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PRESS RELEASE

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BOOSTING INFRASTRUCTURE IN DEVELOPING COUNTRIES: FOREIGN INVESTMENT HELPS -- IF PLANNING IS EFFECTIVE

Geneva, 24 September 2008 - Meeting the huge needs of developing countries for infrastructure such as roads, ports, and electricity supply is a major challenge and requires better use of private-sector resources, including those of transnational corporations (TNCs), this year's **World Investment Report**[1] contends*.* It adds that low-income countries are often too poorly equipped to attract or maximize the benefits of TNC involvement in infrastructure development, and hence a concerted effort by host countries, the international community, and investors is needed to address the challenge.

UNCTAD's 2008 annual global investment review is subtitled "**Transnational Corporations and the Infrastructure Challenge**." The report was released today.

Commenting on the topic of the report, UNCTAD Secretary-General Supachai Panitchpakdi said, "Investment in infrastructure is part of the unfinished agenda of development: this is apparent in the daily power outages that stifle economic growth in Africa and in the lack of access to drinking water for millions in Africa and Asia. TNC investment in infrastructure could therefore help meet some urgent development goals." Mr. Supachai added that TNCs from both the North and South could support government infrastructure strategies by providing finance, technology, and expertise. Governments and the international community, he said, must help create political, economic, and institutional conditions so that developing nations can maximize the benefits of infrastructure investment, whatever the source.

TNCs contribute significantly to infrastructure development, but not in all countries

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* **Contact:** UNCTAD Press Office – T: +41 22 917 5828, E: unctadpress@unctad.org, http://www.unctad.org/press .

[1] **The World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge** (WIR08) (Sales No. E.08.II.D.23, ISBN: 978-92-1-112755-3) may be obtained from United Nations Sales Offices at the below-mentioned addresses or from United Nations sales agents in many countries. Price: US$ 95 (50% discount for residents in developing countries and a 75% discount for residents in least developed countries). This includes the book and the CD-ROM. Customers who would like to buy the book or the CD-ROM separately, or obtain quotations for large quantities, should enquire from the sales offices. Residents of countries in Europe, Africa and West Asia may send orders or inquiries to: United Nations Publication/Sales Section, Palais des Nations, CH-1211 Geneva 10, fax: +41 22 917 0027, e-mail: unpubli@un.org; and those from the Americas and East Asia, to: United Nations Publications, Two UN Plaza, DC2-853, New York, N.Y. 10017, U.S.A., telephone: 1 212 963 8302 or 1 800 253 9646, fax: 1 212 963 3489, e-mail: publications@un.org. Internet: http://www.un.org/publications

Infrastructure plays an increasingly important role in international trade and investment. Developing countries cannot link into the global economy and export products at competitive prices without sufficient -- and good quality -- electricity, telecommunications, and transport networks, and without other basics such as widespread access to drinking water. The report says that because massive infrastructure improvements are required in such countries, it is important to enhance the contributions of TNCs, but in a way that fits in with national development plans.

Foreign direct investment (FDI) in infrastructure has increased rapidly. From 1990–2006, global FDI committed to infrastructure increased 31-fold, to US$ 786 billion. The amount directed to developing countries increased 29-fold, to an estimated $199 billion. Apart from FDI, TNC involvement also increased in concessions such as "build-own-operate" activities or management contracts.

During the 1990s, the growth of FDI in this sector among developing countries was fastest in Latin America and the Caribbean, reflecting the large-scale privatization of utilities in many countries of that region. Since the turn of the century, however, FDI aimed at infrastructure has grown relatively faster in Africa and Asia. From 1996–2006, about four-fifths of all foreign investment commitments (including FDI, but also concessions) in infrastructure in developing and transition economies was undertaken in two industries: telecommunications and energy (primarily electricity), according to World Bank data. Less went into transportation (17%) and, water and sewage (4%).

Despite their huge needs for infrastructure improvements, *least developed countries (LDCs)* remain marginal recipients of such TNC participation. Among all developing economies, their share of foreign investment commitments for infrastructure was a little over 5% for the period 1996–2006, with less than 0.5% of that intended for water projects (table 1).

Infrastructure TNCs from the South are a new potential source of funding

The universe of the largest TNCs investing in infrastructure industries is evolving. Although developed-country TNCs still dominate, there has been a marked rise in international activities by TNCs from the South. As many as 22 from developing countries featured in UNCTAD's list of the world's top 100 infrastructure TNCs in 2006. Most were headquartered in Hong Kong (China), Malaysia, and Singapore. Some have emerged as major players in telecommunications; and others have become world leaders in port infrastructure (table 2). Moreover, new types of international investors in infrastructure have appeared, including private equity funds (mainly from developed countries) and government-owned sovereign wealth funds (mainly from developing economies). These newcomers have enlarged the range of sources developing-country governments can tap into when seeking investment in infrastructure.

TNCs from the South already make significant contributions to infrastructure in developing countries, accounting for an average of 30% of total foreign investment commitments in these industries and services. Intraregional investment is especially important in Asia and Oceania, where almost half of foreign investment commitments originate from developing countries. There are significant variations by industry: for example, in Africa, developing-country TNCs dominate foreign investment in telecommunications; in LDCs their role is most pronounced in transport. Indeed, companies such as DP World (United Arab Emirates) and Hutchison Whampoa (Hong Kong, China) have pushed up the South-South share to as high as 65% of all foreign investment commitments to infrastructure in LDCs (table 3).

TNC participation can bring benefits, but also entails risks and costs

TNC participation should complement, but not replace, domestic public and private investment in infrastructure, notes the **World Investment Report.** An important reason is that they are unlikely to assume costs and risks associated with projects that target the poorest segments of society unless offered subsidies or guarantees to ensure cost recovery.

The main potential benefits of involving TNCs in the development and management of infrastructure are capital injection and transfers of technology and management know-how. These firms can help enhance efficiency in infrastructure services, increase supply, and improve quality. But various risks and costs also need to be considered. The extent and impact of TNC contributions to service provision depend on many factors, including the competitiveness of markets, the form of TNC involvement, and investor behaviour. A crucial determinant is the quality of the institutional and regulatory framework of the host country.

UNCTAD cautions countries not to attract TNCs at any cost. Failed investment projects can adversely affect infrastructure availability and the price of infrastructure services. Countries should ensure that they have the technical and administrative capabilities for managing contracts and concessions involving TNCs.

Confronting the infrastructure challenge

Meeting the significant infrastructure investment needs of developing countries will require greater involvement from the private sector, which in many instances means TNCs. Host countries need to consider when and in what areas to involve TNCs. And they must find ways to ensure that such projects achieve the desired outcomes.

There is no one-size-fits-all solution. As policy priorities and options vary between countries at different levels of development and with different characteristics, so too does the appropriate mix of public and private (including TNC) involvement. Government agencies need to develop the necessary institutional capacity and skills to guide, negotiate, regulate and monitor infrastructure projects. As many projects are handled at the sub-national level, capacity-building is also needed at the levels of provincial and municipal governments.

Development partners can help spur foreign investment and knowledge transfer to countries that seek such inflows. This is particularly important for low-income countries that lack domestic capabilities and have failed to attract significant investments from TNCs. In such cases, development partners should honour their development assistance commitments related to infrastructure. They can also do more to mitigate the risks associated with infrastructure projects. For example, bilateral and multilateral development finance institutions may need to become more willing to take on risks associated with investing in low-income countries, and should devote more attention to the specific infrastructure needs of those countries.

While a strong case can often be made for promoting greater participation from the private sector, including TNCs, other approaches should not be ruled out. In some projects, notably involving water and electricity, it may be necessary for the public sector to retain responsibility for operation of the services. In other industries where weak institutional capabilities could render private sector involvement risky, solutions based on public provision of services may also be preferable. The **World Investment Report** urges development partners to give sufficient attention to financing infrastructure projects for which it may not be possible or desirable to mobilize private-sector involvement.

Meeting the infrastructure challenge requires a concerted, cooperative effort. This implies an appropriate combination of improved governance and capabilities in host countries, greater support from the international community, and an understanding of development priorities and processes on the part of investors.

The ***World Investment Report*** and its database are available online at: http://www.unctad.org/wir and http://www.unctad.org/fdistatistics.

Table 1. Industry composition of foreign investment commitments in the infrastructure industries of LDCs, 1996-2006

(Millions of dollars and per cent)

Infrastructure industry	Value ($ million)	Share in LDC total (%)	Share of LDCs in foreign commitments to developing and transition economies (%)
All infrastructure	13 013	100.0	4.9
Energy	4 569	35.1	4.2
Telecommunications	6 394	49.1	6.4
Transport	2 017	15.5	4.5
Water and sewage	32	0.2	0.3

Source: *UNCTAD, World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge,* table III.9.

Table 2. Largest TNCs in infrastructure industries, ranked by foreign assets, 2006
(Companies in bold are based in developing or transition economies)

Electricity	Telecommunications	Transport	Water and sewage	Natural gas	More than one infrastructure industry
Electricité de France	Vodafone Group	Grupo Ferrovial	Veolia Environnement	Gaz de France	Suez
E.ON	Telefónica	Abertis	Grupo Agbar	Spectra Energy Corp.	**Hutchison Whampoa**
Endesa	Deutsche Telekom	AP Moller-Maersk	Waste Management Inc	Centrica	RWE Group
Vattenfall	France Télécom	**DP World**	Shanks Group	Gas Natural	Bouygues
National Grid	Vivendi Inc	**China Ocean Shipping**	Waste Services Inc	Transcanada Corp.	**YTL Power**
AES Corp.	Liberty Global Inc	Canadian National Railways Co.	Stericycle Inc	Enbridge Inc	Babcock & Brown Infrastructure
Fortum	TeliaSonera	Skanska	**Hyflux Limited**	Sempra Energy	**Enka Insaat ve Sanayi**
Duke Energy Corp.	**SingTel**	**PSA International**	Clean Harbors Inc	El Paso Corp.	**NWS Holdings**
EDP Energias de Portugal	Telenor	Hochtief	..	Hunting Plc	..
International Power Plc	Nortel Networks	Vinci	..	Williams Companies	..
CLP Holdings	KPN	Macquarie Airports	..	**Hong Kong & China Gas Co.**	..
Iberdrola	BT Group	Deutsche Bahn	..	Distrigaz 'D'	..
Unión Fenosa	Verizon Communications	**Orient Overseas International**	..	Canadian Utilities Ltd.	..
PPL Corp.	SES	Grupo ACS	..	Iwatani International Corp.	..
Atel - Aare Tessin	Telecom Italia	Obrascon Huarte Lain	..	..	..
Public Service Enterprise Group	**América Móvil**	Kansas City Southern	..	..	..
Keppel Corp.	**Mobile Telecommunications Co.**	Canadian Pacific Railway	..	..	..
Cofide-CIR Group	TDC A/S	First Group	..	..	..
Edison International	Portugal Telecom	BBA Aviation	..	..	..
Enel	Tele2	**China Communications Construction Co.**	..	..	..

***Source*:** UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge*, table III.11.

Table 3. Sources of foreign investment commitments for the infrastructure industries of LDCs, and of developing and transition economies, 1996-2006
(Millions of dollars and per cent)

Infrastructure industry	Host region: LDCs			Host region: developing and transition economies		
	Source of commitment		Share of developing countries (%)	Source of commitment		Share of developing countries (%)
	World	Developing countries		World	Developing countries	
All infrastructure	13 013	5 029	38.6	264 003	85 456	32.4
Energy	4 569	1 083	23.7	108 562	20 912	19.3
Telecommunications	6 394	2 629	41.1	100 229	46 701	46.6
Transport	2 017	1 317	65.3	44 611	16 376	36.7
Water and sewage	32	-	-	10 602	1 467	13.8

Source: UNCTAD, World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge, table III.10.

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