Mr Chairman,
Distinguished Delegates,
Colleagues,
Ladies and Gentlemen:

I am pleased to open this session on Investment for Development. Today we launched the new World Investment Report in 60 countries around the globe.

The Report's main theme, Transnational Corporations and the Infrastructure Challenge, is a particularly timely one, given the crucial role of infrastructure in advancing development.

Before discussing that topic, however, I would like to highlight a few facts and figures emerging from this year's Report. Ms Anne Miroux, Head of the Investment Analysis Branch, will provide more details in her presentation.

- Despite the onset of the financial crisis, foreign direct investment inflows posted record highs in 2007, rising 30% to US$1,800 billion. Mergers and acquisitions were a driving factor.
- All regions benefited. Booming commodity prices and an improving policy environment underpinned a 21% jump in FDI flows to developing countries, to $500 billion.
- While Asia was the main beneficiary, LDCs, CIS and Africa all enjoyed record inflows. LDCs, for example, attracted $13 billion worth of new foreign investment.
- Outbound FDI from developing countries topped $250 billion last year. It has more than doubled since 2005. Most of this investment came from Hong Kong, China, Korea, India and Singapore.
- Job creation is a key development indicator: foreign affiliates of TNCs created 12 million new jobs last year.

**Outlook 2008-09**

UNCTAD's World Investment Prospects Survey for 2008-2010 was also released today. It presents the results of a survey of 226 TNCs undertaken between April and June.

Unsurprisingly, given the uncertain business climate, companies were scaling back investment plans. 40% of respondents reported that the financial crisis had already had a 'significantly negative' impact on their plans for the next three years. As conditions worsened after the survey, the Survey's projection of FDI inflows worth $1,600 billion in 2008 may be on the high side.

It is too early to tell the impact on developing countries, but it will be less than on developed economies. Nonetheless, industries exporting to the West and Japan will face a slowdown, and may need to reorient, where possible, their production toward faster-growing markets. FDI in other areas such as infrastructure and natural resources should remain healthy.
The survey indicated that China, India, the US, Russia, Brazil, Vietnam, Germany, Indonesia, Australia, the UK, Mexico and Canada would be the 'top dozen' preferred destinations for FDI in 2008-10. The main factors determining choice of location remained: market size, growth prospects, business and legal environment, skilled workers, infrastructure and government effectiveness.

What Is New?

The World Investment Report documented two relatively new trends:

1. The fast growth of TNCs from developing countries and their growing impact on South-South relations.

2. The emergence of sovereign wealth funds as direct investors in large mergers and acquisitions, and in providing support to troubled financial institutions.

The Report documents 70 sovereign wealth funds in 40 countries (mostly Gulf oil producers and Asian state-owned entities). While these SWFs had assets totalling some $5000 billion last year, their FDI stock totalled just $10 billion. This was a miniscule 0.2% of total capital, and was small compared to private equity funds' direct investments of $460 billion.

As you know, sovereign wealth funds have been the subject of some controversy, due to their state ownership and the fear of them being used for political and/or anticompetitive ends. The IMF is working to draw up guidelines for sovereign wealth funds. It is my personal view that similar guidelines are needed for other vehicles operating in the financial sector.

Policy

Turning to policy issues:

One of the enduring questions in the development debate is: How can developing countries attract more foreign investment and benefit from the capital, skills and technology FDI can offer? UNCTAD's response, based on years of analyses and interviews with companies and governments, is straightforward: 'provide an enabling environment that is conducive to business and investment'.

UNCTAD’s annual survey of host-country policy trends suggests that Governments are continuing to make investment climates more attractive. In 2007, 75% of approximately 100 FDI-relevant policy changes identified by UNCTAD were 'investor-friendly'. The other 25% imposed more restrictive regimes, mostly in extractive industries in Latin America (specifically Bolivia and Venezuela). Some restrictive measures reflected strategic and national security concerns.

As we have said before, the quality of investment is more important than the quantity. Indeed, one of our longstanding recommendations urges governments to pay close attention to the quality of potential investors, especially for major projects. This report examines these issues and offers guidance.

TNCs and Infrastructure

This leads me into the main theme of our Report: Transnational Corporations and the Infrastructure Challenge.

This analysis complements our Trade and Development and LDC Reports, which you have discussed in recent days.

It focuses on four key infrastructure sectors: transport, telecommunications, electricity and water services. As you know, reliable infrastructure can make a huge contribution to efficiency and quality of life. The lack of reliable infrastructure in many developing countries - especially in LDCs - is a major impediment to economic and social development. In fact, investment in infrastructure
is part of the 'unfinished agenda' of development: this is apparent in the poor access to drinking water for millions of Africans and Asians.

You may ask why governments and donors are not doing more to remove this obstacle to development. That is a good question, and one that we are pursuing. Governments are acutely conscious of the huge and urgent need to improve infrastructure. Unfortunately, their capacity to mobilise sufficient capital for major projects from domestic sources is limited. That is why some countries have no choice but to look to external financing. One problem in this context, as our Trade and Development Report showed, is that donors have been emphasising aid to social sectors at the expense of productive sectors and infrastructure.

However, the decline in donor support is just one factor contributing to the underdevelopment of infrastructure in many developing countries. Other equally important factors are:

- inadequate regulatory frameworks
- inadequate human, financial and technological resources
- lack of experience in sophisticated infrastructure planning, design and management
- poor governance
- poor maintenance; etc.

Indeed, it is these institutional weaknesses which often prevent governments from utilising existing funds or implementing existing projects. I call this the 'infrastructure paradox'.

Our report documents the urgent need for capacity building to help governments overcome these weaknesses. The Aid-for-Trade initiative, which focuses on supply-side and infrastructure development, could play an important role in generating assistance in these areas.

Infrastructure projects are usually high-risk and highly capital-intensive, with long gestation periods. Many innovative approaches to infrastructure development have been tried, with the aim of easing the cost and risk for governments. These approaches range from public-private sector partnerships to concessions, management contracts, build-operate-transfer arrangements, build-own-operate deals, wholly private-owned and operated, and others.

Some have succeeded; some have failed. Governments are struggling with these challenges, trying to find the best way to develop infrastructure in a cost-effective and sustainable fashion.

The Report encourages governments to look at using more private sector resources. This is not a new idea, but new approaches may be required.

Between 1990 and 2006, FDI in infrastructure in developing countries rose 29-fold to $199 billion. UNCTAD analysis reveals that an increasing share of the FDI in infrastructure in developing countries comes from TNCs from other developing countries. These firms now account for 30% of foreign infrastructure commitments in developing countries, and 40% in LDCs.

In addition, the World Investment Prospects Survey revealed promising TNC investment trends in telecommunications, transport, electricity, gas and water for 2008-2010.

Two of the focus areas in our World Investment Report – telecommunications and transport – have undergone extensive liberalisation in recent years, with many opportunities for private participation, and good results in terms of quantity and quality improvements. Developing country TNCs have made major inroads in these two sectors. In Africa, they now dominate foreign investment in telecommunications, and in LDCs they play an important role in transport.
In the other two areas - electricity and water - private participation has been limited, due in part to the costs and regulations associated with security, social and universal access requirements. The Report explains why the mobile telecommunications sector enjoys the highest openness to private investment, while water has the lowest.

Private companies, conscious of bottom lines, seek to invest in sectors with manageable risks, high barriers to entry and good profit potential. To date, mobile telecommunications, ports, electricity generation and toll roads have been good examples, though with the application of contestability, the barriers to entry are falling steadily.

Fixed-line telecommunications, railways, water and electricity distribution, however, require extensive physical networks and cross-subsidisation to meet universal access needs. These sectors are frequently controlled by state-owned monopolies, which may be corporatized. Private participation in these sectors has often been limited to leasing 'space' on 'backbone' infrastructure.

Full privatisation efforts have had mixed results, but lessons have been learned, and new ideas for public-private sector partnerships are emerging. The important thing to remember is that there is no 'one-size-fits-all' template.

Finally, I would like to share with you some conclusions and suggestions for action. These focus on institutional strengthening, business and legal environment, and risk mitigation.

1. The Report calls on the international community to honour its ODA commitments for infrastructure and to help governments develop, finance and implement the infrastructure plans necessary to utilise the funding available.

2. As TNCs can play a valuable role in developing certain types of infrastructure, efforts should be made to involve them more in development planning processes, including via Public-Private Partnerships and policies aimed at encouraging direct investment in infrastructure.

3. Infrastructure-related institutional strengthening is a major pre-requisite in many countries, and should receive priority attention from donors.

The report documents the urgent need for capacity building at all levels of government:

- to develop appropriate policy, planning and regulatory frameworks, including for fair competition
- to design and fund major projects
- to manage tendering processes
- to monitor performance
- to enforce contracts and regulations, etc.

Nowhere is this need greater than in LDCs, which attracted just 5% of FDI in infrastructure in the decade to 2006.

4. Finally, bilateral and multilateral development finance institutions may need to assume a greater role in insurance and risk management.

Ladies and Gentlemen:

These sorts of actions could contribute to a stronger enabling environment and encourage more TNC investment in infrastructure. This in turn would help countries progress towards attaining development goals.

I look forward to hearing your views and suggestions.

Thank you.