government. UNDP should ensure that the documentation prepared for this conference includes a detailed presentation of the government's policy regarding the private sector, both local and expatriate.

4. UNDP should, in a systematic manner[10], organise, immediately after the Round Table conference and at the same location, a short – half a day – meeting on and for the private sector. This meeting would include representatives of private firms interested in the country

and, on the recipient side, the ministers and senior civil servants chiefly concerned with the issue (Finances, Planning, Industry, Trade, Agriculture, Mining…).

5. Invitations to this meeting should be sent broadly to all firms identified as being potentially interested in doing business in the recipient country. The identification of these companies could be made by the government with the assistance of local Chambers of Commerce or other private sector organisations; these could in turn request the assistance of similar organisations in the major developed countries to identify these firms.

6. The documentation for this meeting should be essentially the same as that prepared for the Round Table conference. If necessary, it could be complemented by a document presenting more extensively the recipient government's policies regarding the private sector and foreign capital, as well as the main features of the economic and legal environment. The agenda for the meeting would basically consist in a presentation of the government policies in the main areas of interest to the private sector by the ministers concerned, followed by a discussion. No attempt should be made to get declarations of interest, much less commitments, from the private sector representatives, as this would very likely be counterproductive. Ministers and their staff should however be available for private talks before and after the meeting, if some participants so desire.

7. This meeting with private sector representatives in Europe could be complemented a few weeks later by a similar one in the country. This other meeting would be part of the sectoral and thematic meetings organised as the follow-up of the Round Table conference. The audiences of these two meetings would be different. Only foreign or large local companies are likely to participate in the meeting in Europe, while the in-country meeting will be attended mostly by local firms, including small and medium enterprises. The documentations and agendas for the two meetings could be essentially the same. For the in-country meeting, however, the emphasis of presentations and discussions should be more on issues of interest mostly for the small enterprises.[11]

[10] With the proviso, of course, that if other opportunities for open discussions between the government and the private sector already exist, it would be unnecessary, and presumably counterproductive, to organise such a meeting.
[11] For instance, the local availability of credit or of technical support by public entities will presumably concern more small indigenous enterprises than expatriate firms.

8. The preparation of the documentation for these two meetings should be done in consultation with the private sector. The government officers and consultants responsible for this preparation should identify a few competent persons, within the local business community, who could comment on the proposed policies and draft documents prior to their finalisation. Local Chambers of Commerce and business organisations can help in identifying the best persons; it is however important that the government and UNDP exert some judgement, since these local institutions are not necessarily extremely competent themselves.

9. In using the Round Table process to encourage foreign capital flows, UNDP should not focus exclusively, or too narrowly, on expatriate firms. The policies that will attract, or discourage, foreign capital are the same that will influence the development of the local private sector. The issues of interest to local and expatriate firms are roughly identical, and experience has shown that they are usually in agreement in their views on the government policies and the business conditions. Besides, local business organisations are usually in touch, and exchange information, with those of major developed countries. The main concern of the government should therefore be to design and implement an appropriate policy for the development of the private sector, irrespective of its origin. In this regard, representatives of the local business community can usefully act as sounding board on issues of interest also for the expatriate firms.

10. To assist the recipient governments in preparing their policies and documentation for the promotion of the private sector, UNDP should develop a pool of competence. This would include specialised agencies (mostly UNIDO) and consultants. The expertise required concerns the preparation of policies - and not the identification and preparation of projects, an approach that has not led to satisfactory results. The role of these experts should go beyond the preparation of documents for a Round Table meeting, and include policy advice and capacity building in the government.

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