United Nations

TD/B/C.II/L.5/Add.1

United Nations Conference on Trade and Development

Distr.: Limited
5 May 2011

Original: English

Trade and Development Board
Investment, Enterprise and Development Commission
Third session
Geneva, 2–6 May 2011

Draft report of the Investment, Enterprise and Development Commission on its third session

Contents

GE.11-50765

I. Chair's summary

Promoting investment for development: Best practices in strengthening investment in basic infrastructure in developing countries

(Agenda item 4)

1. In his opening statement, UNCTAD Secretary-General Mr. Supachai Panitchpakdi highlighted the presence of a significant infrastructure gap in developing countries, and especially in least developed countries (LDCs). This gap was two-fold, he said, both in terms of access for the population and in terms of a shortfall of financial resources available for infrastructure investments. To bridge this gap, it was necessary to complement public investments with investments from the private sector, especially foreign direct investment (FDI). However, the Secretary-General also pointed out the unique characteristics of infrastructure versus other economic sectors, which shaped the types of policies that countries had to undertake to introduce private investment. Issues such as universal access, the strategic nature of certain infrastructure and the potential for monopolistic behaviour required that governments retained a certain measure of policy space. Given those attributes, private–public cooperation in the area of infrastructure continued to be a challenge. It was an "old" issue that nonetheless kept coming up in current policy debates.

2. In that context, the Secretary-General highlighted the ongoing work of UNCTAD on this topic, including the *World Investment Report 2008*, the infrastructure case studies in the series on Best Practices in Investment for Development, as well as the recent Multi-year Expert Meeting on Investment for Development. The Secretary-General expressed his hope that the day's meeting would provide a platform to build on insights from this research in terms of how developing countries could better use private investment in their infrastructure development plans.

3. Mr. James Zhan, Director of the Division on Investment and Enterprise, presented details on some of UNCTAD's recent research on FDI in infrastructure. This included an overview of the infrastructure gap, as well as the potential for FDI to help overcome this gap. Mr. Zhan highlighted, for example, that in many LDCs, FDI represented over 75 per cent of infrastructure investment. But while FDI could offer significant advantages in terms of access to capital, sophisticated technologies and business practices, as well as economies of scale and scope, governments had to beware of the many challenges in order to ensure that the public interest was protected.

4. Drawing on UNCTAD's series of case studies on Best Practices in Investment for Development, Mr. Zhan presented three sets of policy lessons in the area of FDI and infrastructure. First, governments needed to build a strong foundation for FDI in infrastructure, including through focused political leadership, a comprehensive legal and regulatory framework, technical skills and bureaucratic capacity, and consideration for the interests of local communities and other stakeholders. Second, governments needed to take certain actions to promote projects and facilitate the entry of foreign investors. Recommendations in that area included preparing a "pipeline" of pre-assessed, commercially attractive infrastructure projects that could be marketed internationally, ensuring transparent and open bidding procedures, using a third-party transaction advisor, and mitigating political and regulatory risks. Finally, governments needed to take appropriate measures to monitor project implementation and ensure positive long-term outcomes. That included appointing an independent body to monitor and enforce investor–State contracts, creating a capable competition authority, and ensuring impartial regulation of public and private entities. The case of Nigeria's port reforms, which are the subject of

ongoing UNCTAD research, was highlighted as an example of successful outcomes arising from a government following these types of practices.

5. Finally, Mr. Zhan's presentation made the point that there was a need to systemically improve the perceptions of private investors, many of whom may not feel comfortable investing in developing countries. The telecom sector in Africa was provided as an example where many mature market transnational corporations (TNCs) missed out on highly profitable opportunities.

6. Four panellists from the public and private sector presented their experiences and views on private investment in infrastructure. Ministers from Guatemala and the Dominican Republic shared their positive experiences from sectors such as transport, electricity and telecommunications, showing first-hand the many ways in which private investment could be leveraged to expand a variety of different kinds of infrastructure, including in newer areas such as renewable energy. They also thanked UNCTAD for its technical assistance with their countries' infrastructure policies, as provided through Investment Policy Reviews.

7. The next panellist, as co-chair of the G-20 Working Group on Development, provided an overview of the group's recent activities in the area of infrastructure. Among other objectives, the Working Group was seeking ways to better use public investment, even in limited quantities, as a catalyst for private investment through such mechanisms as development banks. The G-20 countries were also supporting a more regional approach to infrastructure development, which helped overcome market fragmentation and improve the commercial viability of projects.

8. The final panellist, a representative of private consulting firm McKinsey & Co., presented the company's recent research on the infrastructure sector in Africa. The meeting heard that Africa's infrastructure had significant potential due to rising demand for natural resources, increasing access to international capital, a growing number of consumers and limited existing infrastructure density. As a result of those trends, infrastructure investment had been growing at double-digit rates since 2000. In particular, the presentation highlighted the significant potential for utilities and power generation, which had not seen as much investment as telcoms, for example.

9. After the presentations of the panellists, the floor was opened and an interactive discussion ensued. Representatives of investment promotion agencies (IPAs) from Indonesia and Peru, as well as the delegate from Morocco, added their experiences to the examples provided by the panelists from Guatemala and the Dominican Republic. They shared their successes and challenges in infrastructure development, the significant potential for private involvement in a range of industries, as well as the role of international assistance and public guarantees to facilitate this investment.

10. Several times, country delegates asked the panellists for specific advice on how to attract FDI in infrastructure. For example, one delegate expressed concern that the country had not had received any expressions of interest from private infrastructure investors. The Panelists from Guatemala and Dominican Republic responded by emphasizing the importance of a transparent policy and regulatory framework in their experience, including through the protection of private property rights. The representative from McKinsey & Co. argued that, while framework conditions were very important, host countries also had to work hard to secure early projects that could serve as a persuasive demonstration to other investors. That could even require special incentives that could be phased out later. In that context, delegates underscored the importance of active investment promotion and facilitation services offered to investors by host countries.

11. Beyond the challenges of attracting FDI, participants noted that private infrastructure development required a comprehensive approach. As such, it was felt that

infrastructure policies should be made part of broader development plans, and be integrated with policy areas such as competition and industrial policies. In designing the specific measures, however, countries were told to strike a balance between the needs of foreign investors and broader public policy objectives.

12. Due to its untapped potential in many countries, the electricity sector was often singled out for discussion. Participants agreed that the starting point for most of these countries was a sector framework that prevented or discouraged private investment. Thus, countries needed to adopt and implement a specific strategy to involve the private sector. Subsequently, investors needed to be given clear information about required operating conditions in the host market. Yet, while advantageous, it was argued that the privatization of electricity infrastructure needed to be implemented carefully. One solution offered was to privatize generation units, while keeping transmission infrastructure under public ownership. This ensured that firms could not hamper competition through vertical integration strategies. Chile and Argentina were mentioned as good practices in that respect. Nonetheless, it was noted that this model still required a strong and independent body to provide competition oversight.

13. The discussion on electricity also moved beyond investments in the national electricity grid, with discussion of meeting the energy needs of rural populations. The example of India was mentioned, which relied on a number of small-scale independent power producers, whose returns were guaranteed by the national Government.