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## The G20 agenda on infrastructure financing – key concerns and actionable recommendations

### Context/ G20 Commitment

Infrastructure is key for achieving sustainable development and for improving conditions for people living in developing countries. When it comes to supporting economic development, ‘economic infrastructure’ – like roads, clean water and energy grids – is as important as ‘social infrastructure’ – such as schools and hospitals. ‘Local infrastructure’, which includes local economies and communities, and focuses on sustainable tourism or agriculture, for instance, is equally important. Essentially, infrastructure is meant to serve the development needs of citizens first and foremost.

However, badly designed and poorly implemented infrastructure projects can result in negative social, environmental and human rights impacts. They can also generate excessive fiscal costs that impact on the public purse, with a knock on impact on citizens too.

Many countries have a long history of ‘white elephant’ infrastructure projects linked to corruption. Many projects have also suffered from lack of transparency and poor monitoring, which undermines democratic accountability. Low state capacity to plan, design, negotiate, manage and implement infrastructure projects has also been a common problem.

Promoting investment in infrastructure needs to tackle all these problems in order to contribute effectively to the [Agenda 2030](#) and to meet the [Paris Agreement](#). The questions we need to ask, therefore, are: How should we fund infrastructure investment? Will the financing mechanism help to realise the benefits while avoiding the pitfalls? And how should infrastructure be governed to serve people’s needs?

One of [Argentina’s priorities](#) for its presidency of the G20 is ‘infrastructure for development’. As part of this, the G20 is currently working on ‘mobilising additional private capital to meet global infrastructure needs’. In March, finance ministers released a [‘Roadmap to Infrastructure as an Asset Class’](#). This Roadmap is an attempt to frame the infrastructure narrative as being about how to leverage private capital, particularly from institutional investors, to fill a perceived financing gap.

This approach assumes that the private sector can be the natural supplier of capital. However, the history of how infrastructure has been financed shows that this is a mistaken and problematic assumption. It also leads to the prioritisation of ways of enticing private capital, including through promoting costly and risky public-private partnerships (PPPs), rather than first evaluating what the best financing option is for each project.



## The Challenge

There are three main reasons why the G20's approach to infrastructure financing is problematic:

- 1. It allows the G20 to avoid a discussion on how to increase public investment in infrastructure, and how to increase the quality, resilience and efficiency, as measured holistically, of the infrastructure being financed.** Current proposals made by the G20 and multilateral development banks are based on the premise that public resources have to be used to leverage private finance, despite the problems that an overreliance on private finance entail. Historically, infrastructure has been overwhelmingly financed through public investment – [80-85% of the total in developing countries](#). This has been the case often for good reasons (capital-intensive projects that tend to be 'natural monopolies', long timeframes, high risks and often a lack of profit-making options). Importantly, there is a limited number of kinds of infrastructure that can be built commercially – meaning that significant public investment is required in most sectors, and is expected to be the default source in some. In addition, a focus on improving the quality of infrastructure should, in many countries, be the top priority. The existing stock and use of infrastructure is [associated with more than 60% of the world's greenhouse gas emissions](#), so the world will not be able to curb global warming without climate responsive infrastructure. Therefore, channelling more funds towards infrastructure in countries with a poor track record is likely to exacerbate rather than solve problems.
- 2. It can be very costly, and risky for the public sector, and for citizens.** The cost of financing is usually more expensive in PPP projects than in public sector works, and they entail contingent liabilities that can create a heavy burden on public finances – Civil Society Organisations have raised their concerns about the increased use of PPPs in a [Manifesto launched in October 2017](#). In the case of 'project bonds', they can increase the cost of projects due to high interest rates paid to attract private capital, and they risk increasing public sector debt, as they will be publicly guaranteed. Current proposals made by the G20, including by the [G20 Eminent Persons Group](#), and the World Bank focus on 'de-risking' infrastructure assets, and on the securitisation of revenue streams from portfolios of infrastructure projects. While 'de-risking' strategies – mainly through the use of subsidies and/or guarantees – are likely to entail shifting risks, and costs, to the public sector, and to the users of the infrastructure (in many cases the guarantees will not be called, but when something does not go as planned, the public sector will have to rescue the project); increased securitisation is likely to lead to speculative activity and cripples the capacity of governments to hold such a diverse group of asset owners accountable.

The G20 also proposes 'greater standardisation' – i.e. the creation of financial instruments, contracts, documentation, and risk allocation that are easily comparable and replicable – in order to make infrastructure assets an attractive proposition for institutional investors. This will result in far more flexibility for the private sector, which can be a threat to infrastructure quality if it reduces necessary public oversight or threatens environmental and social standards. Greater standardisation in contracts that govern infrastructure projects will mean that the many risks and the costs of changes that will arise during the lifetime of the project will be assigned to the public sector. Efforts by the World Bank to standardise PPP contracts have, [according to a legal analysis](#), resulted in proposals that are often skewed in favour of private interests to the prejudice of the public entities.



There can also be major transparency and accountability issues associated with involving private finance in infrastructure investment. The financial products will be engineered so that investors get the return regardless of the performance of the investment asset, which means a problematic disconnection between investment performance and return – unless there are robust and transparent systems in place to address adverse environmental and social impacts, local communities are at risk of increased exposure to such threats. Finally, there are potential macro-economic risks, including the increased likelihood of financial crises, and a shift of investment from other sectors.

- 3. The countries and communities most in need of new, climate-resilient infrastructure are the least likely recipients of private investment.** The possibility of genuine private investment – which is not just disguised borrowing, like many PPPs are – applies to a limited set of infrastructure investments, making this at best a partial answer to the financing gap. Even these areas are likely to require significant complementary public investments. In fact, private investors have not shown an appetite to significantly increase their investment in infrastructure in developing countries. The trend shows that private participation in infrastructure has fallen each year since 2015, and that institutional investors have been extremely wary of infrastructure, devoting a very small percentage of their investments towards it.

Importantly, private investors' natural tendency to seek, and maximise, returns can be singled out as one of the key factors constraining investors' interests. Expecting high returns on investments creates a big challenge for developing countries, as it is difficult to develop a pipeline of projects that provide investors with attractive risk-adjusted returns over the project life cycle without creating a heavy burden on public finance, and/or on citizens.

Finally, this agenda is unsuitable for low-income countries, where capital markets tend to be small. Institutional investors such as pension and insurance funds tend to be far smaller in size in developing countries compared to developed countries, and hold very low levels of assets as a share of gross domestic product (GDP) in low-income countries. Therefore, the G20's strategy is not geared towards the countries that most genuinely face an infrastructure financing gap – fragile and low-income countries – because these are precisely the countries where international private capital is least likely to invest. The most profitable projects can attract private investment – in particular telecommunications. However, the infrastructure required by the most marginalised communities, and in most fragile states – such as water and sanitation – struggle to attract any investment at all. Moreover, in many cases private investment in infrastructure has been linked to the development of major regional infrastructure plans and the prioritisation of 'mega-projects', which exacerbate the risks associated with large projects, including social and environmental impacts.

### Recommendations

Civil society organisations agree that the private sector has an important role to play in delivering the Sustainable Development Goals (SDGs). However, governments need to put in place the right framework of legislation, regulation and incentives to make sure that commercial considerations are not made to the detriment of sustainability and human rights concerns, and that private investors proactively contribute to sustainable development.



Before pushing ahead with the idea of developing infrastructure as an asset class, the G20 should assess the impacts of the current proposals on the quality of the infrastructure, and ask whether private financiers will be focused on building infrastructure that meets the SDGs (for instance, SDG3, SDG6, SDG7, SDG9) and 'leaves no one behind'. Moreover, it is essential that infrastructure devised in the future is low in carbon emissions and resilient to climate change, to avoid generating an additional burden and impact on vulnerable communities and social groups, which generally are more severely affected by climate change impacts.

Key recommendations to the G20:

1. **Put delivering and improving public financing of infrastructure centre stage.** This means taking the actions at international level that are necessary to support higher levels of public investment in developing countries, including: clamping down on losses of public resources through tax dodging; dealing with unsustainable debts through a debt workout mechanism; increasing levels of international concessional resources, including through meeting official development assistance (ODA) commitments; and examining new 'innovative' sources of public financing, such as the United Nation's proposal to create annual reserve assets for developing countries. It will be critical to recognise that the 'infrastructure financing gap' is in fact a public financing gap, and that there are no magic wands that will allow private financing to effectively supplant public financing as the major source of infrastructure investment.
2. **Promote the necessary tools to assess which type of financing is the best for a certain project,** including a thorough assessment of the fiscal, social and environmental benefits, costs and risks of infrastructure projects, including equity and human rights considerations, as well as the global need to phase out fossil fuels and avoid irreversible damage to biodiverse areas over the full life cycle of the project. There should be no institutional, procedural or accounting bias in favour of private sector options. For this, full disclosure of information from the planning to the implementation of the contract should be available for all stakeholders to understand and monitor the project.
3. **Adopt and promote a set of criteria for sustainable and quality infrastructure to ensure** that projects have widespread benefits, and contribute to a reduction in the gender gap, and the gap between rich and poor. This should include, but should not be limited to: (a) national policy on sustainable infrastructure development; (b) comprehensive laws to safeguard the population, particularly the most marginalised groups, and the environment, including land and water conservation; (c) rules on fiscal transparency and management; (d) rules to ensure fair competition and beneficial ownership transparency, and to establish an internal system to prevent and monitor against corruption; (e) a framework for disclosing infrastructure plans and project details. Sustainability criteria have to be incorporated at each phase of project planning and preparation, with the inclusion and prioritisation of early system's planning as a means to ensure integration with the SDGs. This has to be complemented by concrete actions that ensure that governments **prioritise investment in social infrastructure, particularly in care services, and take the climate change crisis seriously** – for instance, commitments to finance adaptation and mitigation in developing countries have to be met.



4. **Decisions on projects must be guided by national development strategies and priorities**, and shaped through participatory processes. These should be consistent with countries' sustainable development priorities and obligations under international agreements in the environmental, climate change and human rights fields. The participation of the affected communities, workers and other relevant stakeholders must inform the identification, mitigation and management of environmental and social impacts of an infrastructure project.
5. **Guidance on contractual provisions for PPPs should take public policy considerations into account** and should not favour the interests of the private investors over the contracting authorities. This means taking into account the right and duty of governments to regulate in the public interest. Unanticipated impacts should be resolved in a flexible and equitable manner and should not be left solely for the contracting authority to address.
6. **Promote radical improvements to transparency and accountability** of both public and privately financed infrastructure projects. This means: (a) disclosing better, timely data of contracts and projects in open and re-useable formats, such as the [Open Contracting Data Standard](#) and its infrastructure extension in partnership with the [CoST Infrastructure Data Standard](#); (b) in the case of PPPs, including the contract value and long-term implications of each project in national accounts, rather than being off-balance sheet; (c) disclosing full details of guarantees and contingent liabilities associated with PPPs, the conditions that will trigger them and all PPP-related documents; and (d) ensuring that all adversely affected communities have access to effective judicial and non-judicial redress mechanisms, according to the UN Guiding Principles on Business and Human Rights and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

The global community is responsible for working to support the SDGs. The key question for Argentina's G20 presidency is how effectively it will be able to deliver on its promise of tackling 'infrastructure for development'.

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