G20 Finance Policy Australia

Via email: g20financepolicyaustralia@treasury.gov.au

23 May 2014

Dear G20 Finance Policy Group

Re: C20 attendance at the Investment and Infrastructure Working Group meeting – Engagement Group session

Thank you for your invitation to attend the engagement group session of the Investment and Infrastructure working group meeting, being held in Singapore on 4 June. Unfortunately, we are not able to attend in person, but would like to accept your offer of providing a submission for the information and interest of working group members. The following is our submission, made on behalf of the C20 process, and endorsed by the C20's Infrastructure working group. It contains both commentary and specific recommendations.

As the demand for infrastructure investment is rising to meet the needs of a growing, ageing and increasingly urban global population, it has become a key focus of the G20. The Australian Presidency in particular has linked infrastructure investment to economic growth and job creation. The C20 thinks that the benefits of infrastructure must be shared in a way that reduces inequality and stimulates economic growth and development.

Specifically, the C20 thinks that the G20 should:

i. adopt infrastructure project monitoring and evaluation, prioritisation and planning frameworks at country and regional levels to drive inclusive and sustainable growth that achieves a triple bottom line.

ii. call on public and private finance institutions to adopt more robust safeguard policies and decision making practices…around planning, construction and operations.

iii. include in the Brisbane Action Plan a statement of neutrality with respect to investment financing arrangements, evaluating options on a Value-For-Money approach rather than defaulting to Public-Private Partnerships.

The C20's policy paper is attached.

Yours sincerely,

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C20 Sherpa
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C20 position paper draft: Infrastructure[1]

Executive Summary

At their February 2014 meeting, the G20 Finance Ministers and Central Bank Governors committed to "creating a climate that facilitates higher investment, particularly in infrastructure and small to medium enterprises."[2]

The C20 notes that economic and demographic changes are driving demand for infrastructure investment to meet the needs of a growing, ageing and increasingly urbanized population. The C20 also notes the current pressures on domestic Government budgets and related interest in private sources of infrastructure finance. It supports the sustainable and socially responsible development of infrastructure as part of an inclusive growth agenda. However, the C20 notes that infrastructure investment does not inevitably lead to inclusive growth, nor necessarily benefit those affected by poverty.

To ensure that the benefits of infrastructure investment are shared in a way that reduces inequality and stimulates economic and community development, the C20 advocates:

a) participation by civil society in the identification and design of infrastructure in ways that can ensure adherence to a low-carbon, climate resilient, environmentally-friendly path and direct benefits to communities, particularly those affected by poverty;
b) adoption and adherence to robust social, economic and environmental safeguards and protections not only on a local and national level, but also in sub-regions, since many mega-projects promoted by the G20 cross borders, including avoiding investment frameworks and infrastructure plans that will exacerbate climate change; and
c) mechanisms that not only ensure that projects respect the rights and needs of local communities and the sustainable use of the environment, but also provide recourse for citizens in the event that projects have adverse impacts on their lives, livelihoods, and communities.
d) in concert with G20 commitments to phase out fossil fuel subsidies, ensure that the G-20 infrastructure investment frameworks, including for PPPs, do not include subsidies for fossil fuels, such as tax exemptions, royalty reductions for large operations, government loans/guarantees or special contract terms.

The G20 Brisbane Action Plan should include:

1. **A G20 commitment to: adopt infrastructure project monitoring and evaluation, prioritization and planning frameworks at country and sub-regional levels to drive inclusive and sustainable growth that achieves a triple bottom line.** This framework should include clearer and more socially, economically and environmentally appropriate criteria for

[1] This position paper has been prepared by the C20 Working Group on Infrastructure informed by input to the C20 Conversations open crowdsourcing platform between February and May 2014.
Co-chairs: Cassandra Goldie (Australian Council of Social Service), Eugene Simonov (Rivers without Boundaries) and Sameer Dossani (ActionAid International)
Discussion leaders: Jacqui Phillips (Australian Council of Social Service) and Doug Norlen (Pacific Environment)
[2] G20, Meeting of Finance Ministers and Central Bank Governors Communique, Sydney, 22-23 February 2014.

selection of infrastructure projects than those presented by the G20 High Level Panel on Infrastructure in 2011.

2. **A call on public and private finance institutions to adopt more robust safeguard policies and decision-making practices, including 'upstream' participatory project identification and design, 'downstream' robust safeguards around planning, construction and operation, and recourse mechanisms.**

3. **A statement of neutrality with respect to investment financing arrangements, evaluating options on a Value For Money approach, rather than defaulting to Public-Private Partnerships.** Where PPPs are deemed suitable financing instruments, we recommend that PPP contracts be publically disclosed and that the incentives and risks for which the government assumes responsibility be explicitly disclosed as well.

Project Design and Prioritisation

Civil society, if included properly, can play a key role in the development of quality infrastructure through research and education, advocating improved practices and bringing together diverse stakeholders.

The G20 Leaders' Declaration in Russia in 2013 recognised "the importance of improving processes and transparency in the prioritization, planning and funding of investment projects, especially in infrastructure, and in making better use of project preparation funds."

Reiterating their commitment to 'supporting strong, sustainable and resilient growth and narrowing the development gap', the G20 Leaders also welcomed the completion of the Assessment of Project Preparation Facilities (PPFs) for Infrastructure in Africa; a toolkit on Urban Mass Transportation Infrastructure Projects in Medium and Large Cities by the World Bank and the ADB; and a public-private partnerships sourcebook by the World Bank, IDB and ADB; as well as progress on implementing the recommendations of the High Level Panel on Infrastructure.[3]

A the 2014 Brisbane Summit, the G20 should build on progress to date and call for country and sub-regional infrastructure project evaluation, prioritization and planning frameworks which includes robust social, economic and environmental standards and safeguards.

Recommendation to the G20:

The Brisbane Action Plan should include:

1. **A G20 call for country and sub-regional project evaluation, prioritization and planning framework to drive inclusive and sustainable growth that achieves a triple bottom line.**

Specifically, the framework should:

- Require participatory processes through which infrastructure priorities can be identified

[3] Leaders' Declaration at paragraph 81. See https://www.g20.org/sites/default/files/g20_resources/library/Saint_Petersburg_Declaration_ENG_0.pdf.

by communities at regional and national levels ('bottom up' project identification).[4]

- Require community engagement in project design and implementation.[5]
- Strike a balance between the needs for local, national, and regional integration with the need for global integration of trade and commerce.
- Require triple bottom line assessment and monitoring which assesses short, medium and long-term social, economic and environmental costs and benefits. This should assess the likely impact of the project on living standards and wellbeing in affected communities.
- Respond to global demographic and climatic shifts as well as increasing levels of inequality.
- Ensure infrastructure investment does not undermine domestic social spending or take excessive fiscal risks.
- Include a role for an independent infrastructure body to assess and prioritise infrastructure projects outside of the political process.
- Set standards requiring that projects be designed to an "appropriate scale," rather than adopting a bias toward big, centralized structures.
- Set environmental standards, including for use of renewable energy where possible to minimise environmental and social costs, such as can occur even with infrastructure claimed to mitigate greenhouse gas emissions such as large hydropower dams.
- Commit to evaluating the climate impact of infrastructure plans, and avoiding those projects that are not consistent with the agreed global goal of limiting warming to 2 degrees C.
- Ensure that all infrastructure development adopts universal design principles that promote accessibility and participation for all, including people with disability.

Project Planning, Design and Safeguards

Properly designed and prioritized infrastructure can raise quality of life and protect the environment. But too often ill-conceived infrastructure projects cause profound harm to communities and to the local and global environment while failing to achieve development objectives. In its promotion of infrastructure projects the G20 has made few references to the need for environmental and social protection measures, apparently assuming reliance on World Bank Group safeguard policies and analogous frameworks of other public and private finance institutions which for the most part apply "downstream" in the project cycle, toward the phase of project construction and operation, long after fundamental project planning and design has already occurred; thus too late to shape some of the most important infrastructure decisions. Civil society organizations strive to improve "upstream" infrastructure planning and design processes and tools (including, but not limited to Strategic

[4] The World Bank includes water, sanitation, energy, housing, transport, information and communications within the definition of infrastructure. See http://data.worldbank.org/topic/infrastructure.

[5] For example, including social housing.

Environmental Assessments and Integrated Resources Planning) that includes robust civil society participation.

Meanwhile, many of the G20-promoted projects and project preparation facilities are designing cross-border infrastructure that requires the harmonization of the laws/regulations of two or more nations—which also typically occurs “upstream” and which requires more civil society participation than currently occurs.

Concurrently, citizens’ abilities to enforce these laws, policies and safeguards to protect the public interest are being weakened by national governments and international finance institutions. Many financial institutions in BRICS and developing countries have just nascent environmental and social policies, where they exist at all.

Recommendation to the G20:

The Brisbane Action Plan should include:

- **A call on public and private finance institutions to adopt a) upstream, participatory identification and design of projects through means such as strategic environmental assessments and integrated resource planning, b) robust downstream safeguard policies that pertain to project planning, construction and operation, c) recourse mechanisms to which people can appeal in cases where their rights may have been violated.**

Specifically, these planning and design policies and tools, as well as safeguards must:

- Include measures to adequately prevent and mitigate harm to communities and the environment, transparency, and citizen enforcement and recourse mechanisms;
- Be adopted by all public and private finance institutions and foreign direct investors, including those of BRICS and developing countries, as well as by infrastructure project preparation facilities and public-private partnerships. The G20 must ensure international cooperation and coordination to achieve upward harmonization of these policies.
- Include protections for local and regional communities and environment as well as for global climate.

Infrastructure Financing

In general Civil Society Organizations that have taken part of the C20 process agree with the G20’s focus on questions of infrastructure. Many communities including farmers, ethnic minorities and the rural and urban poor need more efficient and less expensive infrastructure.[6]

The G20 is focused resolutely on the need to mobilize finance, especially long-term finance, for infrastructure development. At its encouragement, the World Bank is doubling its lending volume, significantly for infrastructure mega-projects, and launching a new Global Infrastructure Facility this year. Regional development banks are also ramping up infrastructure operations. New institutions are being created, such as the Asian Infrastructure Investment Bank and the BRICS Bank, which will also focus significantly on infrastructure. And, of course, individual BRICS governments are scaling

[6] *Promoting Pro-Poor Growth: Infrastructure*, OECD

up their infrastructure investment. The BRICS Bank is proposing launching its initial infrastructure efforts in Africa.

The G20's effort to mobilize finance focuses significantly on the potential role of institutional investors, especially pension funds. Given the increased reliance of pension funds on hedge funds and private equity funds, an appropriate framework is needed to reconcile interest in short-term speculative investor activity with the public interest in long-term, secure investment in accessible and affordable public infrastructure.

On the receiving end of such finance, we have governments and regional bodies which are designing blueprints for cross-border infrastructure projects, particularly in energy, transportation, trans-boundary water, and ICT. Because there is not unanimity among G20 countries about the role of social, gender, environmental, and climate concerns in infrastructure planning and implementation, we have concerns about the sustainability of the G20's efforts. It is important that the G20 adhere to the OECD principles for private sector participation in infrastructure, the planning instruments to ensure "upstream" sustainable infrastructure through, for instance, strategic environmental assessments, and the "downstream" concerns for which safeguard policies exist.

Mega-projects have profound impacts on land acquisition and displacement as well as the lives and livelihoods of communities and nations, so participation throughout the project cycle is an imperative for sustainability. In addition, these developments can lock-in technology for generations, so to achieve targets that limit global warming, low-carbon technology is critical. The G20 has pledged to remove fossil fuel subsidies which would assist in providing the proper market incentives to alternative renewable energy sources. Since infrastructure financing is a big ticket item, it is important to note that if governments recapture illicit financial flows, it could finance their infrastructure gaps. For instance, the World Bank calls for a doubling of African spending on infrastructure to $93 billion annually (about 15% of GDP) and more than $50 billion per year leaves Africa in the form of illicit capital flight.

Without such efforts, the existing taxation and revenue base of countries will continue to constitute the main base for financing infrastructure. These have included progressive taxes like property and income taxes as well as regressive user fees (tolls or tickets). In some cases, fees have constrained access to infrastructure services, thus increasing inequality.

Importantly, the G20 is promoting Public-Private Partnerships (PPPs) in infrastructure. We believe that the G20 should not promote one modality such as PPPs above others, and should allow for the consideration of alternative financing arrangements for particular projects and national contexts to achieve value for money.

While the impetus towards PPPs can be understood in the context of current pressures on domestic government budgets, in practice PPPs can be an inefficient and costly way to finance infrastructure. This is particularly the case in countries that do not have an advanced regulatory framework. Where PPPs do go forward, it is essential that the G20 support transparency – namely, public disclosure of PPP contracts, including fiscal incentives and off-budget obligations of the government. In addition, the G20 should ensure independent monitoring of PPPs.

Recommendation to the G20:

The G20 Brisbane Action Plan should include:

- A statement of neutrality with respect to investment financing arrangements, evaluating options on a Value For Money approach, rather than defaulting to Public-Private Partnerships.

Specifically, the approach should:

- Evaluate financing based on best value for money to achieve a triple bottom line, including by serving the public interest and upholding normative mechanisms for ensuring positive benefits to affected communities;
- Diversify the project participants (including micro-, small-, and medium-sized enterprises) rather than relying primarily on large, foreign investors;
- Ensure that the public sector does not incur unsustainable debts and fiscal commitments (including contingent liabilities) that undermine domestic priorities such as social spending.
- Discourage involvement by financial speculators in the "infrastructure asset class."
- Lock-in low-carbon technology, including by eliminating fossil fuel subsidies that distort market incentives for renewable energy providers.