



Five New Deliverables for the G20's Infrastructure Agenda

A CGD Study Group Note for the G20 Troika

We are pleased to offer the G20 Troika recommendations for sustaining the G20's infrastructure investment agenda as a critical global development priority. Our five recommendations are the result of discussions within a small study group convened by the Center for Global Development (CGD) in November/December 2013.¹

When the G20 introduced a “development” agenda in 2010, infrastructure was identified as a top priority, and it has remained so under each G20 presidency since then. By firmly establishing infrastructure as the centerpiece of its development agenda, the G20 has helped to generate intellectual energy around the issue in official and private circles and has had a meaningful impact on initiatives within the multilateral development banks, which remain the primary sources of infrastructure financing for low income countries.

At the same time, the G20's infrastructure agenda risks growing stale long before real progress has been made in meeting infrastructure needs in developing countries, particularly the poorest countries.

Much of the G20's early work on infrastructure entailed the commissioning of reports by the multilateral development banks (MDBs) and other international organizations and experts. These reports have played an important foundational role for the G20's work, but more reports of this sort will not constitute a meaningful agenda going forward. And while there is

¹ Study Group participants included the Center for Global Development's Erin Collinson, Madeleine Gleave, Charles Kenny, Ben Leo, Scott Morris, Vijaya Ramachandran, and Beth Schwanke, with outside participation by Larry Beeferman (Harvard Law School), Bobby Pittman (Kupanda Capital), and Craig Steffensen (Asian Development Bank).

This note reflects a broad consensus among study group members, who participated in a personal capacity and on a voluntary basis. It does not necessarily represent the views of any member, the organizations with which they are affiliated, the Center for Global Development, the Center's funders and board of directors, or any other organizations mentioned within.

literally some “concrete” value in unlocking a specific list of projects (as envisioned by the G20’s identification of 11 “exemplary” projects), that approach falls well short of having a sustained global impact in meeting infrastructure needs.

With these risks in mind, we offer five recommendations for the G20 agenda going forward.

1. Commission a new global knowledge product for infrastructure investment, the “Investing in Infrastructure” survey.

The G20 should direct the World Bank, working in collaboration with regional MDBs, to introduce a new biannual knowledge product aimed at identifying country-level barriers to investment in infrastructure. Such a product would serve the dual purpose of informing governments about actions they may need to take to spur investment and providing valuable information to potential investors.

Survey instruments and other data-driven analytical tools can usefully inform countries about barriers to investment in their economies. These tools can also inform the investment community about potential markets, particularly if they are applied consistently on a global basis.

While there has been high profile focus on the broader business environment in developing countries, there is limited information on the environment for investing in infrastructure. The existing international business surveys, the World Bank’s enterprise surveys and Doing Business report, primarily focus on manufacturing and service industry firms and related regulations. While some questions hint at infrastructure or investment, they do not adequately address either sector. For example, Doing Business provides general information on national regulations to protect investors, such as extent of disclosure.² It also includes questions on construction processes, such as permit acquisition and environmental impact assessment; however, these indicators are standardized to the construction of a warehouse, a far simpler undertaking than large-scale infrastructure.³ Likewise, the Enterprise Survey indicators illustrate the challenges for businesses from a lack of power, water, or roads, but do not explore the challenges of actually building that infrastructure.⁴

² World Bank Doing Business, Protecting Investors Methodology. 2013.
<http://www.doingbusiness.org/methodology/protecting-investors>

³ World Bank Doing Business, Dealing with Construction Permits Methodology. 2013.
<http://www.doingbusiness.org/methodology/dealing-with-construction-permits>

⁴ World Bank Enterprise Surveys, Indicator Descriptions. 2013.
<http://www.enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Misc/Indicator-Descriptions.pdf>

Perhaps the closest existing model for infrastructure is the Economist Intelligence Unit's "Infrascope" surveys, which look specifically at country readiness for public-private partnerships (PPP). But the surveys have not been adopted on a global basis and approach the issue through the PPP lens, providing an important but incomplete picture. The World Bank's Africa Infrastructure Country Diagnostics have also provided an important benchmarking of priorities, costs and constraints in meeting the region's infrastructure needs at the country and subregional level, but again, the approach is specific to one region.

Building on all of this work, and turning it into a biannual and global product focusing specifically on policy and regulatory changes to promote investment in the most urgently needed infrastructure, could be of immense value to policymakers and investors alike.

We recognize the expense and effort implied in an entirely new country level survey. The G20 should work with the MDBs to identify appropriate financial and staff resources to identify the best approach, recognizing that global visibility is key. In practice, the most cost effective approach may in fact rely on existing surveys, with G20 guidance provided to harmonize the surveys and introduce a unified global rollout.

2. Cultivate a new generation of infrastructure investors by launching a sustained engagement with the pension fund community.

The G20's infrastructure and investment work to date has documented the potential sources of capital for infrastructure investment, including private equity, sovereign wealth funds, and pension funds. We believe that pension funds represent by far the largest untapped potential source of investment and therefore recommend a new initiative to engage directly with this community.

Pension fund assets have nearly doubled in the last decade, with USD 20.7 trillion under management worldwide as of 2011, USD 17.5 trillion of which is among G20 nations.⁵ Much work has been done, including for the G20, to demonstrate the alignment of interests between the long term investment horizon of pension funds and the long term returns of infrastructure projects, making them a well-suited tool to achieve development policy goals. Yet, the OECD estimates that only about 1% of the total value of pension funds are invested in infrastructure, either directly or through financial intermediaries,⁶ and almost none has been directed at emerging markets or developing economies.⁷

⁵ OECD Global Pension Statistics, Pension Markets in Focus No.9, September 2012.
<http://www.oecd.org/daf/fin/private-pensions/PensionMarketsInFocus2012.pdf>.

⁶ OECD, "Pension Funds Investment in Infrastructure," 2011.
<http://www.oecd.org/sti/futures/infrastructureto2030/48634596.pdf>.

As the single largest untapped source of infrastructure investment, pension funds should be singled out for particular focus by the G20, with an initiative aimed at engaging the pension fund community globally to help address the obstacles to investment that *they* identify.

The G20's High Level Panel on Infrastructure has served as an effective model for engaging very senior private sector actors to brainstorm and advise on a G20 agenda. In this case, though, we recommend a working-level engagement with the pension fund community focused exclusively on how to meet the needs of these funds as investors in infrastructure.

Sustained and practical engagement between the G20 and the pension fund community could bridge the gap of information and increase investment exposure of infrastructure for development. G20 governments could offer regular venues and resources through which pension funds can become familiar with investment opportunities, discuss concerns, and learn from the experiences (successful and unsuccessful) of bilateral or multilateral development finance in infrastructure.

A G20-sponsored convening of pension funds should extend beyond managers to include key trustees, CEOs and/or CIOs, the infrastructure fund managers that the pension funds themselves work with, as well as investment consultants and union leaders where relevant. It could potentially be organized in partnership with existing cross-national pension fund forums, such as the Pacific Pension Institute.

The G20 should also convene pension fund regulators since the question of how pensions are regulated in their home countries for prudential reasons can affect how they invest sectorally or geographically. To the degree G20 pension regulations are identified as barriers to infrastructure investment, G20 governments can choose to act through coordinated commitments to address the regulatory problems.

Finally, the G20 could provide a useful venue for pension funds to consider how best to pursue the social and environmental principles that often influence their investment practices. The MDBs have a long and mixed record of pursuing social and environmental “safeguards” attached to infrastructure investment, and pension funds would likely benefit from a dialogue on effective practices in these areas, particularly if concerns about the social and environmental risks associated with infrastructure investment serve as a barrier to more active investment.

Note: Because the definitions of what constitutes “infrastructure” varies widely, estimates of investment in infrastructure are often difficult to aggregate and compare across funds and markets. However, this estimate and our recommendation focus on investment in infrastructure projects (roads, airports, power plants, etc.) rather than investing in the equity of listed utility companies and infrastructure companies.

⁷ Stewart, F. and J. Yermo (2012), “Infrastructure Investment in New Markets: Challenges and Opportunities for Pension Funds”, OECD Working Papers on Finance, Insurance and Private Pensions, No. 26, OECD Publishing. <http://dx.doi.org/10.1787/5k8xff424vln-en>.

3. Unlock the project preparation process by focusing on the right role for public funding.

To date, the G20 has been overly focused on mobilizing resources for project preparation, rather than identifying and addressing the failures in each stage of the project preparation process. Official financing associated with the G20, particularly via the multilateral development banks, needs to be better aligned with needs of investors who can, with appropriate incentives, provide larger amounts of later stage financing.

Many infrastructure projects currently get stalled in the early stages of project preparation. Country governments lack the capacity to both formulate their own proposals and to negotiate proposals from the private sector. Private investors face a lack of flexibility by being approached too far along in the preparation process. And MDBs struggle to match strict procedures and long timelines with the disparate needs of various parties involved in complex infrastructure projects.

At the same time, funding for feasibility studies has historically been widely underspent. Prior analysis from the G20 and ICA has mapped the gaps within the current PPF field, showing that while many PPFs target support for mid- and late-stage planning, there is little funding or resources available for initial project advisory services.⁸

The mismatch in capabilities, timelines, and needs among private and public sector partners, governments, and investors could be alleviated by separating the project preparation cycle and associated contracts available for PPF and other funding. Specifically, restructuring support for country governments to package and negotiate projects would catalyze infrastructure investment from its earliest stages. The most effective thing the G20 could do in this regard would be to focus on the role of the MDBs in this process.

Rather than seek broad commitments from the MDBs on project preparation financing, the G20 should focus their efforts on the relatively inexpensive early stages of project preparation and improve their performance in these areas. For example, the upcoming PPF assessment for Asia is a good opportunity to consider these issues in detail.

4. Make a sustained commitment to the multilateral development banks.

An ambitious agenda for infrastructure investment, with the MDBs continuing to play their catalytic role, implies that MDB resources could quickly be exhausted in the years ahead. MDB leadership has responded by introducing various measures to entice private sector

⁸ Infrastructure Consortium for Africa, Assessment of Project Preparation Facilities for Africa. 2012. <http://www.g20dwg.org/documents/pdf/view/23/>

financing of MDB activities. While some of these efforts may hold promise, they should not be substitutes for the core financing that underpins the governance of these institutions. The G20 members should agree, as the leading shareholders of the MDBs, that they will pursue sustained financial commitments to these institutions to support their core work on infrastructure investment.

The high point for G20 effectiveness was in 2009/2010, when the group moved quickly and concretely on a wide range of measures in response to the global financial crisis. One of these measures, a one-time commitment to capital increases for the MDBs, should now be revisited and renewed as a visible and effective contribution to the infrastructure agenda.

This commitment would come at a time when on-going financial support for the MDBs from governments is in question. Traditional replenishments of MDB concessional windows are reaching the limits of their effectiveness, and there appears to be little discussion of additional capital increases following the 2010 G20-led commitments. Yet, the effective leveraging of MDB capital for infrastructure investment purposes is no less compelling today than deployment of MDB capital for crisis response was five years ago, much of which after all, was invested in infrastructure projects.

Of course, financial commitments should be joined with a commitment to seek more effective practices by the MDBs when it comes to infrastructure investment. The MDBs themselves have active policy agendas on a range of issues that affect infrastructure projects, including environmental safeguards, procurement policy, and the use of guarantees and insurance instruments versus traditional lending. A more coordinated approach from the G20 on these seemingly disparate issues would likely mean a more effective outcome when it comes to the MDBs' infrastructure agendas.

5. Launch a new agenda on sovereign debt (particularly sub-national debt).

The range of issues related to sovereign debt issuances by developing countries has received too little attention by the G20, given the essential relationship between sovereign debt and infrastructure investment. As a result, this is the one area where we believe the G20 should commit to deeper learning in order to inform a future agenda.

Historically, low income countries were not in a position to issue sovereign debt, but that is changing. Rwanda, a small and poor country, attracted considerable attention last year by going to global markets with a Eurobond for the first time. When it comes to infrastructure, the new found ability of low income countries to sell bonds globally unlocks an obvious source of financing for infrastructure investment, since this is how wealthier countries have themselves financed a great deal of infrastructure investment for years.

Many infrastructure projects do not lend themselves to direct private investment. Most roads will never be toll roads, for example, and therefore will never generate a dedicated revenue

stream for investors. Until recently, this has meant that low income countries have had to rely heavily on official assistance from abroad to finance public infrastructure. But recent interest by global bond markets suggests larger pools of finance may be accessible in the years ahead.⁹

Yet, there are many barriers to credit worthiness for low income countries, just as there are many risks that come with borrowing in global markets. Official standards around debt sustainability (via the IMF and World Bank) can bear directly on a country's ability to issue debt, and the treatment of these countries by the credit rating agencies has been uneven and poorly understood over the years. The G20 can make a valuable contribution by studying, convening, and eventually committing to act on a new sovereign debt agenda in a manner that can help developing countries access financing while appropriately managing the risks.

A particularly compelling area of focus would be sub-national debt issuances. While the World Bank is particularly constrained in its ability to provide support sub-nationally, there is a great deal that could be done by all of the MDBs and G20 governments themselves in terms of technical assistance to sub-sovereigns.

⁹ Of course, there are no guarantees when it comes to future private financial flows, and the global adjustments associated with the end of quantitative easing certainly raise questions about the future. But to the degree debt markets are responding to positive trends in many developing countries (strong GDP growth, good fiscal and monetary policy, etc.), it is worth "capitalizing" on these gains with a strong G20 policy agenda.