# LATIN AMERICA AND CARIBBEAN-OECD INVESTMENT INITIATIVE

## Bridging infrastructure gaps through smart investment

**Westin Hotel**
**Peru-Lima, 7-8 July 2014**

PROGRAMME

**Conference co-organised by:**

# Bridging infrastructure gaps through smart investment

The Latin America and Caribbean-OECD Investment Initiative aims to increase the contribution of investment to economic and social development. The Initiative's fourth high-level event will promote a peer dialogue on investment in infrastructure, both between governments and between governments and investors, explore what Latin American governments can do to maximise the economic and development benefits these can generate, and discuss strategies to improve investment facilitation. The event will also contribute to the update process of the Policy Framework for Investment (PFI), launched by the OECD in 2013.

Investment in infrastructures is gaining importance in the overall development strategy of Latin America. Better roads, ports and railroads reduce transportation costs, increasing the competitiveness of domestic firms. A stable and cost-effective provision of energy and telecommunications expand the production possibilities for firms. Furthermore, generalised access to infrastructure services, from water and sanitation, to transport infrastructure and telecommunications, plays a key role in fighting poverty and reducing income inequality.

Latin America still exhibits a significant infrastructure gap, due to decades of low and often inefficient public investment, only partly compensated by private sector projects. Financing, however, is no longer the main impediment. Indeed, financing for infrastructure projects is now plentiful, from sources such as private equity, international financial institutions, pension funds and sovereign wealth funds. Rather, the main constraint today concerns the ability to formulate projects to ensure maximum benefit. Creating fairer public-private partnerships for essential infrastructure requires much more than engineering solutions or alternative sources of financing.

One of the key challenges for governments has been to balance the sharing of risks and returns between the government and its private sector partners, while at the same time dealing with the technical complexities of projects. Success requires that governments invest heavily in high quality pre-construction studies and surveys, that they structure contracts carefully to achieve an appropriate distribution of risks and expected rewards, and that the mix of private-public investment and involvement be adapted to specific circumstances. The social impact of the project need also be factored when funding projects with private sector involvement and in this regard governments must improve transparency and communication with the public to avoid negative perceptions.

This conference is hosted by the Government of Peru, in co-operation with the OECD and with financial support from IADB. Previous events of the LAC-OECD Investment Initiative took place in Santiago (September 2010), Bogotá (July 2011) and San José (October-November 2012).

In the interest of the environment, paper versions of presentations and documents will not be distributed during the conference. Rather, participants can find these on the conference website at:

www.oecd.org/daf/investment/lac.

# DRAFT PROGRAMME

<table>
<tr><th colspan="2">7 July 2014</th></tr>
<tr><td>08:00 – 08:45</td><td>Registration</td></tr>
<tr><td>08:45 – 09:30</td><td>Welcoming remarks<br>Luis Miguel Castilla Rubio, Minister of Economy and Finance of Peru<br>Fidel Jaramillo, Country Representative of the IADB<br>Sangkyom Kim, Deputy Director, OECD Directorate for Financial and Enterprise Affairs</td></tr>
<tr><td>09:30 – 11:00</td><td>Panel 1: Investment in infrastructure – the development nexus<br>Latin America and the Caribbean keep making progress in economic development, despite increased market volatility and socio-political tensions in some countries. The Pacific countries, in particular, rank among the most auspicious of emerging economies, having clocked an annual average GDP growth rate of 3.2% through 2008-13.<br>The perennisation of inclusive growth requires more and better infrastructure. In the recent past, Latin American countries have adjusted public investment to achieve fiscal consolidation and attracted foreign direct investment, often through privatization programs. Nonetheless, the infrastructure gap with regard to competitors, especially in Asia, remains wide.<br>The private sector, including multinational enterprises, can play an important role in providing finance and expertise to develop the infrastructure services in Latin America and boost economic growth by solving logistics and other bottlenecks. Private equity firms, in particular, invested a record amount in infrastructure in 2013. Governments should consider a number of policy issues to ensure that citizens get the services they need at a fair cost and with viable returns to private sector partners.<br>This session will explore the following questions:<br>• What are the infrastructure needs of Latin American countries?<br>• How do public authorities chose between public and private provision?<br>• What are the opportunities and challenges involved for business, society, government and other stakeholders?<br>• What is the impact on inclusive growth, trade and investment?<br>Moderator: Michael Reid*, "Bello" Columnist and Writer-at-Large, The Economist<br>Panel<br>Luis Miguel Castilla Rubio, Minister of Economy and Finance of Peru<br>Cecilia Alvarez-Correa Glen, Minister of Transport of Colombia<br>Carlos Eduardo Bacher, Chief Executive Officer, Techint E&C<br>Jorge Pizarro, Executive Vice-President, Comité de Inversiones Extranjeras, Chile</td></tr>
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| | Sebastian Nieto Parra, Latin American Economist, OECD Development Centre<br><br>**Q & A session** |
| 11:00 – 11:20 | **Coffee break** |
| 11:20 – 13:00 | **Panel 2. Investment in energy – regional experiences and approaches**<br><br>Latin America and the Caribbean accounts for only 6% of global greenhouse emissions and has the lowest carbon-intensive energy matrix of the developing world. It has has served as a global laboratory for some of the most innovative environmentally-friendly practices and adopted payment schemes for preserving the environment.<br><br>However, as the regional has expanded, so too has the population and urbanization; a burgeoning middle class increasingly demands infrastructure investment in order to sustain the economy's growth. According to the World Economic Forum's Global Competitiveness Report 2013–2014, Colombia and Peru were ranked 63rd and 73rd, respectively, among 148 countries and territories in terms of quality of electricity supply — below much poorer countries such as Bhutan (35) or Guatemala (53).<br><br>Governments are aware of the importance of increasing the pace of investments in energy to maintain and bolster their countries' level of competitiveness and of their responsibility towards the environment. They have already undertaken a number of initiatives to improve energy infrastructure and sizeable investments have been made.<br><br>This session will address the following questions:<br><br>• How has the nature of investment in energy infrastructure in Latin America changed in recent years? What are the reasons behind those changes?<br><br>• Are Latin American countries being successful in attracting the type of investments they target?<br><br>• What are the key factors supporting or impeding international investments in renewable energy in Latin America?<br><br>**Moderator:** Javier Illescas, Executive Director of Proinversión<br><br>**Panel**<br><br>Efraín Villanueva Arcos, Sustainability General Director, Secretariat of Energy of Mexico<br><br>Fidel Jaramillo, Country Representative of the IADB<br><br>Cate Ambrose, President and Executive Director, Latin American Private Equity & Venture Capital Association (LAVCA)<br><br>Lionel Igersheim, Coverage Officer for Peru, BNP Paribas<br><br>Roberto Cornejo Spickernagel, Chief Operating Officer and Commercial Vice President, IC Power<br><br>**Q & A session** |
| 13:00 – 14:30 | **Lunch** |

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| 14:30 – 16:00 | **Panel 3: Investment in transport – corporate strategies and regulatory challenges**<br><br>The volume of global transport could double or even quadruple by 2050, according to the International Transport Forum (ITF). GDP growth, freight intensity of economic activity and demographic change are important drivers of this growth. Latin America suffers from important infrastructure gaps: OECD research reveals that the available stock of paved roads and railroads is just 25% of what should be expected given the region's socio-economic characteristics.<br><br>Strong increases in transport volumes also mean strong growth of emissions from transport. Policy choices are particularly important in the cities of emerging regions, as exploding urbanisation shapes global transport trends. In Latin American cities, urban policies favouring private cars lead to 30% higher emissions, while policies favouring public transport result in 30% lower emissions (compared to a business-as-usual scenario). These results are not purely hypothetical but based on patterns of development that exist across the region in today's major cities.<br><br>Policy-makers face a funding dilemma, however: Demand for transport is growing rapidly but budgets are getting tighter. As per the OECD Principles, a sound enabling environment for infrastructure investment, which implies high standards of public and corporate governance, transparency and the rule of law, including protection of property and contractual rights, is essential to attract the participation of the private sector. The experience of Colombia – the first country in South America to utilize PPPs, beginning in 1993 – highlights the importance of certainty of government payments and of the possibility of contract renegotiations due to unforeseen economic challenges.<br><br>The session will address the following questions:<br><br>• What are the main challenges that Latin American countries face to attract investment in transport infrastructure?<br><br>• Which countries have been more successful? What specific policies and institutional designs have been particularly effective?<br><br>• How do countries assess the degree to which project costs can be recovered from end-users? In case of shortfalls, what other sources of finance can be mobilised?<br><br>**Moderator:** José Viegas, Secretary General, International Transport Forum<br><br>**Panel**<br><br>Luis Fernando Andrade, President, National Infrastructure Agency, Colombia<br><br>Aldo González, President, Metro Santiago<br><br>Carmelo Henry Zaira Rojas, Vice Minister of Transport, Peru<br><br>Mario Alvarado Pflucker, Chief Executive Officer, Graña y Montero<br><br>Gabriel Pérez-Salas, Associate Economic Affairs Officer, Economic Commission for Latin America (ECLA)<br><br>**Q & A session** |
| 16:00 – 16:20 | **Coffee break** |

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| 16:20 – 18:00 | **Panel 4: Investment in infrastructure – what role for long-term investors?**<br><br>At the 2013 G20 summit at St Petersburg, world leaders G20 endorsed an OECD-launched initiative to encourage the flow of institutional investment towards longer-term assets, such as infrastructure and renewable energy projects, in order to strengthen the global economy. Currently, pension funds, insurers, mutual funds and sovereign wealth funds hold more than USD80 trillion in assets. Pension funds alone managed over USD20 trillion in assets as of the end of 2012, with a net annual inflow of savings of over USD1 trillion. But only 1% of those assets were invested in infrastructure projects, with an even smaller fraction in clean energy projects.<br><br>The High-Level Principles of Long-Term Investment Financing by Institutional Investors, prepared by an OECD Taskforce working together with G20 members, establish a framework for encouraging institutional investment in long-term assets. They set out the preconditions to long-term investment, such as the need for stable macroeconomic conditions, a clear and transparent government plan for projects, as well as opportunities for private sector involvement via public procurement and public-private partnerships investment.<br><br>In Latin America, private pension funds (PPF) will manage a large amount of resources in the next decades and assets invested in infrastructure allow optimal long-term portfolio planning. A recent OECD report reviews the existing evidence on pension fund investment in infrastructure in "new" markets, covering Brazil, Chile and Mexico, as well as a number of other non-OECD countries. It finds that domestic pension funds invest in infrastructure projects around 1.3% of the total assets managed. Foreign pension funds, given their large size, could be a potentially major source of funding, but most have only recently started investing in infrastructure projects and have focused their attention in mature markets.<br><br>This session will address the following questions:<br><br>• To what extent is the regulatory environment for infrastructure project stable and transparent?<br><br>• What is the experience with infrastructure bonds (e.g. Chile, Peru) and structured products (Mexico)?<br><br>• What can national governments and multilateral organisations do to develop instruments that enable the transfer of demand risk inherent in infrastructure projects (particularly transportation) during the early years of operation (the initial "ramp-up" years after construction)?<br><br>**Moderator:** Juan Carlos Sanchéz Alonso, Ambassador of Spain to Peru<br><br>**Panel**<br><br>Bruce Hogg, Vice-President & Head of Infrastructure – Americas, CPP Investment Board<br><br>Marcelo Alves, Head of the International Department, BNDES<br><br>Luis Valdivieso Montano, President, Asociación de Administradoras de Fondo de Pensiones (AAFP)<br><br>Sangkyom Kim, Deputy Director, OECD Directorate for Financial and Enterprise Affairs<br><br>**Q & A session** |
| 18:30 – 20:30 | **Reception** |

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| 09:00 – 10:30 | **Panel 5: Investment promotion and facilitation – Pacific Alliance perspectives**<br><br>Within an overarching strategy for improving the investment environment and enhancing regional integration, investment promotion and facilitation can help to increase both domestic and foreign investment and to enhance their contribution to national economic development. Success in promoting investment requires a careful calculation of how to employ resources most effectively and how to organise investment promotion activities within the government so that the overriding goal of economic development through improvements in the investment climate remains at the forefront of policymaking.<br><br>This session seeks to promote an exchange among Pacific Alliance countries that are incorporating international best practices into their own investment promotion efforts. It will address the following questions:<br><br>• How do countries monitor the performance of investment promotion activities? How effective are they in streamlining administrative procedures? Which dialogue mechanisms are in place?<br>• Which cost-benefit analysis is made of investment incentives? Are there specific policies to promote investment linkages?<br>• How do regional and international investors perceive the authorities' efforts to promote and facilitate investment?<br><br>**Moderator:** Alonso Segura, Advisor to the Minister of Economy and Finance of Peru<br><br>**Panel**<br><br>Ana Maria Badel, Executive Director, ProBarranquilla and Regional Director of WAIPA<br><br>Alvaro Quijandría, Director of Regional Business Line, International Finance Corporation (IFC)<br><br>Gonzalo Prialé, First Vice-President, Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP), Peru<br><br>Carlos Fuentes, Executive Director of International Promotion, ProMéxico<br><br>Andrea Goldstein. Senior Economist, OECD Directorate for Financial and Enterprise Affairs<br><br>**Q & A sesión** |
| 10:30 – 11:00 | **Coffee break** |

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| 11:00 – 12:30 | **Panel 6: What's next?**<br><br>Panel chairs will summarise the five conference sessions, in order to address the following questions:<br><br>• How can the Initiative contribute to build capacity for PPP project structuring and support governments in building capacity in this respect?<br><br>• How can experience and best practice in OECD and non-member countries be shared, in order to ensure that PPPs support social objectives?<br><br>• How can be the Internet be used to do this (e.g. online library of LAC and OECD case studies, or an interactive web platform/blog to facilitate communication between the LAC public and private sectors around PPP projects)?<br><br>**Moderator:** José Antonio Ardavin, Head of the Latin American Unit, OECD Global Relations<br><br>**Panel**<br><br>Sebastian Nieto Parra, Latin American Economist, OECD Development Centre<br><br>Alonso Segura, Advisor to the Minister of Economy and Finance of Peru<br><br>José Viegas, Secretary General, International Transport Forum<br><br>Javier Illescas, Executive Director of Proinversión<br><br>Andrea Goldstein. Senior Economist, OECD Directorate for Financial and Enterprise Affairs<br><br>**Q & A session** |
| 12:30 – 13:00 | **Closing session – The way forward**<br><br>René Cornejo, Prime Minister of Peru<br><br>Sangkyom Kim, Deputy Director, OECD Directorate for Financial and Enterprise Affairs |

**(*)Pending confirmation**

**Background on the Policy Framework for Investment**

The PFI raises issues for policy makers in ten policy areas including investment, competition, tax, corporate governance, anti-corruption, infrastructure, public governance and other policy domains which affect the business climate. The PFI was developed by a multilateral Task Force and comprised of representatives from 60 countries.

In the context of OECD Investment Policy Reviews (IPRs), the PFI has been used by over 25 countries at varying levels of development and across all continents, as a tool for assessing investment and business climates, and for designing reforms to improve them. The PFI also provides a basis to support on regional investment policy dialogue. Established regional economic communities are currently using the PFI to promote peer learning on regional investment policy and policy harmonisation among their members. For example, the Secretariat of the Association of Southeast Asian Nations (ASEAN) has partnered with the OECD in undertaking IPRs of ASEAN countries and regional investment policy dialogues, including capacity building activities and training seminars.

New forces have reshaped the global investment landscape, including the global economic and financial crisis which started in 2008 and from which many economies have still not recovered, the emergence of new major outward investors within the G20, the spread of global value chains, and signs that pressures for investment protectionism are on the rise. Numerous lessons have also been learnt through the use of the PFI.

The PFI is thus currently being updated to reflect new global economic fundamentals and by incorporating feedback from the international investment policy community.

**Registration and further information**

To register for the Conference, please send an e-mail to: Nancy Bojanich nbojanich@proinversion.gob.pe providing your name, affiliation, and contact details.

For regular updates and logistical information, please visit http://www.oecd.org/daf/inv/mne/latin-america-caribbean-investment-initiative.htm.

For further information please write to us at investment@oecd.org.

**Sponsorship**

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