

**In my view:
The OECD must take charge
of promoting long-term
investment in developing
country infrastructure**

by

Sony Kapoor, Managing Director
Re-Define International Think Tank

The world of investment faces two major problems. Problem one is the scarcity – in large swathes of the developing world – of capital in general, and of money for infrastructure investments in particular. Poor infrastructure holds back development, reduces growth potential and imposes additional costs, in particular for the poor who lack access to energy, water, sanitation, and transport. Problem two is the sclerotic, even negative rate of return on listed bonds and equities in many OECD economies. The concentration of the portfolios of many long-term investors in such listed securities also exposes them to high levels of systemic – often hidden – risk.

Most long-term investors would readily buy up chunks of portfolios of infrastructure assets in non-OECD countries to benefit from the significantly higher rate of return over the long term, and to diversify their investments. At the same time, developing economies, where neither governments nor private domestic markets have the capacity and depth to fill the long-term funding gap, are hungry for such capital.

So what's stopping these investments?

Financial risks in developing countries are well known and often assumed to be much higher than in OECD economies. Also, investing in infrastructure means that investors will find it hard to pull their money out on short notice, and therefore such investments pose liquidity risks.

Despite these easy answers, however, there are three significant caveats:

- First, the events of the past few years have demonstrated that on average, political risk and policy uncertainty in developing countries as a whole have fallen, especially in the emerging economies.
- Second, OECD economies are also exposed to serious risk factors, such as high levels of indebtedness and demographic decline. As the financial crisis demonstrated, they are also likely to face other “hidden” systemic risks not captured by commonly used risk models and measures.

- ▶ Third, the kind of risks that dominate in developing countries, such as liquidity risks, may not be real risks for long-term investors (e.g. insurers or sovereign wealth funds). Given that the present portfolios of these investors are dominated by OECD-country investments, any new investments in the developing world may look more attractive and may actually offer a reduction of risk at the portfolio level.

So I ask again: Why aren't long-term investors investing in developing country infrastructure in a big way?

The biggest constraint is the absence of well-diversified portfolios of infrastructure projects and the fact that no single investor has the financial or operational capacity to develop these. Direct infrastructure investment, particularly in developing countries, is a resource-intensive process.

The G20, together with the OECD and other multilateral institutions such as the World Bank, can facilitate the development of a diversified project pipeline on the one hand, together with mechanisms to ease the participation of long-term investors on the other. This work will involve challenges of co-ordination, more than commitments of scarce public funds.

In my view, the OECD – which uniquely houses financial, development, infrastructure and environmental expertise under one roof – must take charge.

Useful links

Original article: Sony Kapoor, Managing Director, Re-Define International Think Tank, “In my view: The OECD must take charge of promoting long-term investment in developing country infrastructure”, OECD Insights blog, <http://wp.me/p2v6oD-1Pd>.

OECD work on financing for sustainable development, www.oecd.org/dac/financing-sustainable-development/.

OECD work on institutional investors and long-term investment, www.oecd.org/pensions/private-pensions/institutionalinvestorsandlong-terminvestment.htm.



From:
Debate the Issues: Investment

Access the complete publication at:
<https://doi.org/10.1787/9789264242661-en>

Please cite this chapter as:

Kapoor, Sony (2016), "In my view: The OECD must take charge of promoting long-term investment in developing country infrastructure", in Patrick Love (ed.), *Debate the Issues: Investment*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264242661-11-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.