

**Multi-year Expert Meeting on
Investment for Development
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*Partnering Public and Private Investment
for Development*

**By
James Zhan
Director
Division on Investment and Enterprise
UNCTAD**

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[Show Slide 1] It is a pleasure for me to introduce the issue of partnering and synergies between public and private investment for development. Investment plays an essential role in promoting growth and achieving sustainable development by boosting countries' competitiveness, generating employment, advancing social progress and reducing income disparities. As the public sector alone cannot meet all investment needs, it is vital to find ways of increasing private investment (foreign and domestic). Before discussing synergies between public and private investments in promoting infrastructure development, mitigating climate change, and increasing agricultural production, let me briefly mention the general trends in different types of investments, public, private and FDI, as well as their impact on economic growth.

[Show Slide 2] Over the past three decades, there has been a gradual change in the role of public and private investments in promoting development and economic growth. While more dynamic growth requires a greater role by the private sector - and a stronger partnership between the public and private sectors - the recent financial crisis has increased the relative importance of public investment in stimulating aggregate demand.

Global investment (public, domestic private and foreign direct investment) reached \$12 trillion in 2009, having more than doubled between 2002 and 2008. (The decline of 8 per cent in 2009 was a consequence of the global financial and economic crisis.) Overall, private domestic investment has been larger in absolute values than both public investment and FDI flows; moreover, it has grown more rapidly in recent years, particularly since 2000. However, while private investment declined globally in 2008 and 2009, public investment has continued to increase as a countercyclical tool against the economic downturn.

[Show Slide 3] In developing and transition economies, private domestic investment has grown rapidly since 2000, reaching \$2.6 trillion in 2009, reflecting stronger economic growth and confidence in the private sector. Domestic investments, both public and private, remained resilient in 2009 despite the global economic and financial crisis. The share of FDI in total investment in developing and transition countries is larger than in developed countries.

[Show Slide 4] As developing countries have invested heavily in infrastructure, their share in total world public investment has increased over the past 15 years, from just over one-third in 1995 to almost two-thirds in 2009. The limited capacity of the private sector in developing and transition economies, and the thin capital markets in these economies, have prompted extensive government participation in large-scale investment projects. Looking at private investment and FDI, the share of developing countries is also increasing, but more gradually.

[Show Slide 5] The pattern of public and private (foreign and domestic) investments differs at the regional level:

- The share of public investment has traditionally been highest in Asia, although since 2007 private sector investment has taken the lead role;
- Public sector investment as a share of GDP is lowest in Latin America, with FDI being a more important source of finance in most years;
- Africa is in the middle, with public sector investment's share increasing over the last few years, although private sector investment also received a boost after 2008.

Now let's move to the three industries that are likely to demonstrate most synergies between public investment and private investment. These three industries were already identified in the second session of this Multi-Year Expert Meeting and discussed in the context of synergies between FDI and domestic investment.

[Show Slide 6 (infrastructure)] An example of the crucial importance of PPP is the provision of infrastructure. Developing countries' investment requirements in the area of infrastructure far exceed the available amounts of financing in the public sector. Fiscal space limitations and debt sustainability considerations have led many governments in developing countries to reassess the role for private financing in infrastructure development. Consequently, many countries have opened up infrastructure industries and services to greater involvement by the private sector, including TNCs. Many countries have set up "PPP centres" to facilitate PPP projects in general, or target foreign companies to engage in such arrangements. A recent example being the Public-Private Partnership Centre established in Kazakhstan. The World Investment Report 2008 gives an overview of this issue.

Partly as a result of these efforts, the private share in infrastructure investments in developing countries now accounts for half of all infrastructure investments – a result that also holds for all the major groups of developing and transition economies. While domestic private financing accounts for 23% of total infrastructure investment, foreign private financing accounts for a slightly higher share of 28%. A number of partnership examples can be used to illustrate the importance of various types of PPP arrangements in infrastructure industries in developing countries. Again the World Investment Report 2008 is a good reference; some examples are also contained in the issues note that was distributed to you.

[Slide infrastructure 7 (infrastructure)] Concrete examples show that many types of actors - public and private; domestic and foreign - are involved in this industry. The Bujagali Hydropower Project in Uganda, set up to foster economic growth by providing sustainable and affordable electricity in the country, highlights this point:

- In this PPP, the main partners are the Government of Uganda, several private companies, the Aga Khan Fund for Economic Development, and multilateral and bilateral development financial institutions and commercial lenders.
- The private sector is responsible for developing, financing, constructing and maintaining the power generation facility at Bujagali; and for managing construction of the related interconnection projects, on behalf of the Government (the owners and operators), which will connect the facility to the national electric grid.
- Electricity will be exclusively sold to the Government under a 30-year power purchase agreement.
- Financing of around \$860 million will cover both the power generation facility and the interconnection project. This comprises 22 per cent equity - largely provided by the private sector and some by the Government of Uganda - and 78 per cent debt. The debt is covered largely by a number of international development finance institutions.
- Although the project is not yet complete, the contractual arrangements are judged to be a success, as project-related risks borne by the project sponsors and commercial lenders are mitigated by contracts and insurance arrangements with the Government and international organizations.

[Show Slide 8 (agriculture)] The expansion and revitalization of agricultural production is a crucial issue for developing economies. Boosting investment in this important industry continues to be a top priority, though fully realizing the necessary investment has proven difficult. PPPs provide an effective means by which developing economies can leverage private investment to further their agricultural development plans. Partnerships have been formed with the aim of disseminating improved agricultural technologies, facilitating research and development (R&D), providing agricultural inputs, and providing extension services to local farmers.

[Show Slide 9 (agriculture)] A specific example of such a PPP is the Vegetable Oil Development Project in Uganda. A partnership between the government, international sponsors, and a private sector consortium led by Wilmar International has given rise to a \$120

million 5 year project to develop palm oil production in the country. In addition to a plantation that employs more than 1,400 workers, outgrower programs have improved the incomes of more than 80,000 households. Uganda also looks to become a net-exporter of vegetable oils thanks to this project.

[Show Slide 10(climate change)] Finally, partnerships between the public and private sectors can also serve as an important, synergistic catalyst for generating low-carbon investments in developing countries. Given that renewable energy technologies are not yet price-competitive with traditional, more carbon-intensive technologies, their use by private firms often requires some form of government support or leadership. This can take a number of forms, for instance offering concessionary financing to guarantee the revenue stream of a project.

[Show Slide 11(Climate change)] An excellent example of such a partnership is the Guanacaste wind park in Costa Rica. Here an international consortium organized by Econergy International has financed and built an US\$88 million 50 megawatt wind park, thanks to a 20-year contract with the state-owned electricity utility.

[Show Slide 12] These case studies show us the huge development potential from partnering public and private investment. However, generating these benefits can be a complex task. Therefore, let me now turn to some policy issues that arise in this context. The starting point is, of course, to identify the potential benefits of public-private partnerships. There are several. Private investments can complement public funds, creating synergies and linkages to domestic industries. Through these partnerships, governments can share the costs and risks of large scale investments and gain access to essential know-how and technologies. Finally, private involvement often leads to more efficient establishment and operation of public investment projects.

[Show Slide 13] Each country will have its own priorities in promoting PPPs, depending on its specific development needs and individual industrial policies. As regards the possible interaction between public and private investment, there are three basic policy options. The first option is public investments in support of private investments. A case in point is the provision of infrastructure, including industrial parks or R&D programmes. Second are public-private equity joint ventures. For instance in extractive industries there are many State-controlled enterprises that enter into joint ventures with private investors to raise funds or improve their production. The third option is non-equity private investment supporting public investment, for example through concession contracts in infrastructure.

[Show Slide 14] Although there is no "one size fits all" solution for the design of public private partnerships, there are a number of important issues to be taken into account when designing an enabling framework. These include entry conditions and scope for public-private cooperation, investment promotion and protection, and the distribution of responsibilities and risks. We will touch upon all of these in the coming discussions.

In conclusion, let me point out that in these introductory remarks, I could only give you a brief overview of the policy framework for public/private investment. Many more issues may arise when one looks closer at the individual modes of public-private partnerships, their application to particular industries, and the country-specific context in which they occur. I hope that we can shed more light on these questions in our discussions. I look forward to stimulating debates and a fruitful meeting.

[Show Slide 15] Thank you very much.