HEINRICH BÖLL FOUNDATION
NORTH AMERICA

The November 2014 G20 Summit: Part II

The Emerging Multi-Polar World Order:
Its Unprecedented Consensus on a New Model for Financing Infrastructure Investment and Development

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Published by the Heinrich Böll Stiftung
Washington, DC, December 2014

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Cover Image: "risk level conceptual meter"
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Acronyms

AIIB	Asian Infrastructure Investment Bank
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China, South Africa
DFI	Development Finance Institution
G7	U.K., France, Germany, Italy, Japan, Canada, U.S.
G20	G7, BRICS, plus Saudi Arabia, Australia, Argentina, Indonesia, Turkey, and The EU Region
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IMF	International Monetary Fund
MDB	Multilateral Development Bank
NDB	New Development Bank (BRICS)
PPF	Project Preparation Facility
PPP	Public-Private Partnership
SDGs	Sustainable Development Goals
UNCTAD	UN Conference on Trade and Development
WTO	World Trade Organization

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Note: The companion paper (Part I) is entitled "The G20 Adrift: Selected Outcomes of the 2014 Summit". It reviews some Summit's decisions related to taxation and corruption; labor and gender participation in the workforce; financial regulation; trade; climate change, food security and energy; global governance; and infrastructure.

I. Introduction and Summary

The G20 is understandably anxious about the poor performance of the global economy.[1] The Group has staked its reputation on achieving its growth target – namely raising global GDP by 2.1% over current trajectories by 2018. It estimates that, by meeting the pledge, it will add $2 trillion to the global economy and create millions of jobs. However, in the current environment, achievement of the growth target seems unlikely.

To achieve its global GDP target each G20 country adopted a growth strategy that relies heavily on a new model for financing infrastructure investment and development, which promotes:

(1) An "**enabling environment**" (e.g., legislation and regulations) to attract and protect the interests of private investors in public-private partnerships (PPPs) in infrastructure and other sectors;
(2) The identification of **infrastructure mega-projects** (e.g., energy, transportation, water) that promote economic integration and trade on a regional, continental and global scale;
(3) Aggressive use of new and existing project preparation facilities (PPFs) to prepare and fill "**pipelines of bankable projects**" in each geographical region; and
(4) **The use of public money (e.g., taxes, pensions, aid) to offset the risk of private firms**, including long-term institutional investors. Institutional investors (e.g., pension funds, insurers, sovereign wealth funds, investment companies and endowments) held in total well over $85 trillion in assets in 2011.

The first three elements of the model are not new, but the scale and mechanisms for promoting them are new. The fourth element -- potential mobilization of trillions of dollars from institutional investors -- is a "game changer" that would transform the accountability relationships between the state and its citizens, on the one hand, and the large "pools" of financial investors, on the other. This process is called "financialization" of infrastructure as an "asset class".

Part II describes how, with some variations, this model is increasingly embraced not only G20, but also competing nations and factions within the G20 – for instance, the Group of 7 (G7) versus emerging powers, including the BRICS (Brazil, Russia, India, China and South Africa). The model is also being promoted in regional associations which are dominated by G20 member countries [e.g., Asia Pacific Economic Cooperation (APEC) forum], new and existing Development Finance Institutions].

The new model is evolving with breathtaking speed due to not only the strong global consensus in favor of the new development model, but also the competition between the West and emerging powers to implement the model. Part III describes how the West seems to be "striking back" at infrastructure investment initiatives of China and other emerging powers. Among other things, the World Bank is nearly doubling its lending volume and, in October 2014, launched a partnership facility, the Global Infrastructure Facility (GIF). The mostly Western-led multilateral development banks (MDBs) are both collaborating and competing with

1 G-20 members are: Argentina; Australia; Brazil; Canada; China, People's Republic; France; European Union; Germany; India; Indonesia; Italy; Japan; Korea, Republic of; Mexico; the Russia Federation; the Kingdom of Saudi Arabia; South Africa; Turkey; United Kingdom; and the United States. The G20 began meeting at the level of Leaders in 2008 when the G8 was no longer adequate to address the global financial crisis.

emerging powers in the scramble for natural resources and markets.

Part IV describes ways in which the UN may consider aspects of the model (e.g., PPPs; financialization) as a "means of implementation" of sustainable development goals. An influential report to the United Nations General Assembly states: "Engagement in isolated PPPs, managed in silos should be avoided. The investing public entity should "carry out a number of [PPP] projects simultaneously and thereby take a portfolio approach for pooling funds for multiple projects, similar to risk diversification carried out by DFIs [Development Finance Institutions] and the private sector."[2]

The paper concludes that the new model lacks meaningful mechanisms to achieve a "triple bottom line" (i.e., social, environmental, and economic outcomes). The policies to promote an "enabling environment for PPPs" may be appropriate in certain circumstances, but they are treated as universal panaceas. In fact, there is insufficient evidence of the success of PPPs, particularly to provide public goods (See Attachment 1: "PPPs: What are the Results?").

Therefore, proposals to scale-up the model – especially through "pooled finance" – are premature and ill-advised. With regard to "pooled funds," an important G20 report states that "A major concern is the risk that the funds accumulated in institutional form will be used for some purpose other than the best interests of the final beneficiaries. The risk is high in some cases because savings are held for long periods of time, which might obscure any misuse of funds, at least in the near term."[3] Moreover, there are no meaningful mechanisms through which to hold the owners of "pooled funds" accountable for impacts on communities.

In other words, the paper concludes that there is a profound disconnect between the model for financing investment, on the one hand, and the social, environmental/climate impacts of the model, on the other. The model will not profit investors or citizens unless it ensures the achievement of a "triple bottom line." Among other things, the paper recommends that global and regional governance institutions:

- Relinquish their bias in favor of PPPs in favor of an even-handed assessment of PPPs versus public works, given the particular circumstances (as called for by the OECD) and;
- Reject some of the G20's investment principles in favor of alternative principles, such the "Common Set of Principles for Investment in Sustainable Development Goals" of the UN Conference on Trade and Development (UNCTAD). As described in our companion paper, the G20's larger agenda would expand public resources (e.g., taxes and pensions), including through higher participation by women in the workforce, and such resources should not support a flawed model of infrastructure investment and development.

II. November Summits Promote a New Global Model for Investment & Development

Countries throughout the "global South" feel that Western-led institutions and donor governments deprived them of infrastructure for decades. In the 1980s and 1990s, the IMF and World Bank – implemented structural adjustment programs that dramatically cut public spending on infrastructure as well as health and education.[4]

Economists assert that that more than half of the total fiscal adjustment in Argentina, Bolivia, Brazil, Chile, and Peru during the 1990s reflected infrastructure compression. As a result, long-run growth may have been lowered by one percentage point per year.[5] For Latin America, the situation became so desperate that Brazil, among others, began an intense debate with the IMF on the trade-offs between "fiscal space and public investment," which was a factor leading to widespread disenchantment with the IMF. Indeed, by the time that the global financial crisis erupted, the IMF had only one primary borrower: Turkey.

In many ways, Latin America broke away from the IMF and World Bank to promote its own development banks, including the Brazilian National Development Bank (BNDES) and the Latin American Development Bank (CAF), which have much higher loan volumes than the World Bank or the Inter-American Development Bank, respectively. In terms of annual loan commitments, the China Development Bank is more than triple the size of the World Bank. (See Table 1 for comparisons.)

2 The 2014 Report of the "Intergovernmental Committee of Experts on Sustainable Development Financing" (paras. 138, 139).

3 The Report on Effective Approaches to Support Implementation of the G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors, (paragraph 99).

4 Even today, 131 countries are contracting public expenditure, including 91 developing countries.

5 See Easterly, W. and Servén, L., "The Limits of Stabilization: Infrastructure, Public Deficits, and Growth in Latin America," 2003.

Below, we describe seven new infrastructure financing institutions which are being launched.

Today, the IMF and World Bank have joined an unprecedented global consensus that higher levels of infrastructure investment will spur growth and create jobs.

A. Regional Overview of Infrastructure Initiatives

In each geographical region – as well as globally – plans are underway to create, strengthen, and expand infrastructure for enhanced trade and integration. These plans are interdependent, since expanded trade depends upon infrastructure to mine or move raw materials, manufactured goods, and services.[6]

This overview presents the maps and descriptions of infrastructure plans for several geographical regions – with a focus on the new plans launched by a series of November Summits. Collectively, many of the new infrastructure investment initiatives [e.g., the China-led Asian Infrastructure Investment Bank (AIIB); the BRICS' New Development Bank (NDB)] threaten the mostly Western-led multilateral development banks (MDBs), e.g., the World Bank. Section C, below, describes how these MDBs are "striking back."

The new model of investment and development focuses on mobilizing public resources for two purposes. First, countries with surpluses, especially China, are expanding outward investment in each region of the world. Secondly, all countries are focused on mobilizing public resources (taxes, pensions) to offset the risks of private sector investors – not only private corporations in public-private partnerships, but also long-term institutional investors (e.g., pension funds).

This new model requires that the public sector "de-risks" projects at early stages of the project cycle (e.g., design, construction) when many things can go wrong. After projects are "de-risked" with public money, financial institutions will bundle PPPs by country, sector or region, so that investors can take stakes in portfolios of PPPs.

Asia – At November Summits, seven new banks, facilities, or agreements were launched to finance infrastructure:

1) At the G20 Summit, Leaders endorsed the **G20 Global Infrastructure Initiative** (see Section B, below),
2) From November 7-14, 2014, at the Asia Pacific Economic Cooperation (APEC) Summit in Beijing, China, Leaders endorsed the "**Action Agenda on Promoting Infrastructure Investment through PPPs**";
3) At the APEC Summit, China also launched the "**Silk Road Fund**" for South and Central Asia (Cambodia, Bangladesh, Pakistan, Laos, Mongolia, Myanmar, and Tajikistan). (See map)
4) At the Association of Southeast Asian Nations (ASEAN)[7] Summit in Myanmar (Burma), China also launched an **infrastructure fund for the Association of Southeast Asian Nations** (ASEAN). Specifically, Chinese Premier Li pledged $20 billion in loans to Southeast Asia for regional infrastructure development (including a preferential loan worth 10 billion dollars for ASEAN members and a 10-billion-dollar special loan set up by China Development Bank for regional infrastructure development.
5) At the November 26-27, 2014 South Asian Association on Regional Cooperation (SAARC) Summit in Kathmandu, Nepal, the Leaders' Declaration announced the strengthening of the SAARC Development Fund (SDF) and a **SAARC Framework Agreement for Energy Cooperation** with the intention of creating a seamless electricity grid in the region.[8]

In October,

6) China launched the **Asian Infrastructure Investment Bank** (AIIB) with $100 billion in registered capital, which has 21 Asian countries as founding members. The U.S. tried to dissuade Australia, Korea and Indonesia from joining the bank, but as of this writing, Australia and Indonesia are moving toward membership. Ironically, the U.S. opposes the Bank due to questionable governance practices by the Chinese-led institution. But, at the same time, the U.S.-led World Bank is moving toward diluting some of its environmental and social safeguards and shifting responsibility for compliance with safeguards over to borrowers. [Already, the Bank exempts program loans and PPPs from safeguards; it applies "Performance Standards" to PPPs, instead.) The U.S. and Europe also practice poor governance – the U.S. by blocking the IMF quota reform and Europe

6 Infrastructure is required to implement major trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) of ASEAN and its partners with Free Trade Agreements.

7 As with the G20, business had a high profile at these events through APEC Business Advisory Council; the ASEAN Business Council.
8 SAARC comprises India, Pakistan, Sri Lanka, Nepal, Bhutan, Afghanistan, Bangladesh and Maldives.

by its over-representation in the International Monetary Fund.

Finally, prior to the G20 Summit,

7) BRICS Leaders met and made headway on launching their **New Development Bank** (NDB) for infrastructure and sustainable development.[9] As is their custom, the BRICS Leaders issued an informal statement focused on their own new institutions and the G20 agenda. Regarding the creation of their NDB for infrastructure and sustainable development, the Leaders announced the establishment of an Interim Board of Directors and asked their Finance Ministers to name individuals for the Presidency and the Vice-Presidencies of the NDB well in advance of the July 2015 BRICS Summit in Ufa, Russia.

China is involved in six of the seven above-listed facilities or agreements, which are in addition to its already existing and massive facilities, such as the China Development Bank.

Africa – In November 2014, the African Development Bank Group launched its "Regional Integration Policy and Strategy" for the years 2014-2023. This strategy is an example of the way in which investment in infrastructure, integration and trade goals are being pursued simultaneously.[10] One of the strategy's three flagship initiatives, the Program for Infrastructure Development in Africa (PIDA), shows that the envisioned energy, transportation and water mega-projects could place at least as much emphasis on Africa's trade with the world as on intra-Africa trade.[11] (See maps)

Central and South America – In South America, the Union of South American Nations (Union de Naciones Suramericanas or UNASUR) relies on its South American Council on Infrastructure and Planning (Consejo Suramericano de Infraestructura y Planeamiento (COSIPLAN). COSIPLAN has a ten-year plan in energy and transportation and other forms of connectivity, which relies heavily on investment from the enormous Brazilian National Bank (BNDES), which as noted above, disburses twice as much money as the World Bank (See maps). UNASUR and associated blocs[12] are in competition with the Pacific Alliance (Chile, Colombia, Mexico, Peru, and soon, Costa Rica) which seeks integration with North America and the Pacific Rim countries.[13]

In Central America, the Mesoamerica Project includes mega-projects in infrastructure that connect the region. (See maps)

The impacts of the public and private mega-projects in Central and South America, in particular, are closely examined in a book by the Heinrich Boell Foundation and LATINDADD: Infrastructure for People or for Profit? (October 2014).

Europe – In November 2014, European Commission (EC) President Jean-Claude Juncker announced a €315bn ($393 billion) investment plan to boost the region's economy with major infrastructure projects, particularly in energy, transportation and broadband. The European Commission would provide only €21billion whereas the private sector would multiply the EC "seed money" by a factor of 15, to €315billion. While many are ridiculing this plan as wildly unrealistic, many Projects in the Common Interest are moving forward. On November 21, 2014, the European Commission allocated €647 million to key energy infrastructure projects. Also, the EC has launched the joint EC and European Investment Bank (EIB) Project Bond Initiative (PBI), and the more recent Connecting Europe Facility (CEF) which is the funding instrument for the trans-European networks (TEN) in the fields of transport, energy and telecommunication.

B. The G20's Global Infrastructure Initiative

This section describes the G20's Global Infrastructure and Investment Initiatives, including its special agenda for low-income countries. It should be stated at the outset that these initiatives are intended to promote

9 In addition, Leaders asked the Working Group on the BRICS Contingency Reserve Arrangement (CRA) to complete the procedural rules and operational guidelines for the Governing Council and the Standing Committee of the CRA by the July 2015 BRICS Ufa Summit. They also asked the Inter-Central Bank Agreement foreseen in the CRA to be concluded by then.

10 The Bank Group's strategy describes the region's flagship programs: the "Program for Infrastructure Development in Africa" (PIDA); the Program for "Boosting Intra-African Trade (BIAT); the Continental Free Trade Area (CFTA); and the Comprehensive African Agricultural Development Program (CAADP).

11 For instance, a key PIDA project is the Nigeria-Algeria pipeline which would transport gas from Africa to Europe, which seeks to lessen its reliance on Russian resources.

12 Alianza Bolivariana para los Pueblos de Nuestra America (Bolivarian Alliance for the Peoples of Our America – ALBA, 2004) and the Comunidad de Estados Latinoamericanos y Caribenos (Community of Latin American and Caribbean States – CELAC, 2010).

13 Some Pacific Rim countries see the US-led Trans-Pacific Partnership (TPP) as a pathway toward APEC's goal of creating a Free Trade Area of the Asia Pacific (FTAAP), but others have not yet joined APEC, which is a precondition for ascension to the trade agreement.

Table: Loan Commitments by Development Banks

Development Bank	Commitment (billion USD)	Year
World Bank Group		
--World Bank (IBRD + IDA)	$ 52.6	2012
--IBRD	$ 35.3	2012
--IDA	$ 20.6	2012
China Development Bank	$163+	2011
Brazilian National Development Bank (BNDES)	$ 79.7	2012
Asian Development Bank	$ 21.7	2011
European Bank for Reconstruction & Development	$ 12.6	2011
Inter-American Development Bank	$ 10.7	2012
Latin American Development Bank (CAF)	$ 18.0	2013
African Development Bank	$ 8.5	2011
Foreign Direct Investment Inflows to developing countries	$684.	2012
Remittances to developing countries	$406.	2012
Official Development Assistance (DAC)	$123.	2011

Sources include IBRD (2012), EBRD (2011), ADB (2012), AfDB (2012), IDB (2011), World Bank (2012); UNCTAD (2012) OECD (2011), Deloitte CAF Financial Statement (2013, 2012)

growth with little concern about their carbon footprint, despite the fact that projects will "lock in" technologies for generations. There is also little concern about other impacts on human rights, gender and other social impacts, and the natural environment. Given the huge scale of the infrastructure endeavor, this does not bode well for UN Summits -- the September 2015 Summit on new Sustainable Development Goals (including a post-2015 Framework) and the December 2015 United Nations Climate Change Conference in Paris, which represents the deadline for a legally binding climate treaty.

1. The Global Infrastructure Hub

The G20 communiqué states: "Tackling global investment and infrastructure shortfalls is crucial to lifting growth, job creation and productivity. We endorse the Global Infrastructure Initiative, a multi-year work programme to lift quality public and private infrastructure investment."

As described by its recommendations to the G20 Summit, the Business 20 (B20) wanted the G20 to launch a major infrastructure initiative which, among other things, would address "the greatest barrier to more private involvement in public infrastructure" – namely, "the absence of a credible pipeline of productive, bankable, investment-ready infrastructure projects offering acceptable risk-adjusted returns to both public and private investors." As described above, many geographical regions are building these pipelines.

Early indications were that the G20's proposed Global Infrastructure Hub would help move trillions of dollars for infrastructure over 15 years. However, various events, including the World Bank's launch of a new Global Infrastructure Facility (GIF), may have stolen the G20's "thunder." (See GIF description, Section IIIB, below.)

In fact, the Hub will be a $15 million per year non-profit located in Sydney, Australia with seed capital from eight countries (Australia, United Kingdom, China, Saudi Arabia, New Zealand, the Republic of Korea, Mexico and Singapore). The Hub has a four-year mandate (with a formal review after three years).

According to the official G20 documents, the functions of a Hub (similar to those of the Global Infrastructure Facility) include the following:

- Match sponsors of and investors in infrastructure projects.
- Contribute to a "knowledge-sharing platform and network";
- Develop voluntary guidelines, such as "G20 Leading Practices on Promoting and Prioritizing Quality Investment," which urge countries to use model documentation to identify and prepare projects and implement procurement.
- Financialize infrastructure as an asset class. The Declaration states "We are working to facilitate long-term financing from institutional investors and to encourage market sources of finance, including transparent securitization, particularly for small and medium-sized enterprises."

The last two bullet points are described in part 3, below.

2. Infrastructure in Low-Income Countries

The Brisbane Development Update includes a separate agenda for low-income countries (LICs) on infrastructure, taxation, financial inclusion and remittances, human resource development, and food security. In 2015, the Turkish G20 Presidency will focus on this agenda, particularly with the Least Developed Countries.

The full scope of the G20 Development Working Group's effort to build infrastructure project preparation facilities and create a foundation for "pooled finance" for portfolios of PPPs is described in "Report on Infrastructure Agenda and Response to the Assessments of Project Preparation Facilities in Asia and Africa." For the Project Preparation Facilities (PPFs) in both regions, the document urges further development of PPFs, including greater transparency and cost recovery for project preparation.

The ambitious nature of this initiative is best understood by reviewing the maps for the proposed infrastructure mega-projects of the Program for Infrastructure Development in Africa (PIDA).

With regard to its 2015 agenda, the G20's Development Working Group pledges "new actions" to:

- Strengthen the "enabling environment" or the "investment climate" for PPPs. (Previously, such reforms were called "sectoral or structural adjustment policies".)
- Maximize the effectiveness of Project Preparation Facilities to leverage greater private sector investment.
- Promote better understanding of risk and return in infrastructure investments in Low-Income Countries.

As with other infrastructure initiatives, social and environmental safeguards are not featured. At the 2013 Russian G20 Summit, the G20 Development Working Group prepared a "St. Petersburg Accountability Assessment," **which showed progress on its entire infrastructure agenda with the exception of one item related to environmental safeguards which was "stalled."** Overall, environmental and social policies are increasingly seen as matters of national sovereignty regardless of the fact that liberalization and privatization have significant impacts on these "sovereign" matters and regardless of the fact that there is a considerable body of international laws and conventions that protect the rights of citizens and the natural environment.

In the future, the G20, governments of low-income countries and their financiers should take special notice of the finding of authorities who conclude that, "…PPP arrangements are not regarded as an appropriate instrument…where social concerns place a constraint on the user changes that might make a project interesting for the private sector."[14] Indeed, rates of return to private investors in the range of 10% to 30% are inappropriate, especially in countries where the average income is in the range of $2 per day.

3. G20 Investment-Related Initiatives

The trillions of dollars required to meet sustainable development goals, including infrastructure development, are daunting.[15] The G20 intends to help finance the infrastructure gap by mobilizing resources from long-term institutional investors, which hold an estimated $80 trillion. To accomplish this, it would work with other institutions to create infrastructure as an "asset class". By doing so, institutions would achieve the "financialization of infrastructure."

This is a source of concern. One sees how the fortunes of many countries rise and fall as investment comes and goes from raw material, or commodity, sectors. We could see a similar phenomenon in infrastructure sectors. The presence of financial speculation in infrastructure sectors could trigger instability in the provision of basic services.

One trigger of the global financial crisis was the U.S. mortgage crisis in which risky assets were packaged with safe ones, so that investors did not know the value or risks related to the products in which they invested. When speculators take stakes in physical infrastructure, such infrastructure is subject to the whims of herds of investors.

To financialize infrastructure, governments will undertake many public-private partnerships (PPPs) simultaneously. Financial institutions will sell financial products that offer long-term investors a stake in a portfolio of public-private partnerships (using criteria, such as risk profile, sector, country or region). The UN is also considering this model of financializing

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14 Ahmad, E., Bhattacharya, A., Vinella, A., Xiao, K., "Involving the Private sector and PPPs in Financing Public Investments," July 2014.

15 The Business 20 suggests that about $60–70 trillion of additional infrastructure capacity will be needed by 2030, which requires that governments increase their investment to $30–35 trillion of the required investment. Current levels of private investment would cover another $10–15 trillion, leaving a gap of $15-20 trillion. However, sustainable development requires more than infrastructure. According to the World Investment Report 2014: Investing in the SDGs: An Action Plan, total annual SDG-related investment needs in developing countries until 2030 are in the range of $3.9 trillion per year.

infrastructure.[16]

The G20 and its associated agencies have prepared two types of investment-related documents to guide countries in financializing infrastructure. The first type sets forth the principles that nations should implement in order to create an enabling environment for private sector investors, including long-term institutional investors. These have little content that would ensure social or environmental protection. The second type provides an assessment of the compliance with investment policies by each G20 member country.[17] Attachment 2 describes each type of document.

Compliance by each G20 member country. As shown in attachment 2, there are many mechanisms by which the G20 tracks each member country's performance in liberalizing investment, product, and labor markets. For instance, in the World Bank's Assessment of the Growth Strategies of G20 Emerging Market Economies, the institution critiques each country's policies in several areas (investment/infrastructure; employment; competitiveness or business environment; trade; other structural policies). Regarding India's infrastructure, the Bank suggests that the country improve its coal supply and enter into energy-related trade agreements to facilitate regional integration. Regarding Brazil, the Bank suggests that the Brazilian National Development Bank should focus on supporting capital markets and crowding in private sector intermediation. Regarding labor markets, the Bank challenges collective bargaining practices and wage growth of several countries (e.g., Turkey, Indonesia, Brazil, and South Africa) without gender considerations. In taking such a stance, the G20 and the World Bank usurp the role of the International Labor Organization and tripartite country-level bargaining (unions, businesses, and governments).

Importantly, trade and investment laws and treaties enforce investor rights, but there are no comparable means to protect human or earth rights.

16 The report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) was delivered to the UN General Assembly in September 2014. Paragraphs 138 and 139 propose the financialization model.
17 As described in attachment 2, the G20 and the OECD have issued a "Report on Effective Approaches to Support Implementation of the G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors", including by tracking the record of G20 countries on their implementation. The OECD and UNCTAD also report regularly to the G20 Summit, including its most recent "Twelfth Report on G20 Investment Measures", which tracks the actions of each G20 member to liberalize or constrain investment. The OECD, UNCTAD, and WTO provide another "Report on G20 Trade and Investment Measures."

III. The West Strikes Back?

A. Multilateral Development Banks (MDBs) Unite on Infrastructure

While the U.S. has not opposed the creation of the BRICS' New Development Bank (NDB), which will invest in infrastructure and sustainable development, it has actively opposed the China-led Asian Infrastructure Investment Bank (AIIB) to the point of pressuring Australia, Korea, and Indonesia not to join the Bank. (Although, at this writing, Australia and Indonesia are moving toward membership.)

As described above, the West is facing increasing competition with China and Brazil, among others. Therefore, the MDBs are uniting and collaborating in ways that, earlier, they could have only dreamed of. Each MDB is expanding its lending capacity; the World Bank will nearly double its lending operations over the next decade. Meanwhile, as mentioned, it is moving toward diluting some of its safeguards and weakening mechanisms that would ensure compliance with the safeguards.[18]

On November 13, two days before the G20 Summit, seven MDBs and the IMF wrote a collective press release which:

- Announced their combined power to provide $130 billion in infrastructure financing annually;
- Lectured the G20 on how such financing programs are carried out.
- identified the exhaustive capability of the MDBs to provide all functions of high quality infrastructure development under country-owned and country-led strategies while mitigating risks, including through work with the IMF;
- Emphasized the new initiative of the MDBs to tackle the "critical barrier to achieving an uplift in infrastructure investment" – namely, "an insufficient pipeline of bankable projects ready to be implemented". To remedy this problem, the MDBs are strengthening existing Project Preparation Facilities (PPFs) and creating new ones.
- Noted the creation of a new World Bank partnership, the Global Infrastructure Facility (GIF). (See part B, below)

The press release states, "We stand ready to bring our

18 In the World Bank's Independent Evaluation Group's assessment of PPPs (see attachment 1), it is suggested that Uganda prefers borrowing from China because the application of the Bank's safeguards was problematic in regard to the Bujagali dam.

experiences and skills to the G20's work on infrastructure and to support a proposed new Global Infrastructure Hub," but the reader is left with the impression that the MDBs – including the new GIF – can do everything that the G20's Hub could do, only better.

Interestingly, the information about the MDB collaboration is presented as though the G20 members were not intimately familiar with the MDBs, whereas they comprise the vast majority of their shareholders. Since the IMF and most of the seven MDBs are led by Western or G7 countries, one wonders whether the press release could be understood as a united statement **against** the G20's attempt to create new infrastructure-related institutions.

B. The Global Infrastructure Facility (GIF) – a Trust Fund at the World Bank

The World Bank launched its Global Infrastructure Facility in October 2014 with a remarkably similar mandate to that of the G20's Global Infrastructure Hub. Through a three-year pilot project funded with "seed" capital of $80 million, the GIF's mandate is to: (a) leverage private sector investment, (b) address public goods, (c) partner for solutions, and (d) financialize infrastructure as an "asset class". Unlike the Hub, the GIF has an emphasis on "promoting sustainability and inclusiveness – ensuring projects adhere to best practice standards for social and environmental responsibility". However, it may follow the example of the World Bank and exempt public-private partnerships (PPPs) from its safeguards. (Instead, the World Bank applies Performance Standards which, among other things, turn compliance efforts over to borrowers.)

The November update to Leaders on the GIF states that the facility is establishing itself as a financial intermediary and multi-donor trust fund housed at the World Bank Group. It has seed funding from Australia, Canada, Japan and Singapore (plus a transfer from the World Bank IBRD), and a collaboration with 16 private sector partners and financial institutions (e.g., Blackstone, Citi) representing over US$8 trillion in assets.

The GIF is working with key signatories: the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and Islamic Development Bank (IsDB). As of this writing, the African Development Bank and the Inter-American Development Bank are not collaborating.

The Update on the GIF emphasizes its role relative to public-private investment opportunities in such sectors as: energy generation and transmission assets; ports and airports; freight railroads and toll road corridors; urban transport and mass transit systems; and water production and transmission projects. As described in Attachment 1, PPPs perform poorly in energy distribution and water supply sectors as well as low-income countries, in particular.

IV. The United Nations: Backing the New Model?

The Third International Conference on Financing for Development (FfD), scheduled for Addis Ababa, Ethiopia in July 2015, will be a crucial event. The outcomes will influence the September 2015 Summit on new Sustainable Development Goals (including a post-2015 Framework).

One wonders whether UN FfD Conference will adopt the G20's new model for financing investment and development. There is broad ownership of the new model among most developing countries.

To date, the "Open Working Group" has presented goals for sustainable development to the UN General Assembly. One of the hotly contested issues relates to Goal 17, which calls for the global community to "strengthen the means of implementation and revitalize the global partnership for sustainable development". Two key questions relate to whether the UN endorses: (1) PPPs as a modality for financing infrastructure and social sectors without significant conditions relating to the circumstances in which PPPs are likely to be effective as compared with alternatives; and (2) "Pooled financing" for portfolios of PPPs.

One input to the UN decision-making process is the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), which responds to the mandate of the UN Conference on Sustainable Development (Rio +20) by preparing options for financing sustainable development. The Committee sought to build on and update the outcomes of previous UN conferences (i.e., Rio +20 and the Monterrey Consensus of the International Conference on Financing for Development) in order to achieve the post-2015 development agenda.

The endorsement of a massive scale-up of PPPs by the ICESDF in the last two paragraphs of the report (paras.

BOX

Some Questions to Ask about PPPs?*

--PURPOSE OF PPPs. Who selects infrastructure projects and decides whose interests the projects serve? Increasingly, state-owned enterprises or private investors are creating infrastructure in exchange for natural resources or the acquisition of land for agribusiness. But, history shows that successful infrastructure strategies have backward and forward linkages to the local economy, including sustainable industrialization programs (where nations "add value" to their raw materials and crops through secondary and tertiary processing). Such strategies have also provided universal basic services to citizens.

--POOR PERFORMANCE. What are the implications of scaling up PPPs, given their poor performance in key sectors (e.g., water, energy, ICT) and in many developed and developing countries, as described in Attachment 1.

--TRANSPARENCY. How can transparency be improved? In general, PPPs and state-owned enterprises have few rules relating to information disclosure and transparency. Secrecy related to PPPs is justified by "national security" and "business confidentiality" in ways that leave citizens uninformed about projects that affect them for generations (for instance, through cost recovery fees, taxation, and pension plans).

-- SOCIAL AND ENVIRONMENTAL SAFEGUARDS. Will any binding environmental or social safeguards be applied to infrastructure projects or portfolios of such projects? With regard to projects -- the World Bank has required its staff to apply binding environmental and social safeguards to its operations for decades. However, in order to compete with institutions led by emerging market nations, the institution is in the process of diluting some safeguards and weakening mechanisms that would help ensure compliance with the safeguards. In 2012, the Bank exempted its PPPs from safeguards, instead applying "performance standards" with weaker compliance requirements, among other things.

As financial institutions take a portfolio approach to pooling funds for investment in multiple PPP projects in infrastructure and other sectors, voluntary codes of conduct may apply to investors, but are not accompanied by meaningful monitoring, evaluation, or enforcement measures.

--HOW IS "RISK" ASSESSED? WHO ASSUMES RISK? Risk is poorly assessed. As noted in Attachment 1, the World Bank does not even track, much less disclose, the PPP risks to which the public sector is exposed. The IMF notes that the design of PPPs is based on poor forecasts of revenues (based on factors, such as demand for services); spending for PPPs is moved "off budget," so it bypasses spending controls and creates future liabilities which reduce budget flexibility in the long term. About half (55%) of all PPPs even get renegotiated on average every two years in favor of the private investor.

--WHAT IS THE RECORD IN BRAZIL AND INDIA? These two countries accounted for about 55% of all private participation in infrastructure (PPI) commitments across the developing countries in 2012.

--WHAT ARE THE LESSONS LEARNED FROM PPPs, FOR INSTANCE, IN KOREA? The major fiscal commitments (e.g., Minimum Revenue Guarantees) made by Korea to PPPs in the aftermath of the 1997-98 Asian Financial Crisis has resulted in passing large debts on to future generations.

*See Attachment 1: A review of "World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, FY02-12" by the Independent Evaluation Group (IEG), World Bank Group (2014).

138 and 139) have the potential for undermining the sustainable development goals. They state:

"Private investors often demand upward of 20-25% annual returns on "bankable projects" in developing countries. These costs need to be offset by efficiency gains or other benefits to make their use attractive… [p]rojects often struggle to deliver as planned with a 25-35% failure rate of PPPs in developed countries due to delays, cost overruns and other factors, and **even higher failures in developing countries.**"

Engagement in isolated PPPs, managed in silos should be avoided. The investing public entity should "**carry out a number of [PPP] projects simultaneously** and thereby take a portfolio approach for pooling funds for multiple projects, similar to risk diversification carried out by DFIs and the private sector."

This recommendation is not evidence-based. The performance of PPPs – particularly in the water and electricity sectors – has been poor. The ICESDF states that the extra costs of PPPs need to be offset by efficiency gains, but an evaluation of PPPs by the World Bank's Independent Evaluation Group (IEG) found that: World Bank-financed PPPs fail to provide additional resources to the public sector; and results from improved efficiency were "mixed."

Therefore, actions to massively scale-up PPPs and create portfolios of pooled funds for multiple PPPs are premature. In addition, there are few mechanisms for holding investors accountable for the impacts of these investments.

V. Conclusion

"Subsidiarity" is an important principle asserting that governance decisions should be taken as closely as possible to affected citizens. However, it is transnational corporations – not citizens – that are working with national Leaders; competing factions within the G20 (the "West versus the Rest"); and the G20, as a collective, to govern in a top-down way.

This paper described the way in which the Leaders seek to accelerate global growth rates through promoting a new model of infrastructure investment and development that could mobilize trillions of dollars from long-term institutional investors (which hold about $80 trillion in savings) to expand infrastructure development. In each geographical region – as well as globally – the model is creating new institutions and expanding existing institutions to finance infrastructure investment for enhanced trade and integration. Mega-projects in trade facilitation (e.g., ports, transportation) fuel the competitive scramble for natural resources and control of food production, especially now that the completion of the WTO's Trade Facilitation Agreement is being expedited.

This model could adversely affect citizens and the environment not only because the envisioned projects do not pursue a "triple bottom line" (economic, social and environmental), but also because trade and investment agreements enforce investor rights whereas there are few mechanisms to enforce human or earth rights. This bias creates unacceptable levels of inequality and environmental degradation, including climate change.

Citizens' groups support desperately needed investment in infrastructure, including basic electricity, transportation and water services. On the other hand, they challenge the level and type of private investment in mega-projects, asking: Whose interests do they serve? What types of trade, integration, and industries are being promoted? How many and what kind of jobs are being created? Who bears the financial risk of large portfolios of PPPs? While (enforceable) trade and investment agreements would protect some risks of private firms, what binding safeguards might protect human and earth rights?

The paper recommends that global and regional governance institutions:

- **Relinquish their bias in favor of PPPs in favor of an even-handed assessment of PPPs versus public works, given the particular circumstances.** This recommendation echoes the principle of the Organization for Economic Cooperation and Development, which states, "There should be no institutional, procedural, or accounting bias either in favor of or against PPPs".[19]
- **Reject the G20 investment principles in favor of alternative principles, such the "Common Set of Principles for Investment in Sustainable Development Goals" of the UN Conference on Trade and Development (UNCTAD).** Among other things, these principles balance (a) liberalization and the state's right to regulate; (b) the need for attractive risk-return rates for investors with the need for accessible and affordable services; and the push for public investment with the push for private investment.

19 OECD, "Principles for the Public Governance of Public-Private Partnerships."

- **Avoid "financializing" infrastructure in any way that would permit speculative capital investments or excessive returns from infrastructure investments**.

The path or the "means" to a sustainable world should not defeat the "ends" – the goals of reducing poverty and inequality, achieving women's rights, or ensuring a livable planet. In other words, the new development model must be transformed to deliver the public goods required for a sustainable future.

Attachment 1

PPPs: WHERE ARE THE RESULTS?

This is a review of "World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, FY02-12" by the Independent Evaluation Group (IEG), World Bank Group (2014).

Over the decade, the World Bank Group has tripled its support for PPPs due mostly to the increased support for water and energy PPP operations. Now the re-organized institution is posed to further increase the volume of infrastructure operations; it has also launched a Global Infrastructure Facility (GIF).

In light of the pro-PPP trend, the evaluation asks: "How effective has the World Bank Group been in assisting the private and public sectors in client countries in improving access to infrastructure and social services through PPPs?" An honest answer to the question would have been "we don't know."

Although the Evaluation addresses PPP operations of four "arms" of the World Bank Group [World Bank, International Finance Corporation (IFC), IFC Advisory Services, and MIGA], the following review focuses only on World Bank-financed PPPs. The main findings follow:

1. **Additionally?** "PPPs generally do not provide additional resources to the public sector." But, "in cases where efficiency increases offset the higher financing costs of the private sector, the PPP may have a higher "value for money" and hence be the preferred option for the government." (p. 5) But, the Evaluation finds that results from improved efficiency were "mixed."

2. **Sustainability? Results?** These are unknown. A useful analogy? The Evaluation tells us that the World Bank can build a "boat," but not whether the "boat" can "float" or be navigated to any destination. The Bank monitors its PPPs only in the short-term – that is, until loan closure (when funds are fully disbursed) at which time most PPP contracts are executed or the project is under construction. (p. 98)

Of the 128 PPPs in the sample, the number with results on the following six dimensions appear in parentheses: access to services (14); pro-poor (3); quality (10); efficiency (8); financial (6); and fiscal (1). (p. 67)

The Evaluation states that: "Fiscal implications would go unrecorded as well as affordability issues." (p. 64) " …[A]actual data on the effects of PPPs on the poor —for example, better access through expansion into poor areas or subsidy scheme targeting the poor to improve affordability—are not systematically recorded." And, "The scarcity of data makes it difficult to draw conclusions at the portfolio level." (p. 66)

As the Evaluation says, "If the World Bank Group plans to intensify its PPP support as envisaged in its latest strategy, it better put arrangements in place that allow it to monitor the performance of its PPPs throughout major parts of their lifespan. (P. 104) And, "There is an urgent need to introduce a more systematic way of monitoring PPPs; such a system should not only capture better the end-user aspects of PPPs, but should also monitor PPP performance beyond the early years of operational maturity." (p. 81)

This is important because more than half of all PPP contracts get renegotiated, on average every 2 years (tariffs up, concession fees down, obligations postponed). Even when they do not get renegotiated, many problems can still occur.

3. **Success Rates – Downstream in deal closing**. The Evaluation states, "The main measure of "success" is profitability – other factors are rarely considered." With this measure 62 percent of its PPP transactions are rated satisfactory or better, although the failure rate in certain sectors were high: water (41%) and energy distribution (67%). (p. 64)

4. **Success Rates – Upstream in Sector Reform**. The World Bank failure rate in sector reform is 45%

-- "an important finding given that proper sector reform is often a necessary condition for implementing PPPs successfully. Failures were most evident in the water and energy sectors...." (p. viii)

5. **Safeguards are nice, but they promote alternatives to World Bank financing, such as China**. The evaluation concludes that "Adhering to environmental and social safeguards has also contributed to slow implementation, to the extent that it sometimes "clouded" the positive perception of project benefits. But implementing these safeguards was important and delivered public benefit." (p. xi) Yet, in its case study of Uganda's Bojanala dam, the evaluation implies that Uganda now prefers Chinese financing over World Bank financing because Ugandan "stakeholders perceive that the World Bank Group was more concerned about compliance with its institutional accountability requirements than about delivering results." (p. 96) Given all the flaws in the Bojanala dam project this sounds preposterous.

6. **Risk Sharing?** For the 128 PPPs in its sample, the evaluation cannot definitively show how much risk is borne by the private party (in relation to the public sector) because it finds that "contingent liabilities are rarely quantified at the project level." (p. 40)

7. **Choice of PPP?** A sound methodology would assess whether the Bank decides to finance PPPs based on their superiority over public sector comparators (PSCs) using traditional procurement. Yet, when the evaluation closely examined a subset of countries, it found that "the strategies provide few analytics for assessing how much private sector participation was the best choice, instead they assume it would be good." (p. 28)

We conclude from the Evaluation that the G20 should not favor the dramatic scale-up in PPP operations of the World Bank. Instead, the Bank should give its clients an objective comparison of the costs and benefits of PPPs versus public works. The Bank should suggest that when PPPs are selected, it should proceed in a transparent and participatory manner, including close monitoring and evaluation of the applicable social and environmental Performance Standards (PSs). (As of June 2012, the PSs of the International Finance Corporation (IFC) apply to World Bank-financed PPPs, rather than the safeguards.)

Attachment 2

The G20's Investment Initiatives
Policy and Action Documents Endorsed by the 2014 Summit

For the Summit, the G20 endorsed two types of documents. The first type sets forth the standardized policies and types of practices that countries should adopt in order to attract private investment, particularly from long-term institutional investors, such as The Report on Effective Approaches to Support Implementation of the G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors. This document explains how to implement "pooled financing" arrangements. It explains that

"The risks that the institutional investor and its beneficiaries face are not solely related to deviations from market benchmark (paragraph 98) and that "Most forms of institutional saving also carry a non-trivial risk of agency problems. A major concern is the risk that the funds accumulated in institutional form will be used for some purpose other than the best interests of the final beneficiaries. The risk is high in some cases because savings are held for long periods of time, which might obscure any misuse of funds, at least in the near term." (Paragraph 99)

The second type of documents are more interesting in that they cite the policies and performance of each G20 country with regard to:

1. The World Bank's Assessment of the Growth Strategies of G20 Emerging Market Economies. In this document, one will find the World Bank's criticism each country's policies in several areas (investment/infrastructure; employment; competitiveness or business environment; trade; other structural policies).

2. The annex to the document The Report on Effective Approaches to Support Implementation of the G20/OECD High Level Principles on Long-Term Investment Financing by Institutional Investors described major reforms by G20 countries. For instance:

Turkey. As of January 2013, the state pays a matching contribution of 25 percent for every contribution paid by participants into the pension plan. Moreover, the amendments contains provisions for promoting group pension plans with institutional participation.

South Africa. The National Treasury requires large projects requesting fiscal support to submit feasibility studies, mostly which would need a cost benefit analysis. These requirements are contained in a guiding document that Treasury publishes, including the exact approach that should be taken to undertaking cost-benefit analysis... However, there are projects that are financed without Treasury support, such as state-owned entities – they generally do conduct cost benefit analysis, but this not regulated and nor is there a consistent approach between them.

Australia experienced major losses in roadway PPPs, which has dampen investor enthusiasm for PPPs.

Germany. The PPP Acceleration Act (2005) sets the general legal, financial and technical framework for PPPs in Germany. The act led to changes in a number of German laws, e.g. for procurement, tax, public road fees, budget and investment, to eliminate impediments related to PPPs.

Portugal. A number of PPP projects have been launched in the last 15 years, with the State assuming part or the whole of the financial risk of public-private infrastructure projects, but more with a view to put them out of the public budget. Now that the time has come for the State to start paying the costs and comply with the financial duties assumed in those contacts it becomes very clear that a lot of mistakes have been done, and that Portugal will have to learn the lessons from those mistakes and find a different balance between the public and the private responsibilities in the financing and risk taking of infrastructure projects.

3. OECD, UNCTAD, Twelfth Report on G20 Investment Measures. Examples include China's liberalization of

outward investment and creation of a free trade zone and India's liberalization of investment in railways – allowing 100% foreign direct investment;

4. OECD, WTO, UNCTAD Reports on G20 Trade and Investment Measures (mid-May 2014 to mid-October 2014