A 7-point plan for the G20 infrastructure financing agenda

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The G20’s structure as an informal, high-level group is such that it can assist policy-making in two broad ways: in an advocacy and a coordination role. First, it can help promote domestic policy measures in any area that the group considers important and/or urgent for its member countries. Since G20 recommendations are not binding, the success of the G20’s advocacy role depends on member countries’ willingness to deliver on their commitments. However, a unique advantage of the G20 lies in its second role: generating coordinated action to address systemic issues stemming from global public goods (GPGs). Public goods are characterised by non-rivalry and non-excludability.² GPGs create (unintended) effects that have global reach.

Infrastructure financing is a ‘cross-cutting’ issue

Infrastructure is both rival and excludable. Any immediate effects that it generates are localised, or at most regional. Therefore, infrastructure is not a GPG. Nonetheless, infrastructure investment can create unintended consequences concerning a variety of policy areas. Therefore, it is most appropriate and consistent with the characteristics of infrastructure to consider it, in the G20 context, as a ‘cross-cutting’ issue as opposed to a work stream independent from other policy areas. Taking into account the cross-cutting nature of infrastructure makes sure that two-way spillover effects with other policy areas are appropriately addressed.

The G20 can be effective in supporting infrastructure policy by using both its coordination and its advocacy roles. ‘Collective actions’³ require the development of a coherent G20 approach in areas such as macroeconomic policy coordination and financial market regulation (coordination), while raising awareness at the leaders’ level and making commitments to implement domestic policy changes are appropriate approaches for implementing ‘country-specific actions’ (advocacy).
One of the outcomes of the St Petersburg summit was the endorsement of the OECD High-Level Principles of Long-term Investment Financing by Institutional Investors. The OECD principles highlight the fact that progress on infrastructure investment largely depends on improvements in a variety of economic policy areas such as financial market regulation, taxation and competition policy. Consistent with the approach of viewing long-term investment financing as a ‘cross-cutting issue’, and following the spirit of the principles, the Study Group on Financing for Investment (SG) should focus on identifying where G20 commitments in other policy areas can be ‘infrastructure-friendly’ – that is, identifying which G20 policies are likely to affect infrastructure investment and making sure that the impact on the environment for long-term investment financing is appropriately considered. This approach avoids unnecessary duplication of efforts. Implementing the principles will require both collective and country-specific actions.

Following the above proposal that the G20’s work on infrastructure should have a ‘cross-cutting’ approach, the suggestions below focus on how infrastructure considerations should be taken into account in advancing such G20 ‘core’ areas as macroeconomic policy/financial markets and climate change.

**Infrastructure financing and financial markets**

The G20 should continue its efforts to promote sound and efficient financial markets. However, there is a need to refocus the G20’s work in this area away from a disproportionate attention to advanced countries, in particular Europe and the United States, and give more attention to the challenges facing emerging economies. Emerging economies hold large savings, but have predominantly invested in the advanced world, while their domestic long-term investment projects are underfinanced. Advanced country investors are still equally hesitant to commit broadly to emerging country markets. Addressing this inconsistency should be a major objective for the G20 in 2014.

Consistent with a greater focus on long-term investment challenges facing emerging economies, priority should be given to promoting local currency bond markets (LCBMs) and long-term investment funds (LTIFs). LCBMs have been on the G20’s agenda since the Cannes summit, where the G20 LCBM Action Plan was endorsed. Nonetheless, important constraints on both the demand and the supply side remain, which, if they are to be addressed, will require the government to take on an activist role. On the demand side, investors’ concern over market depth is a ‘chicken and egg’ problem: investors are reluctant to invest because of insufficient scale, but scaling up requires strong investment. On the
supply side, many emerging markets ‘have struggled to create LCBM[s] comparable to those in advanced economies despite having sound fundamentals’. Market forces are likely to achieve only a slow growth of LCBMs. The common diagnostic framework that has been developed as part of the G20 LCBM Action Plan highlights that ‘a strong high-level government commitment to upgrade and reform LCBM[s] is necessary to ensure sustainability of the reform efforts.’

Given the analytical work that has already been done in this area, the G20 is well placed to promote LCBs as promising and, indeed, financially sensible investment opportunities. This may help to move LCBs further into the mainstream of what is generally considered to be a safe and financially sound investment strategy. Highlighting best practices such as the Asian Bond Fund 2 (ABF2) would be particularly effective. This could be accompanied by supporting dedicated information campaigns, led by the national central banks and research institutes. As part of this campaign, institutional investors should be specifically mentioned as suitable investors in LCBs. Moreover, emerging markets should commit to further developing existing LCBs like the ABF2, including an opening up to foreign investors. Redirecting technical and financial assistance by multilateral development banks and G20 members towards LCBM development in future budget allocation decisions – reflecting the level of priority assigned to this issue – may provide further momentum to the existing global efforts to promote LCBMs and encourage their development in other emerging economies.

For the establishment of nascent LCBMs, the common diagnostic framework suggests that ‘a broad sequencing in this context would begin with the appropriate macroeconomic reforms and establishing robust legal, regulatory, and supervisory frameworks before moving to any specific measures of market deregulation or expansion of the investor base.’ G20 leaders should explicitly commit to apply the recommendations set out in the analytical work that emerged from the G20 LCBM Action Plan. Similar efforts are required for promoting LTIFs. This includes the promotion of existing initiatives such as the ASEAN Infrastructure Fund (AIF), as well as enhanced support for the development of similar funds.

The St Petersburg Leaders’ Declaration notes that particular attention should be given to improving the design of, and conditions for, productive public–private partnerships (PPPs). In order to facilitate progress in this area, a clear PPP framework has to be developed for individual G20 member countries. There would be value in establishing a set of common principles for domestic PPP frameworks, to achieve greater harmonisation. Some of the key elements that should be covered in the development of PPP principles include: the importance of legal certainty; competitive tendering being the instrument of choice for
allocating projects; the need for full transparency; and the effective devolution of competencies to other levels of government in order to enable them to deal efficiently with the planning and implementation of infrastructure projects. Finally, the principles should also acknowledge the advantages of having an independent regulatory body dealing with infrastructure investment, in order to minimise political and industry capture.

**Infrastructure and the environment**

The G20’s work on infrastructure financing should take into account the importance of avoiding negative environmental impacts, especially relating to climate, as much as possible. An intuitive approach relies on improving the productivity of existing infrastructure instead of focusing only on expanding supply. A more efficient use of existing infrastructure requires demand-side policies, in particular for urban transport infrastructure. Demand-side policies go beyond congestion pricing. Non-price alternatives include using traffic-monitoring technologies to optimise traffic flows. The G20 should promote demand-side policies and other productivity-enhancing measures, in particular regarding incentives for using mass transit modes of transport, as an effective complement to supply-side interventions.

One specific area that promises enormous benefits in terms of making transport infrastructure ‘greener’ is non-motorised transport (NMT) infrastructure. NMT does not only create benefits in terms of reduced pollution, but also improves accessibility and safety. The safety benefits are particularly important for poorer people, because they are disproportionally affected by road hazards. It is a stark contrast that large parts of the population of emerging and developing countries have to rely on NMT, but NMT infrastructure is insufficient and often not a policy focus. The G20 should make an explicit commitment to focus on extending NMT infrastructure domestically, ideally setting numerical targets.

**Summary**

1. View infrastructure as a cross-cutting issue. Focus the Study Group’s work on integrating infrastructure concerns with other G20 policies, in particular in the areas of financial markets and climate policy, without compromising the overarching policy goals in these broader policy areas.

2. Refocus the work on financial markets to pay more attention to the challenges facing emerging markets.
3. Promote LCBs and LTIFs as promising and financially sound investment opportunities.

4. Redirect technical and financial assistance to support the development of LCBs and LTIFs.

5. Commit to developing clear PPP frameworks domestically. Agree on joint principles to provide an appropriate degree of harmonisation.

6. Commit to improving the productivity of existing infrastructure assets domestically, in particular by promoting demand-side policies.

7. Commit to extending NMT infrastructure domestically.

Notes

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2. Non-rivalry requires that the benefits from using a good or service are not diminished when more people start using it as well. Non-excludability means that no one can be excluded from using the good or service.

3. At the St Petersburg summit, leaders committed to ‘identify and start to implement by the Brisbane summit a set of collective and country-specific actions that tangibly improve our domestic investment environments such that they are more favourable to long-term investment financing’.

