LATIN AMERICA AND CARIBBEAN-OECD

# INVESTMENT INITIATIVE

Conference on Investment for Jobs and Development in Latin America and the Caribbean

27-28 September 2010
Santiago, Chile

# CONFERENCE PROCEEDINGS

NACIONES UNIDAS
CEPAL

GOBIERNO DE CHILE
MINISTERIO DE HACIENDA

OECD

## OPENING SESSION:

KEYNOTE SPEAKERS:

**Mr. Rodrigo Álvarez**, Under Secretary of Finance of Chile

**Mr. Richard Boucher**, Deputy Secretary General, OECD

**Ms. Alicia Bárcena**, Executive Secretary, ECLAC

**Mr. Jean Philippe Pening Gaviria**, Director of Infrastructure and Sustainable Energy of the National Planning Department, Colombia

**Mr. Juan Manuel Cabrera Hernández**, Ambassador of Spain to Chile

- Under Secretary Álvarez opened by saying that investment is one of the most effective means for increasing employment, fighting poverty and improving people's daily lives. If investment policies and frameworks are correctly targeted, investment flows can contribute to creating employment-rich growth, which is central to fostering more stable and just societies. Deputy Secretary-General Boucher underlined that investment and development are inextricably linked and noted that the social dimension must be a central part of the investment policy debate.

- The countries of the LAC region are well-positioned to enter into a new era of economic growth and development. Many LAC economies weathered the economic crisis better than some of the more developed countries, and they are seeing their investment levels rise to nearly pre-crisis levels. Speakers agreed that this is partly the fruit of fundamental reform efforts by the region in the last ten years. An increasing number of LAC companies are now going regional and global. While abundant natural resources drive important sectors such as mining and energy, the region is also increasingly becoming a hub for investment in high-technology sectors.

- At the same time, the region faces important challenges, and governments need to take an integrated approach to addressing these gaps, which include: social inequality, uneven levels of productivity across countries and sectors, a dearth of financing, insufficient funding for R&D to spur innovation and move LAC products up the value chain, and a gap between investment levels and what is needed to fund GDP growth. Ambassador Cabrera Hernández also highlighted the critical role of SMEs in creating jobs and reducing poverty.

- To help LAC grow better and faster and offer equal economic opportunities to its citizens at all socio-economic levels, Ms. Bárcena said that countries of the region must forge a "new equation" between states, the market and society. Strengthened government institutions – in areas such as banking, and infrastructure development – new types of partnerships with the private sector, and strengthened regional cooperation will help in tackling these challenges. The LAC-OECD Initiative, with the involvement of other key international organisations such as UNECLAC and the IDB, will have an important role to play in supporting this process.

- Mr. Pening Gaviria announced that Colombia will host the second meeting of the LAC-OECD Initiative on 17-18 February 2011.

## PANEL 1: Transparent and predictable policy frameworks for investment

MODERATOR:
**Mrs. Kathleen Barclay,** Partner at Asesorías KCB, Director of Amcham; Past President of AACCLA
PANEL:
**Mr. Luis Eduardo Escobar,** Head of Research, Imaginaccion Consultores; former Chair of the intergovernmental Task Force at the OECD that developed the Policy Framework for Investment
**Mario Cimoli,** Director, Productivity and Management Divison, ECLAC
**Mr. Bevan Narinesingh,** Senior Legal Officer, CARICOM
**Mr. Claudio Muñoz**, Chairman, Telefónica Chile

- Panellists expressed optimism about the economic potential of the Latin American region; despite the crisis, investment levels have rebounded, and many framework conditions and necessary regulations have already been put in place by governments. They noted that there was relative consensus on what policy frameworks for investment are needed going forward, but that the priority now is for governments to proceed with implementation using policy tools such as the Policy Framework for Investment.

- Rising levels of investment in LAC have not necessarily translated into equitable growth. Participants underlined that "Investment has to be a means for development" and that the right policies are needed to create the linkage between investment and development. This would support the development of human and social capital, and pave the way for more sustainable growth. The experience of the OECD in developing policy recommendations to help channel investment into development was recognised as important in supporting the efforts of LAC governments.

- Company representatives stressed that investment decisions were based on interlocking criteria such as free access to markets, clear "rules of the game'' with well-defined norms and regulations, and a market that encourages competition. This would also increase investor trust. To deliver these framework regulations -- which are often under the purview of different agencies -- governments need to take a horizontal approach in defining and implementing policies and in simplifying regulations. Such a horizontal approach underpinned by transparency would favour more public-private partnerships, especially in fast-moving sectors such as telecommunications, where convergence is a key priority.

## PANEL 2: The Latin American experience with investment promotion and facilitation

MODERATOR:
**Mr. Roberto Sapag**, Editor, Diario Financiero
PANEL:
**Ms. Beatriz Nofal**, Former Head of Argentina's Investment Development Agency and Director for South America for the World Association of Investment Promotion Agencies
**Ms. Irene Arguedas**, Director, COMEX, Costa Rica
**Mr. Matías Mori,** Vice President, Foreign Investment Committee, Chile
**Mr. Alvaro Calderon**, Economic Affairs Officer, Division for Production, Productivity and Management, ECLAC

- Panellists agreed that Investment Promotion Agencies have an important role to play as policy advocates and can support governments in not only attracting more and better investment but also in developing better investment policies

- Currently, not all IPAs in Latin America have the mandate to support the improvement of investment policies. Moreover, while IPAs serve as “windows to the world” to potential investors, they are often institutionally isolated from other ministries - and thus unable to play an effective coordinating role to ensure that projects reach fruition to the satisfaction of investor companies. Other challenges include dependency on changing political mandates which reduce stability and lead to mid-stream priority shifts, a lack of adequate institutional and legal frameworks, and the absence of pro-active and targeted investment attraction strategies. By overcoming these challenges, governments can empower IPAs to deliver their full potential in helping governments meet wider economic and social priorities.

- To be effective, IPAs must narrow their focus to key sectors where their countries have a clear competitive advantage and not try to “hit all of the balls over the fence”. By specialising and investing resources in a limited number of strategic areas, IPAs will have greater impact in successfully attracting investment and in helping governments develop related policies – for example in education policy – which reinforce sector growth and wider economic development.

- Increasing regional cooperation would help LAC countries create the critical mass needed to better compete in the global marketplace. It would facilitate the expansion of SMEs to new regional markets, which could help prepare companies to move toward the internationalisation of their operations. LAC countries could also envision the development of regional investment promotion strategies, for example to position the region as a world leader on green energy.

- Participants debated to what extent cooperation at the regional level is realistic in light of the competition for the same investment revenues, which can result in “incentive wars” between LAC countries. They noted that while incentives can tip the balance, they are not the only factor in companies’ investment decisions. They agreed that it would be helpful if the OECD and ECLAC further study this issue and perhaps conduct an assessment of the role of different factors in investment decisions.

- It was proposed that future meetings of the Latin America and Caribbean-OECD Investment Initiative could support the development of sector-specific promotional tools (at the regional and sub-regional level). These areas could be further explored at the upcoming meeting in Colombia in February.

## PANEL 3: The integration of SMEs in global value chains

MODERATOR:

**Mario Cimoli,** Director, Productivity and Management Divison, ECLAC

PANEL:

**Mr. Vicente Caruz Middleton,** President, Sociedad de Inversiones Norte Sur and President, Fundación Empresarial EuroChile

**Mrs. Carolyn Robert,** Trade and Integration Lead Specialist, Trade Sector, Inter-American Development Bank

**Mr. Anthony O’Sullivan,** Head, OECD Division on Private Sector Development, Directorate for Financial and Enterprise Affairs

**Mr. Osvaldo Rosales**, Director, Division of International Trade and Integration, ECLAC

- Further integrating SMEs into global value chains is a critical pathway to increasing growth and development in Latin America. For this to happen, governments need to complement horizontal policies which benefit all firms with targeted policies for SMEs which are tailored to specific sectors. Governments also should consult closely with firms to better understand their needs.

- Other key priorities include increasing SME access to finance (through mechanisms such as guarantee schemes), helping them incorporate innovation, mobilising human resources, increasing information flows, supporting SMEs in building their management capacities, and helping them link up with MNEs.
- Major multinationals can serve as “lighthouse companies” to help structure value chains and bring national SMEs into these value chains by helping them upgrade skills, quality and standards. For this to happen, IPR rules must be in place so that SMEs do not hesitate to share their innovative ideas with larger companies due to a lack of IPR protection.
- Latin American governments must also tackle the informal sector, as it is not possible to effectively integrate SMEs into global value chains if they operate in informality. This could be addressed at the regional level. Participants also agreed that the SME agenda must also be integrated into an international agenda, and suggested that UNECLAC and OECD could support the development of standards.
- It was proposed that future meetings of the Latin America and Caribbean-OECD Investment Initiative could focus on how LAC governments can further enhance the integration of SMEs in global value chains through sectoral approaches, policies to facilitate access to finance and by tackling the informal sector.

## PANEL 4: Public-private partnerships in infrastructure

MODERATOR:
**Mr**. **Jean Philippe Pening Gaviria**, Director of Infrastructure and Sustainable Energy of the National Planning Department, Colombia

PANEL:
**Mr. Gonzalo Ferre**, Director General, Abertis
**Mr. Erasmo de Alfonso**, Aquafed
**Ms. Kassi Tallent,** Lawyer, Crowell & Moring LLP and Fortunati y Asociados Argentina
**Mr. Patricio Rozas**, Economic Affairs Officer, Division on Natural Resources and Infrastructure, ECLAC
**Mr. Michael Gestrin,** Senior Economist, OECD Investment Division

- Investment in infrastructure in Latin America has been dropping since 1980, and this trend has accelerated dramatically since 2005. It is estimated that seven points of GDP need to be invested in the region per year over the next 20 years to meet its development needs. At the same time, private investment also continues to fall.
- Although public-private partnerships have long been present in the region, they have not succeeded in bridging the infrastructure investment gap. Panellist cited numerous reasons for this malfunctioning: unrealistic project design which has led to runaway costs, poor implementation, and financing shortfalls which governments have had to assume; lack of clear and transparent legal and regulatory frameworks for investors; and the varying specificities of different sectors which are not addressed by “one size fits all” PPP approaches. A negative public perception of foreign investment and political resistance to involving the private sector in public infrastructure projects is also part of the wider challenge.

- To attract private investment and create viable infrastructure projects, Latin American governments must understand the levers that drive private investment: well-defined roles and responsibilities for both public and private sector actors; realistic cost structures that ensure companies can recover their investments and regulatory and legal frameworks that are tailor-made to the needs of different countries and sectors. Moreover, as many suppliers in PPP projects are SMEs, these frameworks must also be sensitive to the needs and constraints of smaller companies. Attention should also be given to socio-cultural aspects that can impact project success and prepare stakeholders for the changes that may be engendered by projects.
- Policymakers must also ensure that agencies work together and that investment promotion agencies communicate with related ministries (energy, environment, etc) to facilitate project implementation. Multilateral credit agencies, which have also been investing less and less in the region, also need to be reactivated to support PPP projects.
- It was proposed that future meetings of the Latin America and Caribbean-OECD Investment Initiative could have sessions that would present case studies of successful PPP models and recommendations for increasing its financing capacity for projects.

## PANEL 5: Responsible business conduct in Latin America

MODERATOR:
**Mrs. Karen Poniachik**, Visiting Fellow, Center for Hemispheric Policy, University of Miami, former Special Envoy to the OECD, former Minister of Mining, Chile

PANEL:
**Mr. René Muga,** Senior Vice President of Corporate Affairs, LAN Airlines
**Mr. Michael Gestrin**, Senior Economist, OECD Investment Division, Directorate for Financial and Enterprise Affairs
**Mr. Mario Castillo**, Division of Production and Management, ECLAC

- Over the past ten years, the debate around responsible business conduct has shifted dramatically and many companies, especially multinationals, have mainstreamed environmental, labour, human rights and other issues into their business strategies and adhered to a growing number of instruments. This trend has been reinforced by the creation of sustainability indices which have shown that companies which carry out responsible business practices do indeed perform better.
- However, companies face myriad challenges in integrating CSR practices into their business strategies in a meaningful way and going beyond a simple “good neighbour”’ corporate branding exercise. One key issue is defining where company responsibility ends in a context of increasingly complex value chains and in operating environments which may lack public governance frameworks. This has been a challenge globally, but also in Latin America.
- The OECD Guidelines for Multinational Enterprises have been a key instrument in support of responsible business conduct. Currently the Guidelines are under reviewed through a series of consultations. This process was motivated by evolutions in the investment environment in the ten years since it was last reviewed, with particular focus on value chains and helping define the boundaries of corporate responsibility.

- Panellists confirmed that businesses are looking for clear guidance to help them monitor their value chains in a context of increased international scrutiny. In Latin America, for example, a key challenge is the number of SMEs that would like to be part of global value chains but which are not able to meet necessary CSR standards. Governments can play a role here, and in fact several LAC governments have already launched successful initiatives to build the capacity of SMEs so that they are able to ramp up their skills and standards to integrate global value chains.
- It was also underscored that CSR is a shared responsibility between governments and the private sector, and that real progress will only be made if CSR initiatives are linked to public policies and if governments make supporting CSR a part of their wider development strategies. Several examples were offered on how this can be done, for example in bringing women, disenfranchised or rural populations into the job market through targeted company initiatives that were supported by local communities.

## PANEL 6: Latin America as a leader in green investment and growth

MODERATOR:
**Mr. Richard Boucher**, Deputy Secretary-General, OECD
PANEL:
**Mr. Rafael Guilisasti**, President, CPC
**Mr. Sebastián Ainzúa Auerbach**, Coordinador de Programas de la Oficina Regional para el Conosur, Fundación Heinrich Böll
**Mr. Andrés Romero**, Partnet, Sustentank Consultants, Ex Director of Country Energy Efficiency Program Chile

- Global markets are currently undergoing a fundamental transformation toward more green economies, driven in part by increased consumer attention to environmental considerations and growing demand for green products. Panellists confirmed that this process has generated new opportunities for Latin America to become a haven for 'green investment', and that developing a regional strategy could help LAC more effectively attract this new source of investment. They underlined that implementing such a strategy would bring long term benefits for the region, as investment inflows to the green industries will help drive innovation and education, develop capacity at all levels, create employment and ramp up the region's competitiveness.
- To unlock the potential of green investment, LAC countries need to address different obstacles to its development, which are situated at multiple levels and involve cultural, political, capacity and financial aspects. However, panellists agreed that close co-operation between government and the private sector would enable the region to overcome these barriers.
- Governments should ensure that the growth of the green industry does not have unexpected negative social or environmental side-effects, such as perpetuating inequalities or depriving populations of needed natural resources by diverting them to new industrial or agricultural projects. Specifically, policymakers must work to eliminate subsides which create market distortions and can work counter to the needs of both business and citizens. Overly complex standards also hinder the development of green investment. Creating unified standards for certification and labelling of products would reduce cost for business and further stimulate trade. Clear regulatory frameworks, for example as regards procurement, would generate additional incentives for investment, as businesses would be confident that

prices were not unfairly distorted. Governments should also focus on increasing training to help workers skill-up in order to be more employable by green industries.

- Within a regional green strategy, governments will also have an important role to play in investing in the future of core LAC sectors – such as energy, mining, forestry and agriculture – to incorporate green technologies into their operations and thus rise up the value chain. Governments should offer specific incentives to companies, and especially SMEs, to help them undertake this transformation.
- It was proposed that the OECD undertake an analysis to obtain a clearer understanding of i) what subsides exist across LAC countries and ii) how to support governments in removing distortive policies that could inhibit the growth of green investment in the region.