



Investment Tools: PFI & Principles for Private Sector Participation in Infrastructure

*Presentation by
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The OECD investment mandate

- 2002: Monterrey Consensus recognised that private investment and FDI are essential for sustainable development.
2007: OECD investment mandate reinforced by G8 declaration.
- Investment needs are huge and their fruitful undertaking key but benefits do not occur automatically.
- The OECD has tools to facilitate investment and help optimise private sector participation: Policy Framework for Investment (2006), Guidelines for Multinational Enterprises (revised in 2000), Principles for Private Sector Participation in Infrastructure (2007).

Investment Framework

International Investment

Border
Barriers

- National treatment
- Ownership restrictions
- Restrictions on capital transfer

Behind the border barriers to investment

Cost

- Infrastructure
- Taxation
- Corruption

Risk

- Investment policy
- Public governance
- Corporate governance

Competition

- Competition policies
- Trade Policies
- Financial markets

- Inward foreign investment
- Domestic investment
- Outward foreign investment

The Policy Framework for Investment: Some key features

- The PFI was developed to help governments improve their investment environments in a non-prescriptive/non-binding way. It was developed by a task force comprising 60 countries and endorsed during the OECD Ministerial in May 2006.
- The PFI emphasises 3 principles throughout the 10 PFI chapters:
 1. Policy Coherence
 2. Transparency and Accountability
 3. Regular Policy Evaluation
- ... and flexibility in implementation: one size does not fit all
 - Self-evaluation by governments
 - Recent examples: Egypt; Vietnam; South East Europe Investment Reform Index; NEPAD-OECD
 - Sectoral application: investment in the energy sector in Russia

The PFI checklist of policy issues for a conducive investment environment

1. Investment policy: rule of law, property protection & non-discrimination
2. Investment promotion and facilitation: address market failures & leverage strengths
3. Trade policy: support to investment policy
4. Competition policy: favour innovation & transmit benefits to society
5. Tax policy: achieve public policy objectives while supporting investment
6. Corporate governance
7. Policies for promoting responsible business conduct
8. Human resource development
9. Infrastructure and financial sector development
10. Public governance: regulatory quality and integrity

Why do we need “Principles for Private Sector Participation in Infrastructure”?

- A number of private participation in infrastructure projects in the past have failed
 - Often the main cause was not project specific, but short-comings in investment environments, capacities and attitudes
- Advice on how to avoid the mistakes of the past
 - Synthesising a large body of analysis and case examples
 - Offering recommendations of best practices, agreed among a variety of experts and policy communities
- A specific application to water and sanitation in the context of the OECD horizontal water project. A forthcoming application to the energy sector (in support to the OECD efforts to address CC).

The 5 areas of the Principles in overview

- Deciding on public or private provision of infrastructure services
 - Informed & calculated choice, project financial sustainability, tailor-made model, preserving fiscal discipline
- Enhancing the enabling institutional environment
 - Enabling environment, corruption, competition, access to financial market
- Goals, strategies and capacities at all levels
 - Consultation, empowerment of authorities, clear and broadly understood objectives & strategies, cross-jurisdiction cooperation

- Making the public-private co-operation work
 - Communication, disclosure of information, fair & transparent contract awarding, output-based, regulatory bodies, renegotiations, dispute resolution
- Encouraging responsible business conduct
 - Responsible business conduct, good faith & commitment, corruption, communication, responsibility for social consequences

Optimising private sector participation in water and sanitation infrastructure development

- Guidance for private sector participation in water and sanitation building on the OECD Principles
 - Adapting the principles: matrix linking the 24 Principles with the specificities of water and sanitation infrastructure, concrete issues faced by governments and country good practices
- Review of experiences of some 30 developing and emerging countries
 - Country review: common framework based on 7 dimensions of information for some 30 countries in Africa, Asia and Latin America

- Engage with existing initiatives and discuss the guidance and country practices at regional level.
 - 27-28 Nov. 2007: Regional roundtable together with NEPAD in Zambia → discussion of guidance and practices in Africa

Available at: www.oecd.org/daf/investment/africa

- 5 March 2008: Expert meeting co-organised with the Asian development Bank → discussion of guidance and practices in Asia.

Soon available at: www.oecd.org/daf/investment/water

- Additional discussions in MENA and Latin America.

Context and trends

- Water and sanitation is a key sector where much effort is still needed: 1.2bn people w/o drinking water, 2.4bn people w/o sanitation, some \$30bn/yr needed to reach MDGs.
- New management issues: resource allocation, quality control, improved maintenance and preservation => promotion of decentralization, local governance, participation and equity, financial viability and environmental sustainability.
- Partnership with the international private sector since the 1990's has led to highly politicized debates.
- Rapid changes in the terms of involvement of private sector: less risky contracts, emergence of new actors, growing recognition of the small-scale private providers.

A complex sector, with important implications for the cooperation between public & private

- Monopolistic sector where competition is difficult to introduce: high fixed costs, long-term irreversible investments, inelastic demand and important asymmetry of information
- Basic need, important externalities on health, gender equality and environment => high political interest
- Local management, but requires integrated water resource management (externalities, full water cycle)
- Numerous stakeholders and segmentation
- Risky sector: contractual risk, foreign-exchange risk, sub-sovereign risk, political interferences and complex pricing policy (cost recovery, economic efficiency, environmental sustainability, equity and affordability)

Thank you

For more information:
www.oecd.org/daf/investment/water