United Nations TD/B/C.II/MEM.3/9

United Nations Conference on Trade and Development

Distr.: General
24 February 2011

Original: English

Trade and Development Board
Multi-year Expert Meeting on Investment for Development
Third session
Geneva, 2–4 February 2011

Report of the Multi-year Expert Meeting on Investment for Development on its third session

Held at the Palais des Nations, Geneva, from 2 to 4 February 2011

Contents

I. Chair's summary

1. The third session of the Multi-Year Expert Meeting on Investment for Development was opened on Wednesday, 2 February 2011, by Mr. Kenichi Suganuma (Japan), Chair of the second session of the multi-year expert meeting. The meeting discussed the role of public investment on development, with a particular focus on partnerships between the public and private sectors.

2. In his opening remarks, the Deputy Secretary-General of UNCTAD, Mr. Petko Draganov, argued that public investment was critical for promoting growth and sustainable development, boosting competitiveness, generating employment and reducing social income disparities. As private investment could also be harnessed towards these ends, it was essential for governments to leverage private investment for development purposes through all means available, including public–private partnerships (PPPs).

3. He mentioned that finding ways to foster and propagate partnerships between public and private investment, and to increase the private component of public investments projects, was a key aspect to managing the complexity of the development challenges facing many countries. While in infrastructure, large-scale publicly financed and promoted investment projects already evinced concrete examples of induced private investments, other fields – such as agriculture and climate change mitigation and adaptation – offered significant opportunities for PPPs of various forms, particularly with a view to driving growth in developing countries.

4. The Chair of the meeting, Mr. Evan Garcia (Philippines), noted that a new development paradigm was emerging and he applauded UNCTAD as a source of new wisdom. There had been major shifts in terms of development thinking that affected the role of investment. From Asian development models, based heavily on State-guided industrial policies of the 1960s and 1970s, the pendulum had swung towards development strategies characterized by the Washington Consensus in the 1990s. After the global financial crisis, development policy thinking was presently somewhere in the middle between those two poles. This implied that the private and the public sectors were offered more opportunities for closer collaboration to promote development.

5. The Director of the Division on Investment and Enterprise, Mr. James Zhan, underscored this message by highlighting the trends in different types of investments – public, private and foreign direct investment (FDI) – as well as their impact on economic growth. At the global level, private domestic investment had been larger in absolute values than both public investment and FDI flows; and it had grown more rapidly in recent years, particularly since 2000. In developing and transition economies, domestic investments, both public and private, remained resilient in 2009 despite the global economic and financial crisis, which offered scope for further expanding the interface and partnerships between public and private investment. However, there were variations because the pattern of public and private investments differed at the regional level. In the developing regions, the share of public investment in total investment had traditionally been highest in Asia, although since 2007 private sector investment had taken the lead role. In contrast, public sector investment as a share of gross domestic product (GDP) was lowest in Latin America, with FDI being a more important source of finance in most years. Finally, while Africa was somewhere in the middle in terms of the distribution and trends in public and private investment, share of public sector investment had increased over the previous few years, albeit private sector investment also received a boost after 2008.

6. Both the Deputy Secretary–General of UNCTAD and the Director of the Division argued that among the key challenges for policymakers was to determine the industries with the highest potential for fostering development through public–private partnerships, to

design partnerships effectively for sustainable development, and to create a conducive environment with high-quality institutional and regulatory frameworks for fostering the interaction between public and private investments. The Director of the Division illustrated this point with examples drawn from PPPs in infrastructure, agriculture and climate change.

A. Public and private investment: macro perspective

7. Some experts were of the opinion that, in the post-crisis world economy, new modes of State and business partnership for investment for development were in the making. Those new modes could in some instances involve a further intensification in the interaction between the public and private sectors (including FDI).

8. Experts emphasized the importance of embedding public investment in a coherent national development framework, sensitive to social progress and public entitlement, not just economic profitability. In that context, the role of inclusive democratic decision-making towards achieving a national development vision shared by the whole country and with a consistent growth strategy was of paramount importance.

9. In that context, the successful experience of Brazil’s National Development Bank (BNDES) in providing low-interest long-term maturity financing for key projects included in the national development strategy – to overcome the limitation of very short-term financing provided by the domestic financial system – attracted a lot of attention. In that way, Brazil had managed to crowd in private sector investment and laid the foundation for inclusive economic growth.

10. A number of experts shared their experiences on the critical role FDI played in development in sub-Saharan Africa and Latin America, where foreign investment was the dominant source of investment financing. Nevertheless, as a word of caution, the recent crisis demonstrated that FDI could be volatile also, through postponing new investment or reinvestment of earnings, cancelling projects at short notice or increasing the repatriation of profit.

11. As many countries were facing large unmet needs of critical investments in areas and activities of a public-good nature, such as in infrastructure, agriculture and health, PPPs were mentioned as a potentially effective way of leveraging public investment to mobilize required private sector expertise and financing. High priority national projects, for which private sector technical capacity was essential and long-term returns were sufficient for all partners, were good candidates to consider for PPPs. However, among others, PPPs demanded strong legal regulations and negotiating skills, and therefore were not yet widely used in developing regions, in particular Africa. Thus, to support the efforts of developing countries to build an effective public–private interface, strengthening the capacities of governments and the domestic private sector, possibly through international technical assistance, was desirable. There was also need of work to better understand why PPPs were more commonly used in developed than developing countries – and, thereby, how best to increase the frequency of their use in the latter.

12. Some concerns were expressed by experts and delegates about the large-scale benefits derived by the private sector in some PPPs at the expense of public resources, even in developed countries. Some developing countries which lacked the required negotiating skills and institutional environment could therefore fall victim to an asymmetric situation. It was felt that guaranteed citizens’ access and service conditions should be an integral part of any PPP agreements, and the environmental and social consequences should be taken into consideration by governments when entering into PPP arrangements. Experts highlighted the key role of good feasibility studies, transparent and competitive bid selection of partners, and the identification and analysis of PPP projects before the final selection of

private sector participants. Some experts proposed that UNCTAD could help with establishing model rules of the game to guide countries in establishing PPPs.

13. Some experts noted that an optimal allocation of the risks and rewards of PPPs was inherently complicated and shared their views on strengthening local capacities for conducting transparent and professional negotiation and selection of PPP projects. According to them, institutions such as PPP centres and development banks could play a key role, and public sector-supported insurance/guarantee schemes were needed.

B. Public investment and economic growth

14. Public investment was of paramount importance for development and long-term growth as it played an important role in expanding productive capacities and helping to stimulate aggregate demand, not least in least developed countries (LDCs). The recent financial crisis had further intensified the focus on public investment as a potential countercyclical tool, with many governments in developing and developed countries alike launching and advancing further public investment programmes, both to bolster and create employment and to lay the foundation for renewed and sustained growth.

15. Experts stressed that such investments could have output-enhancing effects, increase the rate of return of private investment, and lower the costs of economic participation. In that way, public investment could serve to crowd-in additional investment from the private sector, further boosting economic growth, especially when economic resources were underemployed. Among the various channels through which the crowding-in effect occurred, experts highlighted investment in economic and social infrastructure (such as transportation, communication, education and health) which could increase productivity and create favourable conditions for private investment. In addition, by increasing total demand, public investment gave rise to profit and sales expectations, thereby spurring private investment.

16. Achieving those benefits, however, was neither easy nor automatic. The experts in the session stressed that coordination – between public and private, within the government and with foreign donors – was crucial in maximizing the benefits of public investment for increasing productive capacities and economic growth. One expert, using the example of lagging per-capita GDP growth in Latin America and the Caribbean, explained how governments using a cluster concept could enhance productivity in their countries through better coordinated public–private activities. Another expert outlined the ways in which improved coordination through PPPs could play a crucial role in crowding-in private sector investment through public investment.

17. The use of PPPs was extensively discussed during the interactive debate. Delegates were concerned by the structure of such partnerships and that they did not take into account all local concerns. One delegate mentioned the difficulties of creating a cluster when the local economic and institutional conditions were not suitable. In general, it was agreed that tools and mechanisms such as PPPs and clusters should not be treated as generic concepts; and for them to be successful they had to be made context-specific, in dialogue with all the relevant stakeholders. For clusters, in particular, there was a strong need for a dynamic approach that recognized that the role of the government and public investment changed over time (including along the development path and business cycle). Overall, it was agreed that enacting a solid legal foundation for the entire investment framework, including PPPs, was an important initial step.

18. Significant discussion was also devoted to the potential role public investment – including PPPs – could play in attracting foreign investment. A delegate highlighted that the investment needs of developing economies was huge, especially given the complex and

interlocking issues of climate change, food security and infrastructure development. Successful public investment in those areas could serve an important role in meeting those needs, among others by attracting FDI. Another delegate mentioned that infrastructure PPPs in particular could serve to attract new investment, giving the example of ports and airports attracting foreign logistics firms.

19. Research was required to better evaluate how PPPs supported the development process, which conditions were most important and how PPPs could be designed most effectively. This research could include an assessment of crowding-in of other private investment, including foreign investment.

C. Attracting private investment through public investment: public–private partnerships

20. Experts noted the principal benefits of PPPs, namely the mobilization of financial resources and technical expertise for providing public services that were traditionally provided by government agencies. A number of panellists noted the burgeoning need for governments to commit themselves to maintaining "responsible" fiscal policy, which had resulted in a greater reliance on PPPs to complement government funding for public services. It was also noted that, by ensuring a competitive tender process and market-driven price setting, governments could expect efficiency gains from the involvement of private-sector enterprises.

21. In the discussion of sectors suited for PPPs, there was broad agreement that projects in core infrastructure (e.g. transport, power, water, etc.) were among the most promising. Information and communications technology–based projects and research and development (R&D) were also cited as areas where PPPs would be appropriate. Although one expert mentioned the successful case of a PPP project for constructing a school building, difficulties in extending the use of PPPs to the area of health and education in developing countries was noted. A PPP project for providing health or educational services in developing countries was much more complex, as it required not only the construction of physical assets but also the establishment of institutions, including the training of personnel. Furthermore, it was noted that in rural areas, where the poor could have difficulty in expressing their voices regarding the quality of public services, it could be difficult for the government to set an enforceable service standard in a PPP contract. In that context, the exchange of experiences between countries could be promoted to help establish detailed and nuanced models on public investment for development, including PPPs and other modalities through, for example, the International PPP Centre for Excellence established by the United Nations Economic Commission for Europe, or other means.

22. A number of policy and institutional issues were highlighted by the experts and discussed in the debate, for governments to address in order to fully take advantage of PPPs. Those issues included (a) the need for an enabling policy framework; (b) the availability of long-term finance; (c) the capacity on the part of government to design and manage credible projects; (d) the capacity of private sector firms to engage in long-term development projects; (e) the need for appropriate regulatory frameworks; and (f) advocacy measures to convince the beneficiaries of public service about the advantages of PPPs. The discussion also highlighted a number of other key issues, especially the sharing of risk, use of subsidies and regulation.

23. On the issue of finance, one expert pointed out that the nature of projects in developing countries often warranted the involvement of development finance institutions. Furthermore, in larger projects, syndication could be necessary. Another expert noted, however, that perhaps the most important problem in many poor countries was the lack of

government capacity rather than the availability of finance. It was observed that a good government track record in managing PPPs, even for one project, encouraged more lenders and investors to be involved, while the failure of a PPP project for political factors frequently severely dented the credibility of governments.

24. The need for the involvement of domestic financial institutions in developing countries was also discussed. In the aftermath of the financial crisis, PPP lending from large international banks dried up as they became risk averse. One expert noted that borrowing from foreign lenders in foreign currencies entailed exchange rate risks. It was also mentioned that in the case of India, the long-term lending provided by government financial institutions had not resulted in competition issues vis-à-vis private sectors lenders, since the lending by the latter consisted mostly of short-term loans.

25. On the issue of risk, there was a broad agreement on the principle that risks involved in PPP projects should be borne by the parties that could manage them best. It was argued that allocating all the risks to the private sector could be costly for the country, as private sector contractors demanded a larger risk premium in such projects. It was also noted that despite broad consensus on the principle, in practice the allocation of risks was often fiercely contested between public and private sector participants in a PPP project. It was emphasized that the responsibility to provide infrastructure and public services rested with the government and it had to assume certain risks.

26. The discussion also highlighted the complexities involved with the use of subsidies. It was emphasized that, although projecting the evolution of future revenues and technological changes could be complex and difficult, the arrangements for subsidies agreed in the contract should be maintained. One expert warned that a poorly designed subsidy arrangement could remove the incentives to seek efficiency gains on the part of private sector contractors, thus contradicting the fundamental objective of seeking private sector partners.

27. There was consensus that appropriate regulation was essential to the success of PPP projects. The distinction between control and regulation was emphasized. Private sector contractors were averse to controls imposed on their operations, but they normally welcomed transparent regulations that reduced uncertainties involved in PPP projects.

28. Participants underlined the growing importance of PPP and therefore of government capacity to design and manage PPP arrangements. Capacity development activities were suggested by several speakers. Many mentioned the United Nations to be a better provider of such activities compared to other (international) organizations.

D. Industrial policies and private and public investments

29. Experts and delegates discussed the interaction between public and private investments, in particular in the area of infrastructure policies and low-carbon investments. A number of policy issues were raised concerning the interaction between public and private investments. It was noted that PPPs mainly took place in medium or large-scale investment projects. They could include socioeconomic benefits, and were based on long-term contracts.

30. It was also noted that PPPs could play an important role in a government’s development strategies, in particular when it comes to the unwinding of government involvement in certain industries. The goal of PPPs was to provide public goods with the financial and technological support of the private sector. Through these partnerships, governments could promote several additional public goals, such as general welfare or sustainable energy generation. Nevertheless, the allocation of risks between the public and private partners in a PPP was seen as a crucial element for them to succeed. Risks related to

design, construction and operation were generally for the private partner, and political and legal risks for the public partner. Risks that were normally shared by both partners were demand, revenue, design and construction and financial and exchange rate.

31. It was agreed that support for PPPs by the international community played an important role. Good examples could be found in the infrastructure, agriculture and low-carbon sectors. International support could make an important difference for financing. Several international funds had been created with the support of the private sector, focusing on specific regions or sectors. Some barriers had been encountered in that respect.

32. One of the key policy elements for successfully implementing those projects was the creation of a consistent legal framework that could guarantee the quality of the projects offered as PPPs and provide good services to the public. Legal, institutional and administrative barriers included the complexity of the national regulatory frameworks, lack of secondary legislation and operational instructions, tools and procedures, complex and cumbersome authorization procedures and inefficiency and limited use of public tendering processes.

33. In the area of financing, obstacles included State intervention in price formation, energy tariffs not covering full costs, and limited availability of public funds for financing initiatives and projects. Barriers could be also found in the area of human capacity and professional skills. One delegate noted that government support through regulatory policies, procurement rules and subsidies which favoured domestic firms over foreign investors could harm the investment climate and build political pressures in other countries for rebalancing.

E. Concluding session: Enhancing synergies between public and private investments

34. Creating public–private partnerships (PPPs) was seen as one way to bridge the gap between investment needs in the developing world and available public resources. Experts and delegates discussed the policy factors that attracted private participation in PPPs as well as those that served as barriers. The potential role of official development assistance (ODA) in facilitating successful PPPs was also examined. Attention was also paid to the expansion of PPPs into so-called soft sectors (such as education and basic service provision).

35. Regarding policy factors facilitating/hindering private investment through PPPs, experts and delegates highlighted their important role in both attracting and inhibiting private sector involvement. Public investment in infrastructure, investment promotion activities (including visibility-raising and incentives), and a solid legal framework for investment were all factors cited as important. In addition, strong government ownership of a PPP, with clearly formulated goals, made in close dialogue with all stakeholders, was highlighted by a panellist as a critical element of success of PPP projects. Experts also highlighted the vital role of transparent public procurement processes in attracting investors and the role of embedding PPPs into national industrial policies.

36. A lack of policy harmonization was highlighted as a major barrier to crowding-in private investment through PPPs. The example of India was given, where FDI policies allowed 100 per cent foreign participation in infrastructure investment, but railway-related policies dictated that foreigners could not invest in rail operations. A delegate noted that governments should seek to incorporate all levels of policymaking when developing their national investment policies. Several delegates stressed the importance of domestic technical capacities to manage the whole cycle of PPP procedures and, therefore, of international assistance in developing such capacities, particularly in LDCs.

37. Experts also cited the poor quality of some contracts as drawn up by government officials as a hampering factor. Foreign investors, it was noted, were cautious when entering into large-scale PPP projects and any opacity in the project documents could derail potentially successful projects. Furthermore, the lack of clear policies related to PPPs was a significant barrier to encouraging their use. Finally, it was highlighted that different permutations of PPP projects were possible, allowing for a better reflection of the different levels of potential involvement of private sector investors.

38. As far as the role of ODA in facilitating PPP was concerned, it was felt that ODA could play an important role in providing financing for specific parts of PPP projects. For example, ODA could be used to link a power plant PPP project to the national grid. It could also be used to build a school building that was operated by the private sector for the government through a PPP. Involvement of ODA directly in a PPP project was not always straightforward as it could complicate risk transfer/allocation by injecting an additional actor to the mix. A delegate mentioned that ODA from some donors could be used to fund regional master plans in which PPPs could be embedded. Similarly, ODA could be used to finance project feasibility studies for specific PPPs. The Thai case of Laem Chabang Port that involved Japanese ODA was highlighted by an expert as a successful case.

39. A number of PPP examples developed in India to generate private investment – foreign and domestic – in so-called soft sectors such as education and basic service provision, especially in rural areas, were mentioned at the meeting. As foreign participation in those projects was very low, due to their small scale compared to larger infrastructure projects, bundling many smaller individual projects to create larger packages could generate the interest of foreign investors. Another approach proposed by a delegate was to harness private capital from investors across the spectrum – e.g. pension funds and large private investors – to finance projects with strong and measurable social impact as well as a financial return. UNCTAD's assistance was requested to support this new initiative to help galvanize private investment for projects and enterprises with environmental and social development goals. In particular, UNCTAD was requested to research how countries could catalyse such "impact" investments as well as to generally raise awareness of this growing source of private capital that can support investment for development.

40. Several delegates stressed the importance of domestic technical capacities to manage the whole cycle of PPP procedures and, therefore, of international assistance in developing such capacities, particularly in LDCs. In that respect, experts from a number of developing economies requested that UNCTAD convoke a series of meetings, or regional seminars, dealing with the topic of PPPs for development in order to disseminate the ideas expressed during the present expert meeting. Another delegate suggested that UNCTAD should consider several points in its research: (a) how to raise the interest of developed-country small and medium-sized enterprises in engaging in PPPs; (b) how to generate South–South investments in PPPs, specifically considering the cases of transnational corporations from BRIC (Brazil, Russian Federation, India and China) countries and sovereign wealth funds; (c) how to tap diaspora funds; and (d) that UNCTAD should continue its collaboration with multilateral development banks and concerned development agencies in order to lead in pulling all United Nations work in this area together.

41. In his concluding remarks, the Director of the Division reiterated the role of UNCTAD in promoting PPP and other modalities that increased private investment elements – in particular FDI – in the public sector, and welcomed a number of proposals from experts and delegates for further work in that area. He pledged that UNCTAD would continue to work in both research and technical cooperation areas through, for example, the *World Investment Reports* and the *Investment Policy Reviews*.

II. Organizational matters

A. Election of officers

42. At its opening plenary meeting, on Wednesday 2 February 2011, the multi-year expert meeting elected the following officers:

Chair:	Mr. Evan Garcia (Philippines)
Vice-Chair-cum-Rapporteur:	Mr. Brad Stilwell (United States of America)

B. Adoption of the agenda and organization of work

43. Also at its opening plenary meeting, the multi-year expert meeting adopted the provisional agenda for the session (contained in TD/B/C.II/MEM.3/7). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Public investment and development
4. Adoption of the report of the meeting

C. Public investment and development

44. At its closing plenary meeting, on Friday, 4 February 2011, the multi-year expert meeting agreed that the Chair should summarize the discussions (see chapter I).

D. Adoption of the report of the meeting

45. Also at its closing plenary meeting, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance*

1. Representatives of the following States members attended the expert meeting:

Algeria
Angola
Argentina
Azerbaijan
Bahrain
Bangladesh
Belarus
Benin
Bhutan
Botswana
Brazil
Bulgaria
China
Cote d'Ivoire
Democratic People's Republic of Korea
Djibouti
Dominican Republic
El Salvador
Finland
France
Georgia
Ghana
Greece
Haiti
Hungary
India
Iran (Islamic Republic of)
Japan
Jordan
Kazakhstan
Madagascar
Malaysia
Mexico
Montenegro
Morocco
Namibia
Nigeria
Oman
Pakistan
Philippines
Poland
Russian Federation
Saudi Arabia
Thailand
Togo
Turkey
United States of America
Viet Nam
Yemen
Zimbabwe

2. The following observer attended the session:

Palestine

3. The following intergovernmental organizations were represented at the session:

African Development Bank
African Union
Common Fund for Commodities
European Union
Latin American and Caribbean Economic System
Inter-American Development Bank

4. The following United Nations organization was represented at the session:

Economic Commission for Europe

* For the list of participants, see TD/B/C.II/MEM.3/Inf.3.

5. The following specialized agencies or related organizations were represented at the session:

International Trade Centre (ITC)
International Telecommunication Union (ITU)
United Nations Educational, Scientific and Cultural Organization (UNESCO)
World Trade Organization (WTO)

6. The following non-governmental organizations were represented at the session:

General category

Ingénieurs du monde
International Centre for Trade and Sustainable Development

7. The following panellists were invited to the expert meeting:

(Listed in chronological order of intervention)

Mr. João Carlos **Ferraz**, Managing Director responsible for Risk Management Division; Economic Research Division; and Planning Division, Brazil's National Development Bank BNDES, Brazil
Mr. Kamal **Krishna Bhattracharyya**, Joint Secretary, Ministry of Commerce, Bangladesh
Mr. Nils **Bhinda**, Programme Manager, Development Finance International United Kingdom
Mr. Carlo **Pietrobelli**, Lead Economist, Inter-American Development Bank
Ms. Ana **Teresa Tavares**, Assistant Professor, Department of Economics, Porto University
Mr. Bakhtiyar **Aliyev**, Chief Adviser, Ministry of Economic Development Azerbaijan
Mr. Arvind **Mayaram**, Additional Secretary, Ministry of Rural Development & Panchayati Raj, India
Mr. Toshiyuki **Kosugi**, Resident Executive Officer for Europe, the Middle East and Africa, Japan Bank for International Cooperation (JBIC), London
Mr. Celso C. **Manangan**, Director, PPP Centre of the Philippines, National Economic and Development Authority, Philippines
Mr. Geoffrey **Hamilton**, Chief, Economic Cooperation and Integration Division, UNECE
Ms. He **Manqing**, Director of the Research Centre on International Investment, Ministry of Commerce of China
Mr. Oleg **Dzioubinski**, Programme Manager, UNECE
Mr. Kenichi **Suganuma**, Ambassador, Deputy Permanent Representative of Japan in Geneva
Mr. Sergio Foldes **Guimaraes**, Deputy Managing Director, International Division, Brazilian Development Bank
Ms. Moussiliatou **Yai**, Directrice Générale des Investissement et du Financement du Développement, Benin