B20 written submission to the G20 Investment and Infrastructure Working Group

23 May 2014

Context

High quality infrastructure[1] underpins economic activity both within and across national borders, and is one of the most powerful levers available to promote the broader business investment needed to drive inclusive, sustainable growth and employment across the globe. However, economies around the world face significant challenges in meeting current and future demand for infrastructure—driven not only by growing populations, rapid technological innovation (including green technology), and the increasing integration of the global economy and value chains, but also the legacy of ageing and poorly managed assets. Businesses—from SMEs to large multinationals—are frustrated that inadequacies in existing infrastructure continue to hold back investment. We must, and we *can,* do better.

Nor is this merely a challenge for individual national economies. The most valuable infrastructure opportunities often require co-ordinated action to support global value chains and enhanced flows of resources, products, services, information and people between countries; and capital to finance the required investments is increasingly sourced globally, on a competitive basis.

Estimates suggest ~$60–70t of additional infrastructure capacity will be needed by 2030. But only ~$45t is likely to be met under current conditions—leaving a 'gap' of ~$15–20t. Over the long run, closing this gap could support up to 100 million jobs and $6t of economic activity every year. While governments have a crucial role to play in closing the gap, increased private sector involvement will be critical, and the business community is ready, willing and able to 'step up' and play its part: by investing directly in productive infrastructure, partnering with governments to improve efficiency in the construction and management of public investments, and supporting government efforts to communicate the benefits of infrastructure to the public. In most nations, this will require governments to commit to developing market-based infrastructure policy frameworks that enable private ownership of infrastructure where appropriate, while also promoting efficient investment and safeguarding the long-term interests of users.

The major barrier to increased private investment in public infrastructure is less a shortage of capital than the lack of a credible pipeline of productive, bankable infrastructure projects that offer acceptable risk-adjusted returns to both the public and private investors. Factors contributing to this include:

- *Inadequate project selection and prioritisation*, which is frequently driven by political considerations, rather than sound assessments of costs and benefits
- *Weak project preparation and execution* capabilities—particularly for complex PPPs, where high profile failures have damaged credibility amongst both investors and the public— including inadequate funding structures and public opposition to user charges, inappropriate risk allocation, inefficient procurement and approvals processes, and inefficient asset utilisation
- *Weak and unstable regulatory environments* that increase risk to investors and the public interest
- *Corruption and lack of transparency*, which deter investment and increase the cost of delivering infrastructure

The last two of these in particular are also major impediments to investment in purely private infrastructure.

There nonetheless remain barriers to financing, including the relative immaturity of infrastructure as an asset class, unintended consequences of proposed changes to global financial regulations, underdeveloped local currency capital markets, particularly in developing countries, and limited

[1] For the purposes of this document, we use 'infrastructure' to refer to economic infrastructure: transport, and energy, water and telecommunications infrastructure. While some of our recommendations would also help to promote more efficient investment in social infrastructure such as housing, education, and health, these sectors have not been a focus of the taskforce's work.

availability of appropriate instruments to align the risk and return profiles of infrastructure projects with investor needs.

Recommendations

The B20 recommends 6 key, practical steps that G20 nations should take—individually and collectively—to drive increased and more efficient investment in infrastructure. Collectively, these could generate $8 trillion worth of additional infrastructure capacity by 2030, and $1.6 trillion of additional investment by businesses in their own operations every year. They would also contribute up to 1% to the G20 target of 2% additional growth over the next 5 years, and lay the foundation for sustainable, inclusive growth and employment over the longer term.

G20 leaders should

1. **Reaffirm, in their national growth plans, the critical importance of infrastructure—**and the importance of private investment in that infrastructure—and include in those plans specific infrastructure investment targets to 2019 that are aligned to national infrastructure strategic vision
2. **Establish, publish and deliver credible national infrastructure pipelines that have been rigorously assessed and prioritised by independent infrastructure authorities**, and which utilise private sector expertise to deliver brownfields and greenfields investments in the most appropriate way, whether via traditional procurement, PPPs, or privatization of existing government assets
3. **Establish a Global Platform for Infrastructure** with a global mandate to increase the pipeline of bankable infrastructure projects and improve the productivity of infrastructure investments, by driving the adoption and implementation of leading practice across the infrastructure life-cycle
4. **Put in place transparent procurement processes that comply with global best practice, and commit to specific time limits for regulatory and environmental approvals** for major infrastructure projects, without compromising on the integrity of the approvals process
5. **Work towards a multi-lateral framework for investment** that provides an agreed, consistent set of principles for the promotion and protection of cross-border investment, by developing a non-binding International Model Investment Treaty
6. **Increase the availability of long-term financing for investment, including for infrastructure**, by removing unnecessary disincentives for long-term investment embodied in the current Solvency 2 proposals, setting out coherent national plans to promote the development of local capital markets, and promoting the provision of appropriate credit enhancement instruments and/or co-investment mechanisms for infrastructure projects

While these steps would make a substantial contribution to increased employment and inclusive, sustainable growth, closing the infrastructure gap requires continued action on many fronts. In particular, the B20 highlights its support for the following initiatives, a number of which are already underway.

- **MDB proposals to establish project preparation facilities** (as recommended by the B20 in 2013), and the initiatives of other forums to enhance the quality of project preparation, the enabling environment for investment, harmonise financial instruments, and leverage private financing, **especially for catalytic, cross-border projects**
- **National reviews of policy, legislative and regulatory barriers to the most efficient management of and investment in existing infrastructure** to ensure that best use is being made of private sector expertise and finance, innovation, and new technologies, to achieve these outcomes for their citizens
- **A review by the International Accounting Standards Board of accounting rules** in order to eliminate or address barriers to long-term and infrastructure investments
- **Revisions to Public Sector Accounting Standards and fiscal targets** to better reflect the value of investments in infrastructure assets and support a reweighting of public expenditures towards such investments