Investment, inclusiveness, implementation, and health governance

Number 16 | April 2015
The Lowy Institute for International Policy is an independent policy think tank. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia’s international policy and to contribute to the wider international debate.

- promote discussion of Australia’s role in the world by providing an accessible and high-quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Funding to establish the G20 Studies Centre at the Lowy Institute for International Policy has been provided by the Australian Government.

The views expressed in the contributions to this Monitor are entirely the authors’ own and not those of the Lowy Institute for International Policy or of the G20 Studies Centre.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>3</td>
</tr>
<tr>
<td>Tristram Sainsbury</td>
<td></td>
</tr>
<tr>
<td>Inclusive growth is growth</td>
<td>8</td>
</tr>
<tr>
<td>Leon Berkelmans</td>
<td></td>
</tr>
<tr>
<td>Advancing G20 accountability</td>
<td>14</td>
</tr>
<tr>
<td>John Kirton and Julia Kulik</td>
<td></td>
</tr>
<tr>
<td>Are PPPs the answer for infrastructure development?</td>
<td>22</td>
</tr>
<tr>
<td>Stephen Grenville</td>
<td></td>
</tr>
<tr>
<td>Can the G20 help prepare the world for future health pandemics?</td>
<td>29</td>
</tr>
<tr>
<td>Tristram Sainsbury and Hannah Wurf</td>
<td></td>
</tr>
<tr>
<td>Contributors</td>
<td></td>
</tr>
</tbody>
</table>
OVERVIEW

TRISTRAM SAINSBURY

The Turkish G20 Presidency has indicated that in 2015 the G20 will focus on ensuring inclusive and robust growth through collective action. In order to achieve this, Turkey has placed a special emphasis on the three ‘i’s: inclusiveness, implementation, and investment for growth. These priorities have the potential to lead to on-the-ground outcomes that help validate the G20’s reputation as the premier international economic forum. It is critical that practical steps are made. The 16th issue of the G20 Monitor examines the basis of the three ‘i’s, assesses progress made on the priorities, and suggests policies the G20 could pursue for each priority. It also explores the prospects for further G20 attention on global health governance in light of the Ebola epidemic of 2014.

INCLUSIVENESS

At the Brisbane G20 Leaders’ Summit, Turkish Prime Minister Ahmet Davutoğlu stated that “during our presidency we want to be the voice of everybody,” and that inclusiveness would be one of the defining aspects of the Turkish Presidency. The Turkish hosts seek to expand the G20’s central growth narrative such that G20 members strive for strong, sustainable, balanced, and inclusive growth. Turkey has organised the agenda so that G20 members are encouraged to focus on domestic initiatives that strengthen gender equality, support small and medium-sized enterprises (SMEs), and address youth unemployment. At an international level, the inclusiveness agenda will aim to enhance the voice of low-income and developing countries.

Turkey’s inclusiveness agenda draws from the substantial and growing body of literature produced by the IMF, OECD, World Bank, and G20 countries...

---

1 Research Fellow, G20 Studies Centre, Lowy Institute for International Policy.


on the share of labour income in GDP, pledging to work with international organisations to understand the underlying factors.

The inclusiveness agenda is part of a broader discussion of the links between growth and inequality. Larry Summers has been a prominent voice in this discussion, arguing recently that structural reform is essential in increasing both the number of people able and willing to work productively, and the productivity of workers and capital. He suggests that policies for growth should focus on infrastructure investment, immigration, family-friendly work, energy policy, and business tax reform. Much of this integrated approach to inclusive growth is embodied in the G20’s collective efforts to raise growth by 2 per cent over five years. In 2015, countries need to implement what they have already committed to — in particular, measures for employment and investment (which the IMF and OECD have estimated could comprise 56 per cent of the G20’s growth ambition).

The G20 can also promote inclusiveness by supporting initiatives that target women and youth. The G20 made headway at the Brisbane Summit in setting a target to reduce the gap between male and female labour participation by 25 per cent by 2025, which is estimated to bring 100 million women into the labour force. If the G20 is to make inroads into this substantial promise, it needs to outline the baseline for measurement and the ‘bricks along the road’ towards 2025. G20 officials should work with international organisations to develop a report for leaders in Antalya that includes milestones, timeframes, and country goals, while acknowledging key challenges and potential risks to the implementation timeframe. Further, with youth unemployment reaching 13 per cent globally in 2014, three times higher than adult unemployment, the G20 could look to set an ambitious youth unemployment target. Setting a target would add to current G20 plans for unemployed youth by helping to monitor the impact of policy interventions, thereby helping to address a complex problem.

The Turkish hosts also place a stronger emphasis on SMEs, an effort supported by the G20 membership and various civil society and business groups. This will include the development of a new ‘SME

---


8 Ibid.
alliance’ that will ensure SMEs have a voice at international platforms. Further questions that are likely to be explored in 2015 include how to make SMEs a stronger part of the value chain from banking regulations to international trade, and how to incorporate the needs of SMEs into the international tax agenda.9

However, not all are convinced by the broader approach and there are some who think the G20 needs to focus more on areas with clear multilateral gains. Leon Berkelmans’ paper argues that the best thing a country can do to achieve inclusive growth is to implement policies that aim for strong, sustained growth overall. He proposes that the G20 can play an important role in improving the living standards of the poor, but that this does not necessarily require an inclusive growth narrative. Sceptical of the G20’s capacity to implement country-specific actions, he suggests that the G20’s inclusiveness agenda should focus on international taxation and climate change.

IMPLEMENTATION

The Turkish Presidency has also emphasised that 2015 will be a year of ‘doing’ rather than ‘talking’ and that this year will see substantive progress in policy implementation.10 Davutoğlu claims that Turkey “will spare no effort in fulfilling its critical responsibilities, to steer the platform so that we achieve our ambitious targets.”11 In particular, the hosts have placed great emphasis on the need for the G20 to deliver on the growth strategies that leaders endorsed in Brisbane. If fully implemented, the 1000 plus commitments, macroeconomic policies, and reforms are estimated by the IMF and OECD to raise economic growth by more than 2 per cent over a five year period, delivering better living standards and jobs.

This year, the G20 will need to demonstrate how much of the ‘more than 2 per cent’ has been delivered since Brisbane, and explain what further steps will be needed in future years. Even with the best of intentions, not all measures will be implemented, and it is clear that members will need to lift their ambition and that additional measures will need to be announced. Given the central position of growth in the G20’s narrative, the implementation of country commitments is critical to the credibility of the G20.

9 Ibid.
10 "Introductions and Leaders’ Perspectives: Building the world we want to live in," G20 - The Australian Summit: Brisbane, Newsdesk Media and G20 Research Group at University of Toronto, November 2014.
However, as John Kirton and Julia Kulik note, IMF, OECD, and World Bank forecasts have not yet accounted for G20 actions, even 15 months into the five year plan. They point to an inherent contradiction in global economic policy-making: the gloomy forecasts by international organisations are at odds with the apparent success of collective G20 efforts to lift growth. Critics argue that the G20’s collective growth ambition was doomed from the beginning because it relied on domestic actions and the G20 lacks the enforcement mechanisms to guarantee that members comply with their commitments. Proponents of the growth target argue that the headline figure is secondary, and that the real policy achievements come from members agreeing to take actions that they otherwise would not have. Now that the commitments have been made, it is up to domestic constituencies to hold leaders to account.

The credibility of the growth strategies therefore depends on monitoring the policy commitments. The G20 is relying on internal peer review and an IMF assessment to be delivered to leaders in November 2015. These efforts reflect a great advancement on previous G20 accountability processes, and the G20 should be rightly commended for committing to many more measures than in previous leaders’ summits. That said, more could be done to engage the public. In particular, there has been little public discussion of G20 commitments and a noted lack of public criticism when leaders have not fulfilled their respective promises. Countries vary in how much of their growth strategies they disclose, and few people are able to ascertain what their leaders have specifically committed to. The G20 missed an opportunity to publicly release a comprehensive and easy-to-access list of the 1000-plus measures and the IMF/OECD methodology used to calculate their growth impact. Kirton and Kulik propose some new public accountability mechanisms that could lead to more active public engagement.

INVESTMENT

Boosting investment remains a long-standing challenge facing all G20 governments, and recent presidencies have placed it high on their list of priorities. However, it has been difficult for the G20 to move beyond rhetoric, and for its members to undertake concrete measures that actually increase investment. Stephen Grenville considers Turkey’s ambitious ‘supply-side’ goals to raise public investment levels through the preparation of country investment plans that tackle ‘the bottlenecks

impeding growth’. The hosts appear to have hit a stumbling block in achieving consensus support from the G20 membership.13

Attention is now likely to turn to ‘demand-side’ solutions, including enhancing project preparation and the encouragement of private-public partnerships (PPPs). Grenville’s paper cautions against the overuse of PPPs and outlines the important considerations when deciding between types of investment. Greater opportunities are likely to come from progressing the G20’s multi-year global infrastructure initiative, and in particular, the Global Infrastructure Hub that leaders announced at the Brisbane Summit.

The implementation of the Hub will be critical to G20 efforts to demonstrate that it is able to take real action on investment. Ideally, 2015 should see the consolidated database of infrastructure projects made accessible to G20 members, reports of firm steps in the development of the knowledge-sharing platform and network of those involved in infrastructure projects, and the presentation of clear, albeit preliminary, examples in which the Hub has matched investors with appropriate projects. Operational arrangements for the Hub, including the CEO and staffing, should be announced as soon as possible.

HEALTH

When he addressed the Think20 2015 launch event of the Turkish Presidency, Deputy Prime Minister and Finance Minister Ali Babacan asked the network of G20 think tanks to “develop new initiatives, new ideas, new polices, and new projects” that would overcome the G20’s areas of “professional blindness.”14 Hannah Wurf and I explore one such area: the potential for the G20 to address the gaps in global health governance. The Ebola epidemic demonstrated that cross-border health security adds an important dimension to long-term economic resilience. We suggest that the G20 develop a narrowly targeted global health risk agenda, focused on improving WHO operations, increasing health risk surveillance, and securing the development of medicines and vaccines that predominantly benefit the poor.

---

14 Ali Babacan, “Opening Address at the T20 Launch Event.”
INCLUSIVE GROWTH IS GROWTH

LEON BERKELMANS

The G20 was at its best in April 2009. In London that month, G20 leaders agreed to mobilise funds for the IMF and other multilateral lenders. This was a performance from the top shelf. Leaders coalesced, in quick time, around an urgent need, and addressed it. The need was international, and the solution could only be provided in a multilateral environment such as the one the G20 provides.

The G20, however, seems much less effective when addressing issues that are national in scope. And the reasons are clear. Policy-making on national issues involves competing priorities and vested interests that are powerful within a nation’s boundaries. The G20 has little power in such fights, especially when the gains from international coordination are limited.

The G20 therefore needs to pick its battles carefully. It should focus its attention on where it can wield real influence. Its attention is now focused on the three ‘i’s of the Turkish Presidency: inclusiveness, implementation, and investment. While not passing judgement on the latter two of the three ‘i’s in this paper, I hold great fears that ‘inclusiveness’ is an area where the gains from international coordination appear small, and where the G20’s voice will be overpowered by domestic politics.

In setting out the priorities for the Turkish Presidency, Turkish Prime Minister Ahmet Davutoğlu stated: “We must ensure that the benefits of growth and prosperity are shared by all segments of the society.” I therefore begin this paper by considering the biggest development in economic growth over the past 30 years, if not longer: China. I ask how China’s growth has affected the less well-off in other countries, both developed and developing. Looking forward, I conclude that China can benefit the less well-off most by just continuing to grow. I then focus attention on the domestic effects of any given country’s growth and again conclude that the best way to increase the incomes of the poor, wherever they live, is through economic expansion. I finish by identifying some issues where the G20 can play an important, even decisive, role, in affecting the living standards of the poor, without having to invoke ‘inclusive growth’; namely climate change and taxation.

---

1 Director, International Economy Program and G20 Studies Centre, Lowy Institute for International Policy.

WHAT ONE COUNTRY CAN DO FOR OTHERS: THE CASE OF CHINA

Since the beginning of economic reforms in 1978, the Chinese economy has increased in size around 25-fold, for an average growth rate per year of around 10 per cent. This growth is unprecedented. Chinese growth has led to high demand for commodities and increasing commodity prices. These price increases have been a major channel through which Chinese growth has affected other countries.

Has this been good or bad for the less well-off in other countries? It depends upon whether the less well-off are net consumers of commodities or net producers of commodities. This differs across countries, so there is unlikely to be any hard and fast rule for the impact. Even if the overall effect were not ambiguous, what should be done about it? The effects of commodity prices reflect simple demand and supply forces. There is little that governments should do to directly intervene, except to make sure that price signals are properly reflected in consumption and production decisions — but this is a domestic decision that will be primarily influenced by domestic political economy considerations.

Chinese growth has also affected the price of goods it supplies. China primarily exports manufactures, historically at the low end of the value chain, but increasingly it is moving towards higher-end products. These exports have pushed down the price of these goods. The effects on the lower end of the income distribution in other countries will, again, be dependent upon whether they tend to be producers of these goods or consumers of them. It may be that some of the poor have their wages competed down by the labour force in China, but there may be other elements, depending upon the country, that benefit from $20 microwave ovens. And we are again left with the question: what should be done to directly address these forces of supply and demand, even if the effects were unambiguous? The answer is probably not much.

This is not to deny that China’s growth, or the growth of any country, has aggregate spillovers. For example, in a recent paper Dani Rodrik points out that the growth of East Asian exports appears to have adversely affected industrial growth in Latin America. However, the optimal response to these spillovers would be unlikely to come from a grand bargain between states. There is certainly very little that falls into the core competency of the G20 that could help address these effects. Rather, it would seem that Latin American countries should adopt policies to assist in the growth and development of their own economies, a process primarily dependent upon their internal political economies.

There is something, nonetheless, that China could do to help the world’s poor: keep growing. Take the example of Latin America. As China moves up the value chain, it would no longer be in direct competition with industries in those countries. Also, as it develops, China’s foreign investment program will expand, providing much-needed formal-sector jobs, notably in places like Africa. Moreover, China’s continued growth will take it closer to the innovative frontier. It will contribute more to scientific progress and deliver more solutions to the problems the world faces. That will be good for all — rich or poor, developed or undeveloped.

**INCLUSIVE GROWTH IS...GROWTH**

So, it would seem that the best thing that China can do to promote inclusive growth in other countries is to just...grow. I would argue that this is true of other countries too. The world is benefiting right now from a strengthening US economy, but the problems in Europe, although possibly receding, are doing nothing to help the poor.

If growth is the main way countries can help others, what can they do to help the poor in their own backyards? Again, the answer seems to be, simply, grow. That is a claim forcefully made in a classic paper by Dollar and Kraay, which has since been updated by Dollar, Kleineberg, and Kraay.4

The updated study uses a panel covering 118 countries across four decades to investigate the relationship between the growth of incomes of those at the bottom of the income distribution, and the growth of the overall economy. They find a robust one-to-one relationship; if an economy grows by 1 per cent, the incomes of the poor also tend to grow by 1 per cent. Interestingly, they find that growth is most pro-poor in Latin America, where the relationship is slightly above one-to-one, and least pro-poor in Asia, where it is slightly below. However, because Asia grew the most, the poor in those countries actually saw the most growth in their incomes compared with the poor in other countries.

These authors found it difficult to identify any policies that make growth more pro-poor, concluding that:

There is no robust evidence that certain policies are particularly ‘pro-poor’ or conducive to promoting ‘shared prosperity’ other than through their direct effects on overall economic growth.5

---


5 Ibid.
The importance of growth is paramount. They find that 77 per cent of the cross-country variation in growth in incomes of the poorest 40 per cent of the population is due to variation in the growth of average incomes.

This point was also made in the context of the United States in the 2015 Economic Report of the President. Focusing on the middle class rather than the poor, the report showed that if inequality had remained constant from 1973, the income for the typical household would have been $9000 higher than current levels. However, if productivity growth had continued on its pre-1973 trend, then the median household income would have been $30 000 higher.

Nonetheless, inequality has touched a nerve of late. The drive to focus on inclusive growth in the G20 is evidence of that. So also is the phenomenon of Thomas Piketty’s Capital in the Twenty-First Century. In the early chapters of his remarkably popular book, Piketty challenges the Kuznets curve, the claimed empirical regularity that inequality initially rises with income, then falls as an economy develops.

This is all well and good. Piketty may be right, but this need not imply that growth leads to inequality. Indeed, if any meme from Piketty’s book has penetrated the public psyche, it is \( r - g \), where \( r \) is the interest rate and \( g \) is growth. In Piketty’s analysis, capital income plays an important part in inequality, and capital income is, in part, determined by the wealth to income ratio. A high interest rate leads to more wealth accumulation because the holders of wealth earn a higher return. However, growth reduces inequality by expanding the denominator in the wealth to income ratio. So, in fact, in Piketty’s framework, growth is instrumental in bringing inequality down.

**CAN THE G20 DO ANYTHING ABOUT IT?**

It appears, then, that inclusive growth is just growth. So what determines that? Prior to Piketty’s book, Daron Acemoglu and James Robinson were at the top of the international bestsellers list with Why Nations Fail. This book brought to the table more than a decade’s worth of work by the authors, and others, on the importance of domestic institutions in determining growth. In particular, it is the power of elites, and whether institutions are extractive — so the fruits are enjoyed by the elite alone, or inclusive — where the rewards from economic growth are widely shared, which fundamentally determines economic performance.

---

There is little to nothing in Acemoglu and Robinson’s popular and influential framework to suggest that international pressure will have a significant effect on domestic institutions, other than some isolated examples, such as the case of South Africa. However, the international community (including an organisation like the G20) is just not powerful enough to drive domestic reform. The G20 has a hard enough time winning over national assemblies on topics that are its bread and butter; consider the difficulties IMF reform faces in the US Congress.

But have not we just seen the completion of a successful Australian Presidency, where countries rallied around a growth agenda and made commitments that will increase global growth by two percentage points? I think this is the exception that proves the rule. The Australian Presidency had a laser-like focus on growth. However, the IMF and the World Bank do not appear to have changed their forecasts of world growth in response to the agreement.9 This is despite the fact that the IMF was involved in measuring the predicted impact of the 2014 commitments. It seems that international organisations either accounted for the fact that these actions would have likely gone ahead in G20 countries regardless of the agreement, or they suspect that the commitments are not going to be implemented in full. In any case, it leaves questions about whether or not international soft power has much influence on domestic growth policies.

**TAX AND CLIMATE CHANGE**

There is still a role for the G20 to assist the world’s poor. It just has to be focused on areas where international agreement is feasible, even necessary, for success, while at the same time avoiding weighing in on political fights that are national in scope. A number of areas spring to mind.

The poor are especially vulnerable to any changes in climate, and measures to address climate change will certainly have to be part of an international agreement.10 While there are powerful domestic forces pitted in battles over climate change, it is unlikely that there can be any meaningful action without international agreement. The G20 can facilitate that international agreement, for example on either an emissions trading scheme or a carbon tax. These responses require collective action, and so is exactly the kind of thing the G20 should focus on.

---

9 This is explored in more detail in John Kirton and Julia Kulik, “Advancing G20 Accountability” in *Investment, Inclusiveness, Implementation, and Health Governance*, G20 Monitor No. 16 (Sydney: Lowy Institute for International Policy, 2015).

International taxation is also an area where the G20 is well placed to generate good outcomes. The ability of multinational companies to pay only small amounts of tax on their profits has been politically challenged over the last year, and moves are afoot to help redress the balance. This matters for the distribution of income because capital income is typically earned by the wealthy. If capital income avoids taxation, then more of a burden must be borne by labour income. Add this to the trend of a lower labour share of income across the world, and the squeeze on labour becomes even more acute.\textsuperscript{11}

Coordinating the response to these developments seems like something the G20 is perfectly poised to do. It is an area that needs international cooperation and coordination to be effective. If there are countries that do not participate, this may leave loopholes that can be exploited. In this regard, coordinated changes to transfer pricing rules, for example, are welcome, and will hopefully be effective. There is also a role here for developed countries to coordinate on providing assistance and taxation capacity building to developing countries, as is happening now. This can ensure that developing countries collect revenues that are their due, while at the same time ensuring they do not act as a haven for others to avoid tax.

ADVANCING G20 ACCOUNTABILITY

JOHN KIRTON AND JULIA KULIK

At the Brisbane Summit in November 2014, G20 leaders announced an ambitious promise to raise their countries’ growth by 2 per cent or more above the baseline estimated in October 2013 by 2018. They created the Brisbane Action Plan (BAP), containing about 1000 specific steps they would collectively take to meet this goal. The IMF and OECD added up these steps and certified that they were enough to reach the goal — if they were implemented in full.

In a bright burst of hope, the G20 promised to implement the Brisbane growth strategy with the aid of an accountability mechanism. They thus correctly recognised that the product is the process; that producing the promised growth depends critically on the process of implementation by monitoring and assessing how well each step is being undertaken and by whom, bringing the laggards up to speed, and adjusting or adding action as needed to meet the goal. The achievement of the BAP and the overall credibility of G20 governance depend critically on such an accountability process. However, the G20 missed a great opportunity by not publicly releasing a central list of the measures and the IMF/OECD methodology, to allow proposals to be assessed by citizens. It is therefore difficult for citizens to hold leaders to account for their growth commitments, and the international community has been robbed of an important enforcement channel.

Three months after the Brisbane Summit, when G20 finance ministers and central bank governors met in Istanbul, implementation did not appear to be on track. The IMF World Economic Outlook (WEO) released on 19 January 2015 revealed that the rate of growth had dropped, but as with other recent forecasts by international organisations, it did little to acknowledge G20 efforts to boost growth. G20 ministers and governors then gloomily emphasised that growth was slow, slowing, and uneven, demand weak, job prospects bleak, income inequality rising, and trade growth low. But no new actions were pledged to fill the gap.

---

1 Professor of Political Science and Director of the G8 Research Group, and Co-director of the G20 Research Group, University of Toronto; and Senior Researcher for the Global Governance Program, University of Toronto.


In all, although an improvement on previous processes, the accountability process launched in Brisbane had some flaws that the Istanbul meeting did little to ameliorate. However, the G20 can be put back on track. G20 countries have a respectable record of complying with their previous summit commitments and the Turkish Presidency has identified implementation as a priority in 2015. Given the clear commitment of G20 members to boost growth and the accumulating evidence about what actually improves implementation, an effective accountability architecture can still be built to assist Antalya to achieve its growth goal. This paper suggests how.

A FIRM FOUNDATION

In identifying and introducing this action-oriented accountability architecture, there are three pillars on which to build.

First, past G20 summits have a respectable record of implementation. The best publicly available compliance data, produced by the G20 Research Group at the University of Toronto and the Higher School of Economics in Moscow since 2009, shows that the system works in adequately delivering the decisions made. The 130 priority summit commitments assessed for members’ subsequent compliance from the nine summits held thus far show that compliance has always been positive, but not evenly so. It was high for Washington at 83 per cent, plunged for London to 54 per cent then rose for Pittsburgh to 67 per cent, and has stayed at about or above 70 per cent since.

Second, this data has started to show which accompanying accountability processes actually assist implementation. These are particular compliance catalysts contained in the commitment, notably a one-year or short-term timetable, priority placement, and reference to the core multilateral organisation for the issue rather than multiple multilateral organisations. Reinforcement from subsequent finance ministers’ meetings indirectly helps. The arrival of independent accountability assessments of G20 summit compliance is consistent with the rising trend in that compliance since 2009.

Third, the Turkish Presidency has said from the start that implementation stands first alongside investment and inclusiveness as the three key Antalya Summit themes. Turkey’s leaders have repeatedly promised that they would publicly assess the compliance of all G20 members with all G20 commitments, in an ongoing and transparent fashion. However, Turkey has not yet publicly identified how it will do so, nor if it is already doing so or will only start in November after the Antalya Summit ends.

5 For further information, see the G20 Information Centre, University of Toronto, 2014, http://www.g20.utoronto.ca/summits/2014brisbane.html.
This raises key questions: will this particular approach to accountability assessment work, and why wait another year to start?

DEVELOPMENTS AT THE BRISBANE SUMMIT

Although an improvement on previous G20 accountability processes, the Brisbane Summit’s process on implementation and accountability has its flaws.

In their unusually short communiqué, leaders did not give their ‘2 per cent plus’ promise priority placement. When it appeared in Paragraph 3, they did not directly commit to reaching it, but merely described what had already been done. They did not identify the baseline, the component commitments, or the number of commitments. They noted the need for members’ commitments to be “fully implemented” but did not specify interim targets or a timetable with short-term instalments for the following five years.

In Paragraph 4, the G20 leaders proclaimed:

We will monitor and hold each other to account for implementing our commitments, and actual progress toward our growth ambition, informed by analysis from international organisations. We will ensure our growth strategies continue to deliver and will review progress at our next meeting.

Yet how they would do this remained unclear. What was clear was that a progress review would wait for a full year, with no chance for the public to engage in efforts to identify and act on any shortfalls arising beforehand.

Nor did the leaders personally help the cause. As host, Australian Prime Minister Tony Abbott started the summit by identifying two Australian commitments he said would be politically tough to keep. This soon proved to be the case. Even if raising the costs of seeing a doctor and going to university were smart, surefire ways to generate growth, the Australian government was forced at home to abandon these promises within months. Moreover, right after the summit, Australian Treasurer Joe Hockey revealed that Australia’s total commitments added up to a 1.2 per cent rather than a 2 per cent boost. No one said what other members’ totals were.

To be sure, the fine print of the eight-page BAP and the two-page Accountability Assessment Framework accompanying the communiqué did invoke a few items intended to improve implementation. But within the G20, leadership on accountability appeared to be assigned to almost everyone, and thus no one.

---

6 G20, G20 Leaders’ Communiqué, Brisbane, November 2014.
7 Ibid.
everyone, and thus no one. Outside the G20 it was given to several other international organisations, with the IMF and OECD assigned the lead. Progress reports through the year would be about accountability “discussions” rather than findings, and about the growth “strategies,” not about boosting G20 GDP by more than 2 per cent by 2018. This would all be done in private, as G20 finance ministers and central bank governors and the bodies they controlled engaged in ‘peer pressure’, presumably without peer protection, to give themselves their own grades.

Three months later, all outsiders saw was that the BAP was not reliably and rapidly moving towards the 2 per cent plus goal. The WEO of 19 January 2015 said global growth in 2015 would be only 3.5 per cent, down from the 3.8 per cent it had estimated on 7 October 2014. Growth was downgraded in all major G20 member countries, with the exception of the United States and the United Kingdom. The rest of the G7 was downgraded. China fell by 0.3 per cent, India by 0.8 per cent, and Russia (radiating geopolitical risk) by a stunning 3.5 per cent. Geopolitical tensions received only one brief reference in the Brisbane communiqué, which was silent about the war in Iraq and the plummeting price of oil.

The OECD’s Going for Growth Report released on 9 February 2015 identified important areas where the pace of reform had declined. Growth had “slowed in most advanced economies…and had remained weak, and has even been declining, in…most euro area core countries.” For the United States, it highlighted declining labour force participation, and for China, the need for a level playing field and less state involvement in business, financial sector reform, and improved tertiary education.

These forecasts have an important link to the G20 and are the next logical stage in ensuring that policy commitments will actually add to economic growth. That the IMF, OECD, and World Bank consistently fail to account for the G20 actions in their forecasts, on both a quantitative and qualitative basis, suggests one of two things: that the effects of growth strategies have been already accounted for and therefore do not need to be acknowledged, or that the international organisations do not yet believe that the measures will have an appreciable effect on growth. It was always unlikely that growth would be achieved in a linear fashion, but the January 2015 forecasts occurred 15 months after the October

---

8 IMF, World Economic Outlook.
2013 baseline, or 25 per cent of the way into the five year commitment. In either case, there has been little from international organisations to date to suggest that growth will actually be delivered.

INCREMENTAL IMPROVEMENTS AT ISTANBUL

Incremental improvements came from G20 finance ministers and central bank governors at their meeting in Istanbul on 9–10 February 2015.

The Istanbul communiqué began by highlighting the slower growth and greater risks that had appeared during the preceding three months. Ministers and governors declared:

Against this backdrop, we are determined to overcome these challenges and deliver on our leaders’ commitment to achieve our objective of strong, sustainable and balanced growth, and to create jobs and foster inclusiveness.11

The 2 per cent plus target had been de-emphasised in their communiqué.

The broader BAP appeared in Paragraph 7. Finance ministers and central bank governors again promised the “effective and timely implementation” of their growth strategies, but added that they would review them “to ensure that they remained appropriate in light of changing circumstances.” This implied that they could be deemed inappropriate, and thus adjusted or even abandoned. This could create confusion rather than confidence about staying the course, especially as there was no hint that stronger additional growth-boosting action could result.

To conduct the review they introduced an accountability self-assessment that diminished and delayed the realisation of the goal. Ministers and governors declared:

Thus, we agreed to develop a robust framework to hold each other to account and monitor progress towards our collective growth ambition. While we remain committed to implement our entire growth strategies, we will consolidate our monitoring mechanism by mostly focusing on the key commitments that have the greatest impact on growth. We will present the first accountability report of the implementation of our growth strategies at the Antalya Summit.12

Left unexplained was why the governments of the world’s 19 most powerful countries and the EU, along with their mighty multilateral

---

12 Ibid.
organisation partners, which had had the capacity to make and assess the initial 1000 or so commitments, could now not monitor the implementation of all or most of them. It was unclear which commitments were considered key, how this would be determined, and who would decide.

Elsewhere, on the G20’s financial reform agenda, finance ministers admirably recognised “the importance of timely, full and consistent implementation of agreed reforms” but agreed only to “look forward to the Financial Stability Board’s annual report that will address the progress of implementation and effects of financial regulatory reforms.”

Receiving a routine progress report once a year from a group they controlled was all that was considered necessary. On the broad infrastructure agenda they promised only that “we will closely monitor progress in preparation of toolkits to assist developing countries in implementing the Base Erosion and Profit Shifting actions.” On terrorism they just urged “all countries to speed-up their compliance with the relevant standards.” On Ebola and health, they merely welcomed “progress made by international organizations to assist affected countries.” On energy, they offered nothing at all.

ADVANCING ACCOUNTABILITY FOR ACTION

There is an urgent need to introduce into the G20 process an accountability architecture that actually works. It would be added to what the B20 has already agreed, but would add value to and go well beyond existing processes in several ways.

At their upcoming meeting in Washington on 16–17 April, G20 finance ministers could publicly report on the accountability assessment framework, and on preliminary findings regarding implementing actions and growth-enhancing results. They could also reveal the full list of the 1000 or so Brisbane country commitments along with the estimated growth effect of each — as already calculated by the IMF and OECD. They could identify the ‘key’ commitments they spoke of at Istanbul, how these were chosen, how well they are being implemented, and what growth effects they are estimated to have. They would need to do this with sufficient detail to enable any interested independent economist or other relevant expert to check, confirm, or correct the calculations, and on this basis suggest what additional actions could be considered to help reach the 2 per cent plus goal. The OECD would assist by starting, in its regular Going for Growth reports, to link the reforms of G20 countries to their specific Brisbane commitments, and to focus on their implementation action in the current year.

They could also reveal the full list of the 1000 or so Brisbane country commitments along with the estimated growth effect of each...

13 Ibid.
G20 finance ministers could further announce that they would hold a workshop in the following months where the assessors from G20 governments, international organisations, leading independent economists, and expert compliance assessors would come together to compare methods, data, and results, and consider how to improve both the accountability process and the actions needed for the desired growth. G20 engagement groups such as the Think 20, and non-government organisations such as Transparency International could also contribute.14

At their September meeting, finance ministers should agree to immediately implement those commitments that their leaders made at past summits but have not yet been complied with, that contain or reinforce Istanbul’s ‘key’ commitments, and that have been certified by the multi-stakeholder workshop as most likely to work. To demonstrate the serious political commitment of past, present, and future hosts to this objective, the leader of Turkey and his troika colleagues should attend this meeting, especially if growth patterns and projections continue to drop. This meeting would also identify which of the Brisbane commitments must be implemented, and by how much, in each of the four remaining years in order to hit the 2018 goal. It would further initiate analytical work on a multi-disciplinary and multi-stakeholder basis to identify how geopolitical risks are harming each of the commitments in the Brisbane collection and how the risks for the key commitments could best be reduced.

It is too soon to say with confidence what the resulting shortlist of such mid-course corrections should be. But several stand out as attractive candidates. The first is the full phase-out of inefficient fossil fuel subsidies by 2015, as leaders committed to do at the Pittsburgh Summit in 2009. This fulfilment would also contribute to reducing the climate change risks in the event of stalled negotiations at the UNFCCC Conference of the Parties in Paris in December 2015. A second is deficit-friendly, confidence-creating trade liberalisation, by successfully concluding the Trans-Pacific Partnership and agreeing to full free trade in environmental goods and services among all G20 members and others who wish to join.

There are two overall recommendations for G20 accountability. First, produce what you promised in the past. Second, include your domestic publics in the process of accountability assessment more actively, for it is the national constituencies that political leaders are most responsible for and responsive to.15

15 Mike Callaghan, “The Growth Dilemma.”
With improved public reporting and a participatory process backing the announcement, there would be greater credibility and confidence...

Through such steps, the G20 leaders at Antalya could convincingly and credibly declare success by announcing that they are well on the way towards meeting their 2018 target, and maybe even that G20 growth at the end of 2015 will be at least 2 per cent more than it was estimated to be in October 2013. If the best estimates show that they fall short, they would commit to self-correction by identifying measures they would implement immediately (and add to the Brisbane collection). With improved public reporting and a participatory process backing the announcement, there would be greater credibility and confidence, making accountability assessment a contributor to growth in its own right.
ARE PPPS THE ANSWER FOR INFRASTRUCTURE DEVELOPMENT?

STEPHEN GRENVILLE

One of the often-heard advantages of private-public partnerships (PPPs) is that they can tackle the infrastructure backlog without putting already stretched government budgets in further difficulty. PPPs feature largely in any discussion of infrastructure. The logic is that what cannot be funded by the government should be done in partnership with the private sector, to be implemented via PPPs. Turkish Deputy Prime Minister Babacan’s speech to the recent T20 meeting, which immediately followed the first finance ministers meeting of the Turkish Presidency, captures the essence of this approach:

Some countries do not have the budgetary room to raise investment spending: they have high debt rates, are undergoing fiscal consolidation, and are hardly able to cut down budget deficits and debt rates. When we ask them to raise investments, they talk about budget constraints. Consequently, public-private partnerships need to gain more prevalence all around the world.

The statement provides insight into two important dimensions of the Turkish approach to investment during its 2015 G20 presidency. The first is that the initial Turkish goals for countries to raise public investment levels, including through the preparation of concrete and ambitious country investment plans “to tackle the bottlenecks impeding growth” and binding targets, appears to have hit a stumbling block in achieving consensus support from the G20 membership.

The second is that, with investment a core priority of the Turkish G20 Presidency, attention will likely turn to ‘demand-side’ solutions. This...
could include enhancing project preparation through developing more efficient PPPs and better project prioritisation, and exploring new equity-based modalities of asset-based financing. Much of the G20’s role in project preparation and prioritisation is to be considered through the G20’s multi-year global infrastructure initiative, outlined by finance ministers in September 2014, with action to be taken through the Global Infrastructure Hub that leaders announced at the Brisbane Summit. Implementation of the Hub needs to be a focus of 2015 efforts if the G20 is to demonstrate that it is more than a talk shop; that it is able to actually take action on this issue.

In December 2014, Deputy Prime Minister Babacan indicated to G20 finance officials that Turkey has also asked the World Bank to study how to standardise PPPs and make them easier to securitise, with a particular emphasis on affordability, feasibility, and risk sharing. This paper explores the role of PPPs in more depth.

PPPs are generally seen as the residual model of choice for investment, given: 1) the infrastructure backlog in many countries; 2) the shortage of budget funds; and 3) the reluctance (or inability) to fully delegate infrastructure ownership and management to conventional private enterprise for historic reasons or because of the specific characteristics of infrastructure.

The basis of this approach needs to be questioned. Even the first of the three initial conditions is open to debate, although it will not be addressed here. The second needs some expansion. Although budgets around the world are under strain, traditional practice has been to fund infrastructure from current revenue. Capital expenditure on infrastructure assets should be separated from the current budget.

The third condition is often based on history (the service has always been provided by the state, with the necessary infrastructure owned by the government), and there is always inertia inhibiting change. In addition, the infrastructure has characteristics that make it difficult or impossible to hand over to the free operation of the private sector, governed only by the market and the normal rules of commerce.

Let us look more closely at these last two conditions.

---

6 Ibid.
7 Tristram Sainsbury, “Policies for the Turkish 2015 G20 Presidency.”
DEBT CONSTRAINTS ON THE BUDGET

Often a budget debt constraint is imposed by law or regulation. In other cases it is a practical consideration either to discipline the budgetary process (and put constraints on pork-barrel politics) or to reassure financial markets (and credit rating agencies).

Traditional budget accounting complicates the decision-making process for investment decisions. Infrastructure investment is large-scale and long-lived, with the return (whether seen as a stream of revenue or a stream of services provided to the public) spread over many years. The benefit may also largely accrue to future generations, who might reasonably be expected to bear the cost. This suggests that it should be funded by debt issue. Such debt should be considered differently from budget deficit funding on ‘current expenditures’ such as social services. It is sensible to put in place restraints to stop current generations from leaving this latter sort of debt legacy to future generations.

The key conceptual distinction comes from the creation of a viable asset. When the expenditure creates a viable asset, this is better seen as a balance sheet item, where the assets are balanced by the debt liabilities. If government accounts were drawn up in this way, it may be both feasible and sensible to ease the binding constraints on infrastructure debt, and persuade the credit rating agencies that this debt should be treated differently in setting credit ratings. Of course, part of this assessment is whether the project will earn a self-sustaining flow of income. But even if the asset is not financially self-sustaining in that sense, proper accounting would treat the asset financing as a balance sheet item, with the subsidies/losses included as part of the current budget accounting framework, and with the project’s sustainability judged in that context. This would allow a logical assessment of the fundamental value of the project: can its ongoing subsidies/losses be justified? This is a prior and separate matter from the financing.

The key point here is that viable infrastructure projects will provide services to the community for the (usually long) life of the asset, and so debt financing of one type or another is justified, serviced, and repaid from the earnings stream of the project or, where the project is socially justifiable but not self-funding, from budget current expenditures.

9 A common public perception is that increasing government debt is undesirable and synonymous with financial imprudence. When governments are deciding to borrow, it is important to consider the purpose and the existing level of indebtedness. See Australian Government Productivity Commission, Inquiry Report.


11 Of course, if a project cannot justify this expenditure, it should not go ahead in the first place.
CONSTRAINTS ON PRIVATISATION

There has been a great increase in private sector infrastructure in recent years, reflecting changes in both technology and mindsets. Technology has transformed sectors such as telecommunications. Previously this would have been considered a natural monopoly, and thus difficult to transfer to the private sector. With mobile technology, the normal forces of competition can apply. But there are also many examples where industries once thought of as intrinsically ‘public’ have been privatised, with social objectives managed through regulation.

There has also been a greater readiness to ‘unbundle’ services and investment, transferring only part of the process to the private sector. For example, the government might maintain ownership of the ‘poles and wires’ of electricity supply (seeing these as a utility that should be open to all who want to use it to supply consumers), while the private sector generates power (with competition from various suppliers) and sells the power to individual customers (with competition providing discipline on pricing and quality of service).

There is a strong case for privatisation where the nature of the project is suitable. If an infrastructure project is commercially viable, why not allow the private sector to implement it as a private enterprise? Not all projects, however, will be suitable. Whether a project is retained within the public sector or is carried out by state-owned enterprises (SOEs) or by the private sector depends largely on the nature of the project, not on the financing. The special nature of infrastructure (e.g. a utility) may well dictate that it stays in the public sector because the regulatory challenges of achieving the project aims via private ownership are too difficult.

The proper decision sequence for infrastructure projects might go like this:

- Does a project pass a rigorous cost-benefit test either as a stand-alone profitable enterprise or as a public service that justifies public subsidies over the lifetime of the project? This weeds out the ‘white elephants’.

- Do the characteristics of the project mean that it is better in the public’s hands or under private-sector management? For example, a privatised asset should have enough competition to ensure efficient

---

12 Emily Poole, Carl Toohey, and Peter Harris “Public Infrastructure: A Framework for Decision-making,” Financial Flows and Infrastructure Financing. See also: Chong and Poole, “Financing Infrastructure.”

13 Some infrastructure characteristics that are more challenging to hand over to private sector include: large projects where the investment may lock in specific technology and determine expansion options; if there is a natural monopoly; if they are public goods with non-excludability complications; and if they require complex regulation and performance standards.
pricing and appropriate service quality. Could this be achieved through regulation or administration of the pricing? Is this a utility-type asset that should be open to all potential users?  

WHEN WILL PPPS BE APPROPRIATE?

If all the projects that can effectively be done by the private sector are, in fact, privatised, then projects suitable for implementation as a PPP are likely to be intrinsically ‘public sector’; that is, they require a high degree of public involvement. Why not leave them in the hands of the public sector?

In fact, past experience, consistent with this question, suggests fairly limited scope for PPPs. Despite the voluminous discussions of PPPs, true PPPs have been fairly rare, and very little infrastructure has been put in place using this model. Australia has been a keen proponent for many years, yet only about 5 per cent of infrastructure actually built has used the PPP model. PPPs were used to finance less than 10 per cent of total public infrastructure investment in a sample of OECD countries.

Historically, most PPPs have arisen from financing constraints. These were projects that governments did not want to hand over to private enterprise, but that could not be funded by official bond issue due to constraints on issuing official debt. The best answer here would be to remove the constraint, allowing debt within a public balance sheet. If this were to be done, PPPs would form an even smaller proportion of infrastructure investment. With this in mind, where will PPPs find an appropriate role, and how can the government benefit by partnering in implementation and longer-term management of an infrastructure project?

Participation of a private partner may bring skills that are lacking or scarce in the public sector during construction and the operational life of the project. The PPP format, with its focus on a single project, attention to whole-of-life cost-benefit, and sharper management of the private sector, could deliver a better outcome for the public. Private-sector managers may be better placed to avoid over-manning and poor work practices. At the same time, the private sector could deliver aspects that

---


15 True PPPs are distinct from projects where the private sector has provided project financing, usually as part of export promotion by the foreign supplier, while the public sector retains management control. See also Poole, Toohey, and Harris, “Public Infrastructure.”

16 Ibid.


the government is unable to achieve, usually for political reasons, such as efficient (user-cost) pricing, especially where a service has traditionally been either provided for free or heavily subsidised.\textsuperscript{19} PPPs represent another level of scrutiny, which may weed out poor projects, depending on the allocation of responsibilities in the contract.

Where the private partner arranges the financing, the cost of funds is likely to be substantially higher than the risk-comparable cost of government financing.\textsuperscript{20} Infrastructure projects are, by their nature, often high-risk. It has frequently proven hard to successfully allocate risk in ways envisaged at the start of a project.\textsuperscript{21} The private sector partner can be more skilled at foreseeing how risks will develop over the course of the project, and can execute a contract that benefits from these skills. At a more basic level, the government has to see the project through to completion, even if the PPP contractor is not performing or goes bankrupt. The government often has contingent risks that eventuate, altering the cost it faces.

Dividing the project between two parties introduces regulatory risk not present for a conventional public project. The profitability of the private sector partner depends on pricing decisions made by the public sector partner, which is aiming to maximise broader societal objectives. Challenges can arise if, say, profit-maximising decisions on capacity are not socially optimal. PPPs therefore require good laws and strong property rights — otherwise they are too risky and expensive.

**WHAT DOES THIS MEAN FOR TURKEY’S G20 INVESTMENT PRIORITY?**

Where PPPs have been undertaken, it has sometimes (perhaps often) been for the wrong reason: because the government’s ability to borrow was constrained, even for potentially profitable projects with high social returns. The only way the project could proceed was as a PPP, with the private partner’s main contribution coming from facilitating financing, bypassing the public constraint, but perhaps at substantially higher cost.

A clearer sequencing in the decision process would help correct this sub-optimal outcome. First, project proposals should be evaluated for intrinsic viability. Finance will be part of this evaluation, as concepts such


\textsuperscript{20} This is not a straightforward calculation. The government can borrow more cheaply than the private sector but the difference between the required return for the private sector and the government bond rate overstates the official advantage. It does not allow for the risk component borne by the government but funded from general revenue if a project operates at a loss. Nevertheless, the financing advantage is great.

\textsuperscript{21} Aspects that often cause poor risk transfer include incomplete contracts (i.e. failure to deliver), which leave the government with the responsibility of bringing the project to completion while the private sector partner goes into liquidation. Renegotiation also puts the government in a weaker position because of the need to complete the project.
as discounted cash flow will of course be relevant. But whether the project is fully privatised, financed by the government, or carried out in the form of a PPP, should not be germane in this first stage of the decision process.

If a project passes this test of viability, the choice between public or private implementation will depend on the nature of the project, not on the financing. Projects whose nature makes them suitable for privatisation should be implemented as such. For the residual projects that are unsuited to privatisation, whether implementation is done solely by the public sector or in partnership with the private sector should depend on what extra value the private sector can add, and at what cost.\textsuperscript{22} Financing enters the decision at this stage to the extent that public and private cost of funds will differ, even risk-adjusted for comparability.\textsuperscript{23}

Financing capacity can be distorted by government accounting (failure to separate current and capital accounts), political constraints, or inappropriate credit rating agency assessment frameworks. Where these constraints can be removed, the first-best solution is to do so. Much of what has happened in the PPP context so far reflects the second-best outcome of being unable to remove these constraints.

G20 countries have a domestic mandate to remove such constraints, although the collective G20 role (above and beyond the actions specified in the global infrastructure initiative) is less clear. The G20’s main contribution to PPPs might be to direct the World Bank and the regional development banks to build their technical capacity to take part in the detailed national evaluation of specific infrastructure projects, when invited to do so by a host country. Such involvement need not be in the context of the development banks providing the financing for the projects under evaluation. As this paper suggests, financing can best be seen as a second-stage decision, after the nature and viability of the project have been established.

\textsuperscript{22} Engel, Fischer, and Galetovic, “Finance and Public-Private Partnerships.”

\textsuperscript{23} Ibid.
CAN THE G20 HELP PREPARE THE WORLD FOR FUTURE HEALTH PANDEMICS?

TRISTRAM SAINSBURY AND HANNAH WURF

A legacy of Ebola must be a stronger system to defend world health security, with rich countries playing a lead role in helping poorer nations strengthen their health systems — Dr Margaret Chan, Director-General of the World Health Organization.

The 2014 Ebola virus outbreak had terrible humanitarian and economic consequences for Sierra Leone, Guinea, and Liberia. It also revealed a darker side to the speed and interconnectivity of today’s globalised world. The rapid international spread of Ebola exposed gaps in the global health governance system and illustrated the potential for infectious disease outbreaks to have a significant negative impact on the global economy. As the premier international economic forum, what do these developments mean for the G20, and what role, if any, should the forum play in addressing future cross-border health emergencies?

This paper argues that when a fast-spreading global health risk threatens the confidence and stability of the global economy, it is well within the remit of the G20 to respond in its role as a crisis management forum. We also argue that there can be a role for an ambitious G20 to address global health governance gaps, thereby mitigating the economic effects of future health crises. Our fear is that without G20 attention, global health governance will remain fragmented, and Margaret Chan’s plea for Ebola’s legacy to be a strengthened world health system will be ignored. We acknowledge that taking action to address health governance would represent a further expansion of the G20’s mandate. However, cross-border health security adds an important dimension to long-term economic resilience, and an agenda that narrowly targets health risks would be a sensible use of G20 time and energy.

THE CURRENT GLOBAL ARCHITECTURE FOR CROSS-BORDER HEALTH EMERGENCIES

There is a complex global architecture that manages health emergencies, involving international organisations, specialised agencies, national and subnational health administrations, research institutions,

---

1 Research Fellow, G20 Studies Centre, Lowy Institute for International Policy, and Research Associate, G20 Studies Centre, Lowy Institute for International Policy.

and private and not-for-profit sector bodies. At the centre of this architecture is the World Health Organization (WHO), which has responsibility for health-related activities within the United Nations, and a mandate to monitor emerging health threats and ensure that governments collaborate towards “the attainment by all peoples of the highest level of health.” Financing mechanisms for health include national governments, the Bretton Woods institutions, bilateral agreements, private foundations, and public-private partnerships. Notwithstanding this complicated global structure, health initiatives are generally implemented on a country-by-country basis, due to the geographically confined nature of most health issues and the diversity of national health systems, which can make it difficult to coordinate actions.

The clearest role for international health coordination appears to be in managing infectious diseases that have the capacity to cross borders. Even here, action is largely taken on a domestic basis, with the WHO creating the legal framework of International Health Regulations (IHRs) in 2005 and fostering a ‘network of networks’. The IHRs are country-specific commitments designed to act collectively as a global safety net in the event of an infectious outbreak, through country cooperation on surveillance, communication, and logistics. In order to implement the IHRs effectively, the system relies upon each country’s capacity to detect, assess, report, and respond promptly and effectively to public health risks of international importance. The varied capacity across the 194 WHO member states, especially among low-income and developing countries, means that at any given time numerous countries will struggle to uphold the IHRs, leaving them (and the rest of the world) vulnerable to global health risks.

For such an integrated global health system to be effective in containing emerging health threats, it needs oversight by a technical body that is able to monitor vulnerabilities, identify gaps in capacity, inform policymakers of gaps and risks, and coordinate international efforts to address those gaps and risks. However, the WHO faces challenges in being able to provide this oversight, and there is currently no other organisation with

---

5 A useful, if somewhat dated, diagram can be found in Figure 1 of Richard Dodgson, Kelley Lee, and Nick Draper, Global Health Governance: A Conceptual Review, Discussion Paper (WHO: 2002). Also see Thomas Bollyky, Laurie Garrett, and Yanzhong Huang, Global Governance Monitor: Public Health (Council on Foreign Relations: 2013).


sufficient capacity. These weaknesses were exposed by the Ebola outbreak.

THE FLAWS IN THE GLOBAL RESPONSE TO EBOLA

Ebola was discovered in 1976 but small-scale outbreaks had been successfully contained prior to 2014.\(^9\) The disease appeared in rural Guinea in December 2013, and by March 2014, Liberia and Sierra Leone had suspected cases.\(^10\) By late March, with the WHO reporting 112 cases and 70 deaths, not-for-profit organisation Medecins Sans Frontières had established the first isolation centre in West Africa; the US Centers for Disease Control and Prevention had sent a five-person team to Guinea; and neighbouring countries had closed borders to prevent the spread of disease. In subsequent months the emergency continued to escalate, reaching 800 cases and 481 deaths by mid-June and culminating in 24,350 cases and 10,004 deaths by 10 March 2015.\(^11\)

The world looked expectantly to the WHO to lead the global response. However, the organisation was ill-prepared to respond to any global, sustained health emergency. The outbreak exposed deep problems with the WHO’s funding, structure, and staff, which contributed to the organisation’s inability to meet its obligation to scale up investment in surveillance and reporting.\(^12\)

The WHO is funded by voluntary contributions and faces severe funding constraints, headlined by the steady real decline in the WHO’s budget since 1994.\(^13\) Its two-year budget, which declined from $5 billion in 2009–10 to $4 billion in 2014–15, leaves it struggling to fund basic functions.\(^14\) The organisation’s core mandate goes well beyond infectious diseases. The WHO is therefore more likely to direct its scarce discretionary resources into areas such as primary care and chronic disease that make a greater marginal contribution towards improving

---


\(^11\) Ibid.


‘health for all’, rather than investing in monitoring and controlling infectious diseases.

Funding constraints have led to cuts to the disease surveillance budget and a reduction in the number of people in the emergency response department from 94 to 34.15 Another consequence is that the IHR regime remains critically underdeveloped. In 2013, only 80 (out of 194) countries were meeting and sustaining the core capacities required for hazard alert and response, and just 100 had surveillance based on international standards for epidemic disease. In addition, no African state successfully implemented the minimum core capacities required to control outbreaks within their borders by the agreed mid-2012 deadline, effectively leaving an entire continent ill-prepared to manage emerging cross-border health threats.

It should not have been surprising when a leaked WHO document admitted systemic mistakes in the handling of the early stages of the epidemic, in basic areas such as staffing and information.16 Facing clear evidence that the IHR regime had failed, Margaret Chan claimed at the peak of the Ebola crisis that the WHO could only offer technical assistance at best, and that it remained up to national governments to provide healthcare.17 Yet it was unclear how countries could best contribute to global efforts. For example, potential volunteer healthcare experts in Australia and Israel, who were able and willing to assist in responding to the outbreak, were prevented from doing so due to domestic concerns about safety and a lack of clarity about evacuation arrangements for infected volunteers. Organisations operating on the ground, like Medecins Sans Frontieres, did not need further financial assistance.18 Chan later admitted that the Ebola outbreak had been a mega-crisis that overwhelmed the capacity of the WHO.19

The leadership vacuum was gradually filled by others, including the World Bank, Medecins Sans Frontieres, a UN special taskforce, and various national governments, particularly the United States. The

15 Ibid.
coordinated international emergency response has been substantial. In early March 2015, approximately $3 billion had been pledged and close to $2 billion already paid or firmly committed, although the UN has called for an additional $1 billion. It currently looks as if Ebola will be contained by the end of 2015, but reaching zero new infections will be a challenge. The focus is already shifting from emergency containment towards ensuring economic recovery in the affected nations.

Key lessons from the epidemic are that the general lack of investment in public health represents a global emergency, and that we have largely ignored the infectious diseases that disproportionately kill the world’s most vulnerable. The G20 can, and should, play a role in contributing towards an appropriate response by addressing global governance gaps.

A ROLE FOR THE G20 IN PREPARING THE WORLD FOR GLOBAL HEALTH EMERGENCIES

The G20 works best when its attention to a leader-level issue translates into progress that could not otherwise be attained. A ‘G20 issue’ should be a vexing problem that justifies a high-level, high-profile process. It should have global implications, for both advanced and emerging economies. There needs to be limited prospects for progress (or even the possibility of regression) without senior political impetus. G20 efforts should also reinforce the proper role of other international organisations, and be clear, well-defined, and of proportionate scale relative to the forum’s other priorities.

It may seem an unlikely forum to respond to health concerns. Until last year, health had not warranted a mention in any G20 finance ministers’ or leaders’ statements. Health policy, for the most part, remains a domestic policy area managed within national borders, and not a matter with global implications.

In September 2014, when finance ministers met in Cairns, they expressed concern about the human cost of the Ebola epidemic and its potentially serious impacts on growth and stability in the affected countries and the wider region, and they underscored the importance of a coordinated international response. This response reflected an

---


21 Lawrence Summers, “We Play with Fire if We Skimp on Public Health.”

awareness of the economic effects of recent public health scares including swine flu, bird flu, and SARS. The largest economic impact does not come from the direct humanitarian and economic effects of infectious diseases, but rather from people changing their behaviour to reduce their risk of exposure, including reduced travel (even to disease-free countries) and reduced spending to minimise contact with others. People tend to take these precautions even if not directly affected by the risks, scaling up a local or regional problem to the global level. G20 finance ministers put their political weight behind coordinated international efforts that were best placed to mobilise a technical solution to the health problem. They also demonstrated that there can be a role for the G20 in providing reassurance and taking the necessary action to re-establish confidence, as it did most notably during the global financial crisis.

At the Brisbane Summit in November 2014, with the international response to Ebola well advanced, G20 leaders released a joint statement that recognised the serious humanitarian, social, and economic impact of Ebola. They urged the World Bank and IMF to continue their efforts as well as address the possibility of future crises. They also recommitted to the full implementation of the IHR regime and pledged to build capacity for IHR in developing countries. Subsequently, the WHO announced the creation of a contingency fund of $100 million and a public health reserve workforce of 1500 people to continue efforts to contain Ebola and to protect against future health emergencies. In addition to these steps, the IMF has created a $100 million Catastrophe Containment and Relief Trust and the World Bank is developing a Pandemic Emergency Facility. In May 2015, the World Health Assembly will discuss further steps to enhance the IHRs.

These initiatives are all valuable and welcome; however, there is scope for the G20 to do more to advance global health governance. We propose the G20 narrowly target the following three areas.

The first area is the WHO: the G20 should use its political weight to reinforce the WHO as the central organisation for responding to health crises. There are currently no organisations that can match the reach or representativeness of the WHO, although the organisation was clearly overwhelmed by Ebola. The G20 should therefore seek to buttress WHO capacity so that it can better oversee global surveillance and reporting systems, and is able to effectively coordinate the rapid deployment of funds, personnel, and medical supplies in a time of crisis.

Accomplishing this goal requires several steps. G20 leaders should provide direction to participants at the World Health Assembly to ensure

G20 leaders released a joint statement that recognised the serious humanitarian, social, and economic impact of Ebola.

---

24 Stephanie Nebahay, “After Ebola, WHO to Set Up Contingency Fund.”
that there is a more prominent, formal emphasis on managing cross-border emergencies. G20 leaders could add momentum to increasing WHO funding to more appropriate levels, and provide the broad parameters for placing its funding structure on a more permanent basis. However, the G20 should not be the forum for detailed negotiations. All G20 members should commit to develop and maintain national registers of health workers and medical supplies that can be deployed in a time of emergency. These could be linked to a central register managed by the WHO. As part of this, G20 members could develop agreements on the provision of relevant medical supplies and on the evacuation arrangements and treatment of deployed health workers if they become ill.

The second area where the G20 can act is in health risk surveillance. The G20 could consider emerging cross-border health risks in the same spirit as emerging cross-border financial and economic risks. There is a need for improved flows of information to government decision-makers about emerging health risks and their impacts. An expert panel or relevant organisations could identify the gaps and capacity constraints in multilateral and regional health surveillance. The WHO and its partners should then be tasked with updating the G20 on a regular basis about any high-level emerging global health risks, their potential economic implications, global preparedness to respond, and any international efforts needed to fill gaps and manage risks. The G20 should not be seen as an ‘action’ body in this regard, but rather as a steering group.

The third area is medicines and vaccines. The containment of swine flu demonstrated the ability of developed economies to quickly manufacture a vaccine on a large scale. Ebola has demonstrated that the same is not the case for low-income and developing countries. The G20 should examine arrangements for cooperation between G20 members, international organisations, and the private sector on the development of vaccines, diagnostic tests, and medicines for infectious diseases that would create social benefits but would not be developed as private goods. An equal-access framework could follow the example of the 2011 Pandemic Influenza Preparedness Framework. The Lancet Commission urges multilateral action to develop production capacity for vaccines and an intellectual property regime that guarantees universal access.

Such G20 commitments would be an important step forward in the management of the economic effects of future health crises. It would also be a notable step in the evolution of the G20, away from responding to crises once they emerge, and towards the active prevention of, and protection against, future crises.

---

25 Bollyky, Garrett, and Huang, *Global Governance*.
In the absence of G20 action, the WHO could be strengthened of its own accord, particularly by powerful member states pushing for reform. However, it is very difficult to see reform of an organisation as big and complex as the WHO without the necessary political will. The responsibility for advancing aspects of the health agenda might then fall to the geopolitical groupings that exist within the G20. For example, the BRICS (Brazil, Russia, India, China, South Africa) are already working as a trade bloc, promoting access to high-quality medicines through the WTO.27 Similarly, the G8 has evolved from financing WHO and UN health programs to creating its own initiatives, including the Global Fund to Fight AIDS, Malaria and Tuberculosis and the G8 Africa Action Plan. At the G8 meeting in St Petersburg in 2006, infectious disease was one of Russia’s three priority themes and G8 health ministers met for the first time.28 This suggests that if global health governance is not addressed at a multilateral level, then health arrangements will continue to evolve through bilateral or regional agreements, producing more ad hoc solutions.

In all, the G20 can be an effective forum for taking action to protect the world against global health risks, especially cross-border infectious diseases that have far-reaching economic consequences in a globalised world.

---


CONTRIBUTORS

TRISTRAM SAINSBURY
Tristram Sainsbury is a Research Fellow in the G20 Studies Centre at the Lowy Institute. Prior to joining the Institute, Tristram was at the Australian Treasury where he worked on G20 policy, focussing mainly on international financial architecture reform, financial regulation reform and G20 growth strategies. Prior to that he spent time in the Australian Treasury's revenue forecasting and environmental fiscal policy areas. He has also worked at the Crawford School at the Australian National University on behalf of the Australian Treasury. Tristram holds a Masters in Applied Economics from ANU and has completed undergraduate studies in Resource Economics at the University of Sydney.

Tristram Sainsbury
Tel: +61 2 8238 9036
tsainsbury@lowyinstitute.org

LEON BERKELMANS
Dr Leon Berkelmans is the Director of the International Economy Program and the G20 Studies Centre at the Lowy Institute. Previously, Leon was a Senior Manager at the Reserve Bank of Australia, where he worked on the Chinese and Indian economies, investment, trade, and financial markets. Prior to the RBA, Leon worked at the Federal Reserve Board of Governors in Washington D.C., where his main responsibilities were macro-econometric modelling of the United States economy. Leon has a PhD in economics from Harvard University.

Leon Berkelmans
Tel: +61 2 8238 9170
lberkelmans@lowyinstitute.org
STEPHEN GRENVILLE

Dr Grenville is a Nonresident Fellow at the Lowy Institute for International Policy.

He works as a consultant on financial sector issues in East Asia. Between 1982 and 2001 he worked at the Reserve Bank of Australia, for the last five years as Deputy Governor and Board member.

Before that, Dr Grenville was with the Organisation for Economic Co-operation and Development in Paris, the International Monetary Fund in Jakarta, the Australian National University and the Department of Foreign Affairs.

Stephen Grenville
sgrenville@lowyinstitute.org

JOHN KIRTON

John Kirton is Director of the G8 Research Group, Co-director of the G20 Research Group, Co-director of the Global Health Diplomacy Program, and a Research Associate of the Munk School of Global Affairs. He is also co-director of the BRICS Research Group based at Trinity College, where he is a Fellow. A professor of political science, he teaches international relations, global governance and Canadian foreign policy, and his research interests include global health governance, international finance and trade, trade-environment issues, and foreign policy decision making. He graduated from the University of Toronto with a BA in political science, from the Norman Paterson School of International Affairs at Carleton University with an MA in international affairs, and from the Paul H. Nitze School of Advanced International Studies at Johns Hopkins University with a PhD in international relations.
JULIA KULIK

Julia Kulik is a senior researcher for the Global Governance Program, based at Trinity College at the University of Toronto. She has conducted compliance assessments for the G20 commitments made in the Seoul Development Consensus for a research project commissioned by the International Labour Organization. She has written on the inclusion of the rights of women and children at international summits. She has a Master of Public Policy from the School of Public Policy and Governance at the University of Toronto.

HANNAH WURF

Hannah Wurf is a Research Associate working in the G20 Studies Centre at the Lowy Institute. Her research interests include global governance, multilateralism, democracy, and institutional capacity-building. She holds a Masters of Comparative Politics from the London School of Economics and Political Science and a Bachelor of International Studies (Honours) with a Major in Government from the University of Sydney.

Hannah Wurf
Tel: +61 2 8238 9160
hwurf@lowyinstitute.org