B20 INFRASTRUCTURE & INVESTMENT TASKFORCE POLICY SUMMARY

JULY 2014

Contents

Taskforce constitution and process

The Australian Prime Minister appointed more than thirty Australian CEOs to guide the work of the B20 Australia in 2014 under the leadership of Richard Goyder AO, CEO of Wesfarmers, and B20 Sherpa Robert Milliner. B20 Australia continued four of the seven priority areas pursued under the Russian presidency of 2013 to reflect the Australian G20 presidency's focus on boosting economic growth and creating jobs. Infrastructure & Investment is one of those priority areas. The others are Trade, Human Capital and Financing for Growth. An Anti-Corruption Working Group has also been established to focus on corruption issues across the four taskforces.

Leadership

The Infrastructure & Investment taskforce was established under the leadership of its coordinating chair, David Thodey, CEO of Telstra Corporation Ltd, and his co-chairs Hans-Paul Bürkner, Chairman of the Boston Consulting Group (BCG), Kirill Dmitriev, CEO of the Russian Direct Investment Fund (RDIF), Thomas Donohue, President and CEO of the US Chamber of Commerce, Danny Truell, Chief Investment Officer of the Wellcome Trust, and Marcus Wallenberg, Chairman of Skandinaviska Enskilda Banken (SEB).

Membership

Infrastructure & Investment Taskforce Members are mostly senior executives from business, business associations and professional services firms. The taskforce is also ably assisted by Supporters from those organisations and with in-depth project support from The Boston Consulting Group. Members and Supporters either continued as members of the preceding taskforce under the Russian B20 presidency, or were invited to join in 2014 by the coordinating chair. The membership is broadly representative of the G20 countries.

Policy development

The policy development process began with a scoping exercise to develop themes for investigation. Each theme was then deeply researched and debated within the taskforce to generate draft recommendations. The draft recommendations were then refined in an iterative process and a series of actions developed to test the practicality of each recommendation. The taskforce met five times before the B20 Summit and exchanged ideas and material between meetings. See page 23 for details.

Summary of recommendations

Context

High quality economic infrastructure[1] underpins economic activity both within and across national borders. It is one of the most powerful levers available to support businesses—from SMEs to large multinationals—to make the investments that drive inclusive, sustainable growth across the globe. It promotes development in emerging economies, growth and employment in developed economies and trade between all.

However, economies around the world face significant challenges in meeting current and future demand for infrastructure, driven by growing populations, rapid technological innovation (including green technology), the increasing integration of the global economy and value chains, the legacy of ageing or poorly managed assets, as well as public balance sheet and fiscal pressures.

By 2030, it is estimated that ~$60–70 trillion additional infrastructure capacity will be needed globally. Under current conditions, only ~$45 trillion is likely to be realised, leaving a gap of ~$15–20 trillion. Over the long run, closing this gap could create up to 100 million additional jobs and generate $6 trillion in economic activity every year.

While governments have a crucial role to play in closing the gap, a big part of the solution is greater involvement by the private sector. The business community is ready, willing and able to 'step up' and play its part: by investing directly in productive infrastructure, partnering with governments to build and manage public investments more effectively, and communicating infrastructure benefits to the public.

The greatest barrier to more private involvement in public infrastructure is the absence of a credible pipeline of productive, bankable, investment-ready infrastructure projects offering acceptable risk-adjusted returns to both public and private investors. This stems from:

- *Inadequate project selection and prioritisation*, which is frequently driven by political considerations, rather than a sound cost-benefit assessment
- *Weak project preparation and execution capabilities* including inadequate funding arrangements, public opposition to user charges, inappropriate risk allocation, inefficient and unpredictable procurement and approvals processes, and inefficient asset utilisation. These obstacles are particularly acute in complex Public Private Partnerships (PPPs), where high profile failures have damaged credibility for investors and the public
- *Weak and unstable investment and regulatory environments* that increase risk to investors and to the public interest
- *Corruption and lack of transparency*, which deter investment and make it more expensive to deliver infrastructure

In addition, there also remain barriers to financing, including the unintended consequences of prudential financial regulation, underdeveloped local currency capital markets, and limited availability of appropriate, standardised instruments to align projects' risk/return profiles with investor needs.

To facilitate a larger and more effective role for the private sector in infrastructure provision, countries need to find better ways to engage business resources, increase the number of bankable projects,

1 For the purposes of this document, 'infrastructure' refers to economic infrastructure: transport, and energy, water and telecommunications infrastructure. These are sometimes also referred to as 'smart community' or urban planning infrastructure. While some of the recommendations would also promote more efficient investment in social infrastructure such as housing, education, and health, these sectors were not a focus of the taskforce's work.

and substantially improve the investment environment. In most cases, governments need to commit to market-based infrastructure policy frameworks that promote efficient investment, safeguard users' long-term interests, and enable private ownership and management of infrastructure where appropriate.

While this requires action by national governments, the case for making better investments in infrastructure goes beyond national boundaries. Often, the most valuable infrastructure opportunities require co-ordinated action to support regional and global value chains and improve flows of resources, products, services, information, people and ideas between countries. In this context, the Taskforce offers its recommendations to the leaders of the G20.

Recommendations

The Taskforce recommends six key, practical steps that G20 nations should take—individually and collectively—to promote more, and more efficient, investment in infrastructure. Collectively, these actions could generate $8 trillion worth of additional infrastructure capacity by 2030, and $1.6 trillion of additional investment by businesses in their own operations every year. They will also contribute up to 1 per cent to the G20 target of 2 per cent additional growth over the next five years, and lay the foundation for sustainable, inclusive growth and employment over the longer-term.

G20 leaders should

1. **Reaffirm the critical importance of infrastructure—and private investment in infrastructure—in their national growth plans**, and set specific infrastructure investment targets to 2019 that are aligned to a national infrastructure strategic vision

2. **Establish, publish and deliver credible national infrastructure pipelines that have been rigorously assessed and prioritised by independent national infrastructure authorities**, and which take full advantage of private sector finance and expertise, whether by traditional procurement, public private partnerships, or privatisation of existing government assets

3. **Establish a Global Infrastructure Hub** with a mandate to collect and disseminate leading practice, collaborate with key stakeholder organisations on project preparation and capacity building, develop and promote appropriate standards, and collate and publish relevant data and reports, to increase the pipeline of bankable, investment-ready infrastructure projects, improve productivity across the infrastructure life-cycle, and accelerate the development of infrastructure as an asset class

4. **Implement infrastructure procurement and approvals processes that are transparent, consistent with global leading practices, and include a commitment to specific time limits for regulatory and environmental approvals for major infrastructure projects**, while respecting national policy objectives and not compromising the integrity of approvals processes

5. **Work towards greater promotion and protection of cross-border capital flows, especially foreign direct investment (FDI)**, including by developing a non-binding International Model Investment Treaty and promoting broader adoption of existing international standards

6. **Increase the availability of long-term financing for investment, including for infrastructure**, by removing unnecessary disincentives for long-term investment, setting out coherent national plans to promote the development of local capital markets, and promoting the provision of appropriate credit enhancement instruments and/or co-investment mechanisms for infrastructure projects where required.

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

- **MDB proposals to establish project preparation facilities** (recommended by the B20 in 2013), and initiatives from other forums to improve the quality of project preparation and the environment for investment, harmonise financial instruments, and leverage private financing, including for catalytic projects and those supporting regional and global integration
- **National reviews of policy, legislative and regulatory barriers to the most efficient management of and investment in existing infrastructure**, to ensure projects can make best use of private sector expertise and finance, innovation, and new technologies
- **A review by the Integrated Reporting Council and International Accounting Standards Board** in relation to making corporate reporting more conducive to infrastructure and other long-term investment, and eliminating or addressing current barriers[2]
- **Revisions to Public Sector Accounting Standards and fiscal targets** to better reflect the value of investments in infrastructure assets and support a reweighting of public expenditures towards such investments.

2 See the recent report by the B20 Panel of six international accounting networks (2014) *Unlocking investment in infrastructure - Is current accounting and reporting a barrier?* Available at www.b20australia.info

Reaffirm the critical importance of infrastructure in national growth plans

Summary

Recommendation	**Reaffirm the critical importance of infrastructure—and private investment in infrastructure—in national growth plans**, and set specific infrastructure investment targets to 2019 that are aligned to a national infrastructure strategic vision.
Reference	I&I1
Owner	G20 governments
Timing	Targets to be set by November 2014 for 2015-2019
Value	N/A
KPI	Public and private infrastructure investment (% GDP)
Current (Target)	3.4% (3.5%)[3]

Context

An estimated ~$60–70 trillion of additional infrastructure capacity will be needed by 2030. This represents a tremendous opportunity to promote inclusive, sustainable growth and job creation. In the short term, investment in productive infrastructure will help the G20 achieve its additional 2 per cent growth target by 2019, and redress historically unprecedented levels of global unemployment. Infrastructure will also lay the foundation for longer term productivity and prosperity—not only driving jobs and growth, but also contributing to health, education, and other development goals.[4]

Governments have historically financed the majority of public infrastructure investment, and this is likely to remain the case. However, the balance sheet and fiscal constraints on governments mean that—unless there is a material reweighting of government expenditures towards infrastructure—they may only be able to meet ~$30–35 trillion of the required investment. Current levels of private investment would cover another ~$10–15 trillion, leaving a gap of ~$15-20 trillion.

Closing the remaining gap will require the ongoing commitment of governments and a greater role for the private sector—as both an investor and a delivery partner. A precondition for success will be for each government to develop a coherent, evidence-based national strategic vision to address future infrastructure needs (including, where appropriate, responses to regional and cross-border needs), and set national targets for total (combined public and private) investment aligned to this vision. Targets should reflect the most efficient investment for a country to meet its desired infrastructure and policy outcomes, and should not incentivise spending for its own sake.

3 3.5% target is based on the midpoint estimate of required infrastructure capacity, but assumes no increase in efficiency.
4 See e.g. Agenor and Moreno-Dodson (2006) *Public Infrastructure and Growth: New Channels and Policy Implications* for a discussion of evidence on the impact of infrastructure on health, education, and gender equality outcomes.

Actions

Ref	Action
I&I1A	G20 leaders should include in the Brisbane leaders' statement a recognition that • Investment in infrastructure is one of the most powerful levers available to governments to promote inclusive, sustainable economic growth and support employment • It is an opportunity requiring global collaboration as well as national action • Private sector investment, ownership and management have a key role to play in delivering crucial infrastructure investments more efficiently.
I&I1B	Individual G20 nations should develop, by November 2014 where feasible, but otherwise by the 2015 G20 Summit, coherent, evidence-based national strategic visions to identify future infrastructure needs (including, where appropriate, responses to regional and cross-border needs).
I&I1C	Individual G20 nations should set, by November 2014 where feasible, but otherwise by the 2015 G20 Summit, national targets for total (combined public and private) infrastructure investment as a percentage of GDP for 2015-2019, and the G20 should monitor delivery against these targets in future years.

Establish, publish and deliver independently-assessed infrastructure pipelines

Summary

Recommendation	**Establish, publish and deliver credible national infrastructure pipelines that have been rigorously assessed and prioritised by independent national infrastructure authorities**, and which take full advantage of private sector finance and expertise, whether by traditional procurement, public private partnerships, or privatisation of existing government assets.
Reference	I&I2
Owner	G20 governments
Timing	By Turkey G20 Summit, 2015
Value	By 2030, an additional $3 trillion infrastructure capacity, $800 billion GDP, and 13 million jobs per annum.
KPI	Planned investment (public and PPP) in public infrastructure (% GDP)
Current (Target)	2.5% (2.4%)

Context

Selecting the right infrastructure projects is critical to maximising the value of investment. However, cost-benefit assessments are inherently difficult, and project proponents have an incentive to overstate net benefits. Even when assessments are accurate, they are frequently ignored in favour of political considerations, which tend to support highly visible greenfields investments over smaller, more targeted investments to expand existing capacity.

For the private sector, uncertainty around infrastructure investment opportunities—due to a lack of transparency and/or credibility—creates a significant disincentive to invest, given the high due diligence costs of these transactions. A more transparent, credible project pipeline would give investors the confidence to build capabilities and local expertise, increase competition, and over time encourage the development of appropriate financing instruments, and the emergence of infrastructure as an asset class. Greater visibility on future opportunities would also support better planning, reduce costs for construction companies and promote more effective and efficient approvals processes.

Establishing and delivering such a pipeline requires ongoing commitment, but two critical initial steps are necessary. The first step is to establish a coherent, evidence-based, long-term national vision that addresses future infrastructure needs (incorporating cross-border investment needs where appropriate) to provide clarity on long-term priorities and drive project selection and policy initiatives (as per action I&I1B). The second step is to improve program and project selection and prioritisation, by requiring a transparent, independent, expert review of pipeline programs and projects. Pipelines should select the most productive, sustainable, and socially beneficial brownfields and greenfields investments, and determine the best way to involve the private sector in their delivery—whether through traditional procurement, PPPs, or privatisation of existing government assets (the proceeds of which can be recycled into future infrastructure investments).

The pipeline should take a long-term view (e.g. 15 years) to encourage planning beyond the current political cycle. However to be credible, it needs to include confirmed projects that are budgeted for and ready to come to market (e.g. in the 1-5 year timeframe). At the very least, pipelines must clearly and accurately communicate whether projects meet this standard.

Delivering the pipeline will require some policy changes—particularly for privatisations, which typically require new regulatory arrangements. Such changes should be identified in advance and realistic timelines for their implementation should be clearly communicated.

Different countries have different constitutional structures and processes to administer the machinery of government. However, at a minimum, an independent infrastructure authority should:

- Provide a formal review mechanism separate from the project proponent;
- Be able to choose projects to review and/or allow unsolicited private proposals;
- Have board-level governance composed of both public and private sector representation; and
- Employ professional staff drawn from both the public and private sectors.

Value

Improving the selection and prioritisation of projects will increase the efficiency of investment in infrastructure, and could drive an increase in effective infrastructure capacity of $3 trillion by 2030. This in turn would drive increased productivity and investment, contributing to ~$800 billion in increased economic activity and 13 million jobs per annum. Wider benefits around increased transparency and predictability have not been explicitly quantified.

Actions

Ref	Action
I&I2A	Individual G20 governments should, by the Turkey G20 Summit in 2015, establish independent infrastructure authorities to provide transparent, expert review of programs and projects to be included in a national infrastructure pipeline. The body may be an independent agency or unit within central agency (e.g. Treasury), but at a minimum must: • Provide a formal review mechanism separate from the project proponent; • Be able to choose projects to review and/or allow unsolicited private proposals; • Have board-level governance composed of both public and private sector representation; and • Employ professional staff drawn from both the public and private sectors.
I&I2B	Individual G20 governments should, by the Turkey G20 Summit in 2015, publish credible, transparent national infrastructure pipelines that comprise the most productive, sustainable, and socially beneficial brownfields and greenfields investments, and identify the most appropriate way to involve the private sector in their delivery—whether though traditional procurement, PPPs or privatisation of existing government assets. These pipelines should be living documents, to be updated on an ongoing basis.

Establish a Global Infrastructure Hub

Summary

Recommendation	**Establish a Global Infrastructure Hub** with a mandate to collect and disseminate leading practice, collaborate with key stakeholder organisations on project preparation and capacity building, develop and promote appropriate standards, and collate and publish relevant data and reports, to increase the pipeline of bankable, investment-ready infrastructure projects, improve productivity across the infrastructure life-cycle, and accelerate the development of infrastructure as an asset class.
Reference	I&I3
Owner	G20 governments
Timing	April 2015
Value	By 2030, an additional $2 trillion infrastructure capacity, $600 billion GDP, and 10 million jobs per annum.
KPI	Investment (public and PPP) in public infrastructure (% GDP)
Current (Target)	2.5% (2.4%)

Context

Developing successful infrastructure programs and projects is complex and challenging, and requires governments to get many things right across the infrastructure lifecycle—from project selection, preparation and delivery, through to fostering an enabling environment for investment. Lifting governments' capability in this regard, and increasing standardisation and comparability across markets is critical to increasing private investment in infrastructure, developing the infrastructure asset class, and making infrastructure investment more efficient.

Although a wealth of information and support on leading practices is available globally, it is fragmented, often overwhelming, and is seldom integrated into real decision-making processes and practices. At the same time, there is limited quantitative data to track or benchmark the performance of projects, policies, and supporting agencies.

While several organisations are currently exploring initiatives to improve information sharing, no one organisation is addressing all necessary elements, and their distinct mandates make co-ordination difficult. One way to overcome these issues is by establishing a Global Infrastructure Hub that would collect, develop, and promote the adoption of leading practices across the infrastructure life-cycle, with the objective of increasing the pipeline of bankable infrastructure projects, improving the productivity of infrastructure investments, and accelerating the development of infrastructure as an asset class.

Such a Hub should proceed only under strict conditions, including that it is:

- Adequately but not over resourced, drawing on professionals with private sector expertise;
- Mandated to coordinate with rather than duplicate functions performed elsewhere;
- Focused on specific measurable outcomes; and
- Reviewed on a three year basis rather than established in perpetuity.

The Hub should build on and coordinate existing mechanisms and initiatives and have the following

key elements:

- *Standardised tools and templates* for project preparation and assessment
- A *project exchange platform* to connect project proponents with private sector operators, investors, and advisors
- *Benchmarking* of infrastructure projects and productivity, national policy environments, and multilateral agency performance in supporting infrastructure investment
- *Tracking of progress against G20 infrastructure commitments*
- *Practical guidance and tools for implementing leading practices* across the infrastructure life-cycle, including:
    - National and cross-border infrastructure planning and prioritisation (including establishing national infrastructure pipelines, and evaluating end-user impacts);
    - Project preparation (including sustainable revenue models, societal considerations and appropriate risk transfer), procurement (e.g. inverted bid models) and delivery;
    - Operations and maintenance of existing infrastructure (including integration of innovative infrastructure solutions);
    - Infrastructure financing (including standard terms and due diligence processes); and
    - Anti-corruption and other regulatory and policy measures to promote more efficient investment
- *Advisory services* to assist countries with the implementation of leading practices, including assessment and accreditation
- Aggregation and analysis of benchmarking and tracking data to produce regular *flagship reports* and recommendations on:
    - Progress against *G20 infrastructure commitments*
    - The *performance of individual governments* in terms of both project outcomes and policy environments
    - The *performance of international agencies* in supporting productive infrastructure investments
    - Regional and sectoral *trends in project performance*
- *Tools to foster improved collaboration* and sharing of expertise between governments, international organisations, civil society and the private sector

Governance of the proposed Hub should reflect the following attributes:

- *Inclusive:* allowing for broad involvement from relevant stakeholder groups (e.g. in a 'Council' from which the Board could be elected), including governments, representatives of national and multilateral agencies (including the World Bank, and regional and national development banks), the private sector, and NGOs

- *Independent:* with Board membership based on expertise rather than representation, and an independent Advisory Board drawn from experts in the public and private sectors
- *Nimble:* with a Board empowered to make quick decisions, and operational flexibility to implement them

Value

Improving project preparation, structuring and delivery could increase infrastructure capacity by ~$20 trillion by 2030. A Global Infrastructure Hub could make an estimated $2 trillion contribution to this, and drive an additional $600 billion of economic activity and 10 million jobs per annum over the long-term.

Actions

Ref	Action
I&I3A	The G20 should task a working group to establish the Global Infrastructure Hub, including defining its proposed mandate, governance, budget and location, and co-ordinating the appropriate public, private, multilateral, and NGO stakeholders needed to carry out its mandate.
I&I3B	Interested G20 governments should support this initiative through modest seed capital from existing infrastructure/aid programs.

Implement leading practice procurement and approvals processes

Summary

Recommendation	**Implement infrastructure procurement and approvals processes that are transparent, consistent with global leading practices, and include a commitment to specific time limits for regulatory and environmental approvals for major infrastructure projects**, while respecting national policy objectives and not compromising the integrity of approvals processes.
Reference	I&I4
Owner	G20 governments
Timing	By Turkey G20 Summit, 2015
Value	By 2030, an additional $2 trillion infrastructure capacity, $500 billion GDP, and 8 million jobs per annum.
KPI	Average approval time for major projects / % projects exceeding time limit
Current (Target)	Variable (Improvement) / N/A (0%)

Context

Creating a level playing field for major infrastructure projects builds confidence in the public procurement process and attracts private investment. Governments must be able to demonstrate transparency and integrity, and insist on the same for participating businesses. Although various organisations have developed best practice procurement guidelines (such as World Bank, UNODC and OECD), there is currently no unified view for public infrastructure procurement and project execution. The B20 has requested that the G20 Anti-Corruption Working Group include this in its 2015-2016 Action Plan.

Effective approvals processes are also critical to safeguarding public interests and mitigating the potential negative effects of infrastructure on communities. Inefficient processes can lead to excessive and unnecessary delays, community opposition, and poorer outcomes. Such delays are a major deterrent to investment, and also impose significant costs on the public.[5] However, significant improvements can be made without compromising the quality of review.[6]

Reducing delays and uncertainty in approvals is an important step that governments can take to improve the enabling environment for infrastructure investment and increase business confidence. Time limits will need to be tailored to local conditions, and to focus on the specific bottlenecks that will deliver the greatest improvements for each jurisdiction. However, the first step is to set clear time limits for major project approvals, and make a single (properly resourced) agency accountable for meeting these timelines. These, in turn can catalyse further improvements, such as

- Establishing standardised project approval pathways
- Ensuring regulatory objectives are clear, consistent and coherent to reduce conflicts and confusion in the approvals process

5 For example, it has been estimated that accelerating approvals by 1 year could increase some projects' NPV by up to 20% (Australian Productivity Commission, 2009).
6 For example, efficiency improvements have more than halved the time required for major energy project approvals in Canada (Doucet, 2012 *Unclogging the Pipes: Pipeline Reviews and Energy Policy*).

- Reducing overlap and duplication of responsibility between different agencies' and (where relevant) between national and sub-national governments
- Undertaking early engagement with key stakeholders to capture and respond to concerns more effectively and efficiently

Governments will be supported in identifying and implementing leading infrastructure procurement and approvals processes by the proposed Global Infrastructure Hub (see Recommendation I&I3).

Value

Improving procurement and approvals processes would deliver cost savings and attract additional investment to infrastructure. Feasible reductions in approvals timelines could increase effective infrastructure capacity by $1.2 trillion by 2030, while increased transparency in procurement could drive another $700 billion. Collectively, these would drive an increase of $500 billion in GDP and 8 million jobs per annum.

Actions

Ref	Action
I&I4A	Individual G20 governments should report on how they are applying best practice procurement processes in all large and/or publicly significant infrastructure projects, by the Turkey G20 summit, 2015. In particular, they should • Mandate that all projects must comply with recognised best practices, either those developed through the G20 ACWG, or one of the World Bank, UNODC or OECD guidelines • Develop and install High Level Reporting Mechanisms in relation to procurement and execution of public infrastructure projects[7] • Incentivise companies bidding for large and/or publicly significant infrastructure projects to have best practice anti-corruption programs in place. Companies that can demonstrate this capacity should receive bonus points and positive recognition in the bidding process • Support verification of the quality of companies' compliance programs by recognised professional bodies or accredited experts • Consider entering into integrity pacts[8] and/or independent monitoring over the life of infrastructure projects • Encourage knowledge sharing and capacity building initiatives amongst businesses to develop compliance programs throughout their supply chain
I&I4B	Individual G20 governments should, by the Turkey G20 Summit, 2015 • Define a major project approvals pathway, with clear criteria for applicability, specific time limits, and a single (properly resourced) agency responsible for ensuring these time limits are met. • Monitor and publicly report their performance against these time limits on an ongoing basis, and identify measures to improve performance, without compromising the integrity of the process.

7 High Level Reporting Mechanisms provide a channel for companies to report bribery solicitation to a dedicated and high-level institution that has the authority and capacity to respond promptly and without prolonged delays (High Level Reporting Mechanism – Concept Brief, Basil Institute on Governance and OECD, 2013).

8 An integrity pact is a legally binding agreement between a government or government department and all bidders for a public contract, and aimed at preventing corruption in public contracting. It stipulates rights and obligations to act with integrity, and commit to independent monitoring over the life of the project (Transparency International, 2014).

Work towards greater promotion and protection of cross-border investment

Summary

Recommendation	**Work towards greater promotion and protection of cross-border capital flows, especially foreign direct investment (FDI)**, including by developing a non-binding International Model Investment Treaty and promoting broader adoption of existing international standards.
Reference	I&I5
Owner	G20 governments; OECD and UNCTAD
Timing	By Turkey G20 Summit, 2015
Value	By 2030, an additional $400 billion infrastructure capacity, $100 billion GDP, and 2 million jobs per annum.
KPI	Global inward FDI flows (% GDP)
Current (Target)	1.9% (3.6%[9])

Context

Private sector investment—from both local and foreign sources—drives economic growth. In particular, open FDI flows foster a more efficient allocation of resources (capital, knowledge, human) around the world to raise prosperity in both developed and developing economies. According to data from the United Nations Conference on Trade and Development (UNCTAD), the total stock of inward FDI of more than $25 trillion by end-2013 generated sales by foreign affiliates of about $34 trillion—more than the $23 trillion value of world exports.[10]

From 1990 to 2013, FDI inflows worldwide increased seven-fold, from just over US$200 billion to $1.5 trillion. During that time, the share of developing countries tripled from 17 per cent of inflows to 54 per cent. Even more strikingly, during those two decades, companies from the developing world became investors and their share in worldwide investment abroad increased from just 5 per cent to 39 per cent. Part of this game-changing growth in FDI stemmed from a widespread move towards open trade and investment regimes. Around 2005, that trend started to slow down, and in 2008 and 2009, amid the global economic crisis, FDI flows fell significantly compared from their peak in 2007. Today, global FDI flows are still 25 per cent below the 2007 peak and recovery has been slow, especially in developed countries.[11] In order to accelerate long-term FDI flows and ensure they continue to grow, governments must avoid and reduce impediments, particularly regulatory environments that restrict market access, are corrupt and non-transparent, or which fail to protect investors against discriminatory, arbitrary, and unfair treatment.

While various international instruments have attempted to address these issues—including over 3,200 International Investment Agreements (IIAs)—the resulting network of agreements is fragmented and complex, increasing transaction costs and leaving many gaps in coverage.

Despite growing consensus between developed countries regarding international investment rules, and an increasing convergence of interests between developed and emerging countries, significant barriers remain to negotiating a single, globally consistent investment treaty, including:

9 Equal to the 2007 peak of inward FDI flows (UNCTAD FDI Database).
10 UNCTAD (2014) *World Investment Report*.
11 UNCTAD (2014) *World Investment Report*.

- Concerns about investor protection placing undue constraints on legitimate domestic policy choices, and an insufficient focus on investor responsibilities[12]
- Shortcomings of the investor-state dispute settlement (ISDS) system, including perceived inconsistency in application and interpretation of IIAs, as well as a burdensome and non-transparent settlement process
- The difficulty of replacing existing IIAs with a single treaty, particularly if the global treaty offered weaker protections than the existing ones (in which case the desire to retain existing protections would likely lead to a multilateral treaty adding another layer of complexity to existing agreements)

Recognising the importance of investment—and in particular FDI—for growth, the G20 should continue to work towards agreeing a Multilateral Framework for Investment (MFI) between developed and developing economies, which would provide high standards for a predictable and stable climate for investment, and a platform for continued improvement. In the short term, it should also take concrete, practical steps towards harmonisation of IIAs and other efforts to promote FDI.

A practical solution to reducing complexity and progressing towards a more comprehensive agreement, without requiring full alignment, would be to develop a non-binding International Model Investment Treaty (IMIT), with clauses that could be incorporated (in whole or in part) into new or existing IIAs as they are (re)negotiated. Using the IMIT to inform treaty making would improve regulatory predictability and protection to investors, while maintaining governments' ability to pursue legitimate public policy objectives. It should include clear and unambiguous provisions on:

- *Broad market access* for foreign investors, addressing sectoral equity limits, screening processes, restrictions on key personnel, and other restrictions that are proven barriers to FDI
- *Anti-corruption and transparency obligations* of both states and investors, including the need to enforce existing frameworks and standards, undertake capacity building for public officials, and install High Level Reporting Mechanisms
- *Protection for investors and investment* against discrimination (most-favoured nation treatment, and national treatment), expropriation that is not for a legitimate public policy purpose, unfair and inequitable treatment, and restrictions on the ability to transfer capital
- *Access to binding dispute settlement mechanisms* that are fair, transparent, effective and efficient, and which provide appropriate protection for investors against violations of state obligations, while deterring frivolous claims
- *Obligations of investors* to abide by the laws of host countries, to respect human rights, and observe internationally agreed labour, environmental and corporate responsibility standards
- *Open architecture* that facilitates accession of other parties to the agreement

In parallel, addressing weaknesses in the existing ISDS system, and increasing adoption of and adherence to existing market access and anti-corruption agreements could also drive improvements in national regulatory and enabling environments, and facilitate progress towards a broader MFI. Individual G20 nations should also continue to take steps to improve their national investment environments.[13]

12 To address this concern, the concept of Creating Shared Value has been proposed as a way of ensuring that both host and home countries prosper from cross-border FDI flows.
13 In doing so, they should consult the proposed G20/OECD checklist for actions and strategies to support long-term investment (Communiqué - Meeting of G-20 Finance Ministers and Central Bank Governors - Washington DC, 10-11 April 2014).

The business community undertakes to do its part by complying with all applicable laws and working towards leading practice anti-corruption and corporate social responsibility programs.

Value

Improvements in market access, transparency, and investor certainty are estimated to contribute an additional $400 billion in infrastructure capacity by 2030, with a concomitant increase of $100 billion in long run GDP and 2 million jobs per annum. There are also expected to be significant broader benefits from promoting cross-border investment and FDI flows, although these have not been explicitly quantified.

Actions

Ref	Action
I&I5A	To build a better understanding of the positive impacts of FDI, the G20 should mandate organisations such as UNCTAD and OECD to undertake studies using concepts such as Creating Shared Value (CSV) to make clearer how FDI is contributing concretely to prosperity for host and home countries alike.
I&I5B	The G20 should mandate the OECD and UNCTAD in consultation with WTO to conduct, by June 2015, a comprehensive analysis of the terms and coverage of existing BITs and RTAs and report back to the G20, on the effectiveness of current frameworks, gaps between these frameworks and the objective of stimulating greater investment, and options for strengthening existing arrangements and/or establishing new multilateral arrangements.
I&I5C	The G20 should mandate OECD and UNCTAD in consultation with WTO to draft, by the Turkey G20 Summit, 2015, an International Model Investment Treaty (IMIT) with clauses that could be incorporated (in whole or in part) into new or existing IIAs as they are (re)negotiated.
I&I5D	G20 members that have not adopted the OECD Code of Liberalisation of Capital Movements, or subscribed to the OECD Declaration on International Investment and Multinational Enterprises should do so by the Turkey G20 Summit, 2015, and the G20 should encourage other non-member countries to do likewise.
I&I5E	G20 members that have not ratified and fully implemented the United Nations Convention against Corruption, or the OECD Anti-bribery Convention should do so, by the Turkey G20 Summit, 2015, and the G20 should encourage non-member countries to do likewise. All G20 members should commit to greater cooperation in multi-lateral enforcement and should install High Level Reporting Mechanisms that provide an independent transparent authority for any party to report violations.

Increase the availability of long-term financing for investment

Summary

Recommendation	**Increase the availability of long-term financing for investment, including for infrastructure**, by removing unnecessary disincentives for long-term investment, setting out national plans to promote the development of local capital markets, and promoting the provision of appropriate credit enhancement instruments and/or co-investment mechanisms for infrastructure projects where required.
Reference	I&I6
Owner	G20 governments
Timing	By Turkey G20 Summit, 2015
Value	By 2030, an additional $500 billion infrastructure capacity, $100 billion GDP, and 2 million jobs per annum.
KPI	N/A
Current (Target)	N/A

Context

There is no global shortage of capital for attractive investments, but G20 governments can still take measures to increase the availability of long-term financing, including for public and private infrastructure projects.[14]

In order to make long-term, less liquid investments of the kind typically required for infrastructure, investors require both that prudential financial regulations do not unnecessarily discourage them from long-term investment, and that there are appropriate financial instruments in place—including e.g. bonds, hedging instruments, and pooling mechanisms—to meet their needs.

Financial regulation

Post-crisis financial-sector prudential regulation has addressed key weaknesses in the global financial system, but its effects, and subsequent industry reorganisation, have made it more costly for many players to provide long-term capital.

- Both Basel III and Solvency II mistakenly treat long-term investments in infrastructure as similarly risky to long-term corporate debt or investments, requiring a higher capital ratio. However, infrastructure investments are often lower risk, with lower defaults, higher recoveries, and counter-cyclical features.[15] Solvency II similarly penalises equity infrastructure investments.

- Basel III regulation of banks' capital, leverage and liquidity intentionally discourages mismatches in the maturity of assets and liabilities, which makes it harder and more expensive for banks to issue long-term debt, such as project finance loans.[16]

14 See also the B20 Financing Growth Taskforce Policy Summary.
15 Moody's (2014) *Infrastructure default and recovery rates underscore rating stability in the sector.*
16 See e.g. Standard & Poor's (2013) *Inside Credit: Shadow Banking Looks Set to Capture a Larger Share of Project Financing in 2013*, The Economist (2012) *Banks are changing. That means other providers of capital must step forward, especially in Europe.*

- In addition, the various methodologies used by different regulators to conduct stress tests on banks often further discourage long-term investment in infrastructure, since they typically
  - Discount collateral (which can understate the creditworthiness of infrastructure loans, for which the value of the underlying asset is typically critical);
  - Prioritise liquidity (which penalises longer tenor assets); and/or
  - Punish concentration (which disproportionately affects infrastructure loans, which are typically large).
- Institutional investors, such as pension funds, insurers and sovereign wealth funds, are eager to fill the gap and invest more in infrastructure,[17] particularly in lower risk brownfields projects that can provide a good match for pension and insurer liabilities, and a productive use of sovereign wealth funds. But there are too few such assets coming to market through privatisation or trade sales, and competition drives up prices, depressing expected returns relative to other asset classes.
- While the move towards consistent risk-based insurance capital requirements embodied in Solvency II is sound in principle, the current proposal risks unnecessarily discouraging long-term investment by insurers subject to EU regulation. As well as overstating risk, they treat all assets as if they were traded, rather than held to maturity, inflating the required capital volatility buffers.[18]
- Derivative regulation has harmed the pricing and availability of the financial instruments investors need to manage risk on long-term investments, including hedging currency and interest rate risks.[19]

Solvency II is not expected to come into force before January 2016, and previous plans to apply the requirements to pension funds have been put on hold. This should provide ample time for the Financial Stability Board and the International Association of Insurance Supervisors to review the new requirements and propose changes to ensure they do not unnecessarily discourage long-term investment.

Capital markets and financial instruments

Local currency capital markets are underdeveloped in many jurisdictions, and this can be a particular barrier to investment in countries where the costs of currency hedging are prohibitively high for foreign investors. The best way for governments to promote the development of local capital markets to support long-term investment vary, and individual countries should develop their own plans to do so in the most appropriate way. Options range from the removal of unnecessary restrictions on Public Pension and Sovereign Wealth Fund asset allocations, promoting the development of Local Currency Bond Markets,[20] promoting the development of well-structured insurance and pension industries, and ensuring adequate disclosure and reporting rules, to support for more advanced financial mechanisms, such as pooling.[21] There may also be opportunities for mutualisation of infrastructure companies and assets in some contexts.

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17 Long-term institutional capital remains the largest source of untapped private infrastructure finance, with combined assets totalling ~$80 trillion. However in 2012 only an estimated ~20% of all project finance lending was directly sourced from institutional investors, insurance companies, fund managers and pension funds. These investors continually do not meet their target allocations for infrastructure and developing the right investment structures will help unlock this capital (see Standard & Poor's, 2013, Inside Credit: Shadow Banking Looks Set to Capture a Larger Share of Project Financing in 2013).

18 See e.g. OECD (2011) *Fostering long-term investment and economic growth – Summary of a High-level OECD Financial Roundtable;* Insurance Europe (2013) *Funding the future: Insurers' role as institutional investors.*

19 Regulation penalises the issuance of Over The Counter (OTC) longer tenor derivatives, particularly CVA (Credit Value Adjustment), which are typically needed by investors to hedge currency and interest rate risks on longer term, infrastructure finance. These derivatives are not usually of a type or tenor that can be covered by exchange traded contracts (see e.g. FSB, 2013, *Update on financial regulatory factors affecting the supply of long-term investment finance*).

20 The Local Currency Bond Market Diagnostic Framework, developed as part of the G20 LCBM Action Plan, provides a useful tool to identify barriers to the development of LCBMs, and steps to address these.

21 See e.g. OECD (2014) *Pooling of Institutional Investors Capital – Selected Case Studies in Unlisted Equity Infrastructure*.

For higher risk greenfields and emerging market projects, bank debt is likely to remain the most important source of finance.[22] Governments may be able to better leverage private finance for these projects through increased provision of appropriate credit enhancement instruments, risk-sharing mechanisms and/or co-investment mechanisms (such as those provided by the EIB Project Bonds initiative).

Value

Feasible increases in the availability of long-term financing, both globally, and in local markets could generate an increase of $500 billion in infrastructure capacity by 2030, and support an additional uplift in economic activity of ~$100 billion and 2 million jobs per annum. The broader benefits of increased availability of long-term finance are also expected to be significant, but have not been explicitly quantified.

Actions

Ref	Action
I&I6A	The G20 should task the Financial Stability Board, Basel Committee, and the International Association of Insurance Supervisors to examine the potential unintended consequences for infrastructure financing of prudential regulation, and in particular to propose actions to ensure that proposed Solvency II capital requirements do not unnecessarily discourage long-term investment, before they are implemented in January 2016.
I&I6B	Individual G20 governments should set out, by the Turkey G20 Summit in 2015, national plans to promote the development of local capital markets to support long-term investment, where this is a significant barrier to increasing private investment.
I&I6C	Individual G20 governments should explore options for increasing the provision of appropriate credit enhancement instruments, risk-sharing and/or co-investment mechanisms to stimulate private investment in greenfields infrastructure projects.

22 Commercial banks continue to undertake the majority of infrastructure financing (lending ~90% of all private debt in the decade to 2009), particularly in emerging markets where corporate bond and securitisation markets are undeveloped (WEF, 2011, *Paving the Way: Maximizing the Value of Private Finance in Infrastructure*).

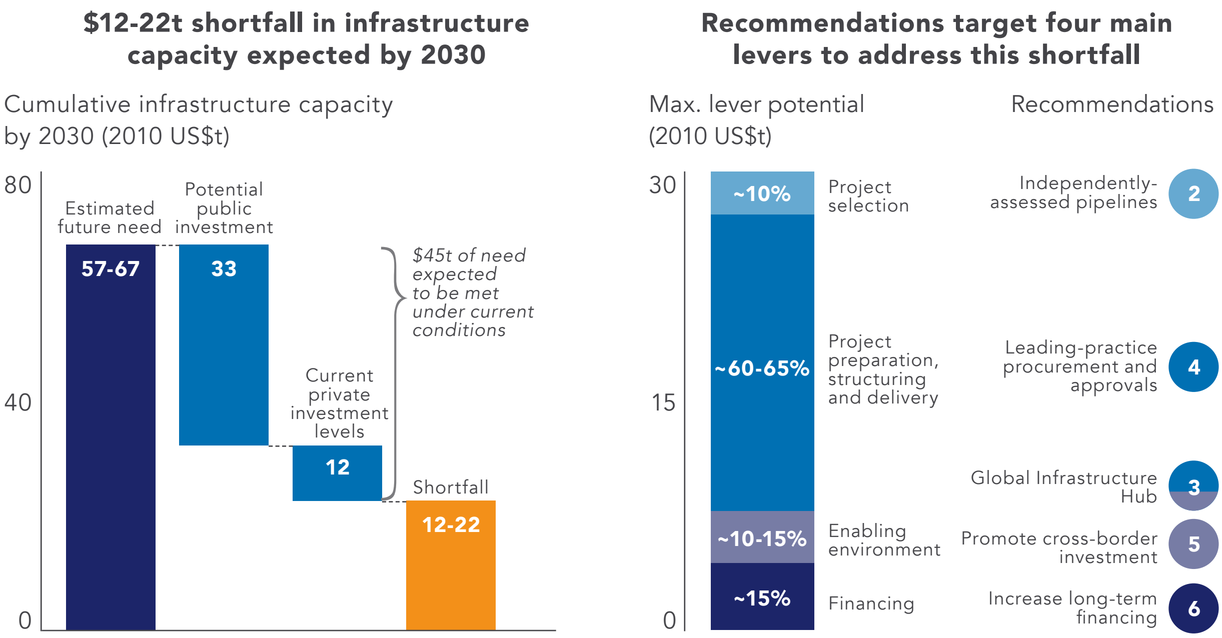
Value calculation methodology

The potential value of undertaking individual recommendations was calculated using three steps.

The first step was to estimate the size of the expected gap between future infrastructure needs and 'business as usual' based on a continuation of the current approach. Estimates of future need vary, but a consensus view suggests that this could range between $57 and $67 trillion by 2030.[23] Subtracting estimates of potential future public investment consistent with meeting IMF debt-to-GDP targets[24] and current private investment levels,[25] leaves a remaining 'gap' of $12–22 trillion (see the left hand panel of Figure 1).

The second step was to estimate the potential contribution of each initiative to closing this gap (i.e. increasing effective infrastructure capacity) by 2030. These estimates were constructed by first quantifying the maximum potential impact of four levers to close the infrastructure gap[26] (see the right hand panel of Figure 1, below), and then assessing the degree to which specific initiatives could improve the levers.[27]

Figure 1. Estimated potential of levers to address infrastructure capacity shortfall



23 Consensus of BCG, McKinsey, and WEF forecasts to 2030 (which are in turn based on more detailed estimates at the sectoral level by the OECD, IEA, ITF, GWI and others).
24 Estimates based on October 2013 IMF Fiscal Monitor estimates of adjustments required to the cyclically adjusted primary balance (CAPB) to meet debt-to-GDP targets while funding expected additional health and pension costs, and Heritage Foundation 2014 Index of Economic Freedom estimates of government expenditure as a % of GDP.
25 BCG estimates.
26 These include estimates of the benefits of improved project selection and prioritisation (BCG; McKinsey); estimates of 'privatisable' share of current government non-financial assets (Infrastructure Australia; The Economist; OECD; BCG); estimates of increased revenue potential of user charges, land value capture, and ancillary revenue (African Infrastructure Country Diagnostic; IEA; WEF; BCG); cost efficiencies from best practice capacity utilisation, maintenance planning and demand management of brownfield infrastructure assets and streamlined delivery of greenfields projects (WEF; BCG; McKinsey); improving all countries' regulatory environment to current best practice (based on analysis of World Bank Worldwide Governance Indicators data); and increasing depth of national financial markets towards world best practice (based analysis of World Bank Global Financial Development Database data).
27 These estimates are necessarily subjective. For recommendations directed at national governments and focused narrowly on specific levers over which they have direct control (I&I2 and I&I4), it was assumed that the full potential of the relevant lever is achieved. For recommendations focused more broadly on multiple levers, and where the influence of the recommendation is less direct (I&I3, I&I5, and I&I6), it was assumed that 10% of the maximum potential of the lever is achieved. Triangulation based on historical experience and individual case studies suggests that these estimates are likely to be conservative.

The third and final step was to estimate the broader economic impact of the estimated increases in infrastructure capacity associated with each recommendation. The potential impact of each recommendation was calculated based on estimates of the long-run elasticities of GDP and employment to the infrastructure stock.[28] The same methodology was also used to estimate the total potential benefit of closing the infrastructure gap. Estimates of the short-run GDP impact of the recommendations were based on a similar methodology, but only applied out to 2019.[29]

The valuation of initiatives focused only on their impact on infrastructure capacity. Recommendations I&I5 and I&I6 are expected to have significant impacts on investment beyond infrastructure, but these have not been explicitly quantified.

28 The long-run elasticity of GDP to the core economic infrastructure stock was based on meta-analyses conducted by Bom and Ligthart (2013) *What have we learned from three decades of research on the productivity of public capital?* (for developed countries), and Estache et al. (2013) *Infrastructure and Employment Creation in the Middles East and North Africa* (for developing countries). Estimates of the elasticity of jobs to GDP were based on analysis of ILO employment data from 2000-2012. The estimated GDP impact was also used to provide an indication of the potential impact of increased infrastructure on business investment, assuming a global average share of investment in GDP of around 20%.

29 The analysis assumes that increased infrastructure investment contributes to improved short-run productivity in line with short-run elasticity estimates from Bom and Ligthart (2013), and does not crowd out other investment.

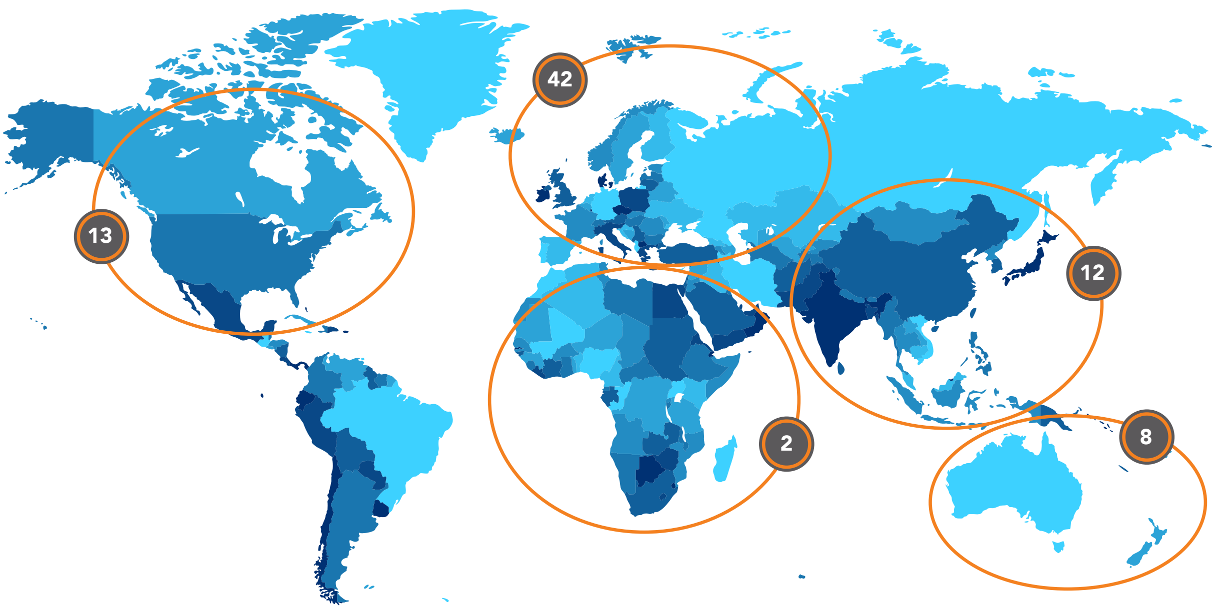
Taskforce schedule and distribution of members

Schedule of meetings

#	Date	Location	Theme
1	7 Feb 2014	Teleconference	Objectives, scope and themes
2	13 - 14 Mar 2014	Teleconference	Development of recommendations
3	17 Apr 2014	Teleconference	Development of recommendations
4	7 May 2014	Paris	Development of recommendations
5	27 - 28 May 2014	Teleconference	Development of recommendations
6	17 - 18 Jul 2014	Sydney	B20 SUMMIT

Distribution of members

Country	#	Country	#	Country	#
Argentina	-	India	2	Saudi Arabia	2
Australia	8	Indonesia	-	South Africa	-
Brazil	-	Italy	1	Turkey	3
Canada	2	Japan	1	United Kingdom	9
China	3	Korea	1	United States	11
France	7	Mexico	-	European Union	10
Germany	2	Russia	4	Other	9



Taskforce members

Title	Given Names	Family Name	Position	Organisation
Mr	Abdullah	Al-Mobty	Chairman of the Board	Council of Saudi Chambers-CSC
Mr	Yassin	Al-Suroor	President & CEO	A'amal Group (Saudi Arabia)
Mr	Michael John	Andrew	Former Global Chairman	KPMG
Mr	Bill	Banks	Global Infrastructure Leader	Ernst & Young
Mr	Erik	Belfrage	Chairman	Consilio
Mr	Antonio	Brufau	Chairman & CEO	Repsol S.A.
Dr	Hans-Paul	Buerkner	Chairman	The Boston Consulting Group
Mr	Paul	Bulcke	Chief Executive Officer	Nestlé S.A.
Mr	Levent	Çakıroğlu	CEO	Arcelik
Mr	Kimball	Chen	Chairman	Energy Transportation Group, Inc.
Dr	Andrew	Crane	CEO	CBH Group
Dr	Philippine	De T'Serclaes	Chief Advisor	Schneider Electric
Mr	Jacques	Demers	President & CEO	OMERS Strategic Investments
Mr	Kirill	Dmitriev	CEO	Russian Direct Investment Fund
Mr	Thomas	Donohue	President and CEO	United States Chamber of Commerce
Mr	Christophe	Dossarps	Executive Director	Sustainable Infrastructure Foundation
Mr	Phil	Edmands	Managing Director	Rio Tinto
Mr	Alex	Evans	President & COO	Energy Transportation Group, Inc.
Mr	José	Gasset Loring	Special Advisor to the Chairman	Iberdrola S.A.
Mr	Sean	Glodek	Director	Russian Direct Investment Fund
Dr	Arturo	Gonzalo	Corporate Director	Repsol S.A.
Mr	Alexander	ritsevich	Partner	Third Rome
Dr	Mustafa	Gunay	Secretary General	Confederation of Industrialists and Businessmen of Turkey
Mr	Paritosh	Gupta	Chief Executive Officer	IIDC Limited
Mr	Jerome	Haegeli	Head Investment Strategy	Swiss Re
Mr	Jeffrey	Hardy	Director	ICC G20 CEO Advisory Group
Mr	Merle	Hinrich	Chairman	Hinrich Foundation
Mr	M.Rifat	Hisarciklioglu	President	Union of Chambers and Commodity Exchanges of Turkey
Mr	Badr	Jafar	President	Crescent Petroleum
Mr	Reinhold	Jakobi	Chairman & Managing Director	Nestlé Turkey
Mr	Seung Youn	Kim	Chairman	Hanwha Group
Mr	André	Laboul	Head of Division	Organisation for Economic Cooperation and Development
Mr	Spencer	Lake	Group General Manager, Global Head of Capital Financing	HSBC Bank Plc
Prof	Josh	Lerner	Schiff Professor of investment Banking	Harvard Business School
Mr	Gary	Litman	Vice President, International Strategic Initiatives	United States Chamber of Commerce
Mr	Ross	Love	Managing Partner for Australia and New Zealand	The Boston Consulting Group
Mr	Jeremy	MacKenzie	Vice Chairman	Yancoal Australia
Mr	Tadashi	Maeda	Senior Managing Director	Japan Bank for International Cooperation
Mr	Thomas	Maier	Managing Director, Infrastructure	European Bank for Reconstruction and Development
Mr	Andrzej	Malinowski	President	Employers of Poland
Mr	Doug	McKay	Vice President International Organisations	Shell
Mr	Eric	Melis	President	Pension Fund Infrastructure Advisors Inc.
Mr	Gérard	Mestrallet	Chairman & CEO	GDF SUEZ
Mr	Robert	Milliner	B20 Australia 2014	Australia B20 Sherpa
Dr	Jan	Mischke	Senior Expert	McKinsey Global Institute
Mr	Nicholas	Moore	Chief Executive Officer	Macquarie Group Ltd
Mr	Arif	Naqvi	Founder & Group Chief Executive	The Abraaj Group
Mr	Ian	Narev	CEO	Commonwealth Bank of Australia
Mr	Paul	Nash	Partner	DIF
Mr	Minocha	Parvesh	CEO	Feedback International
Mr	Javier	Pérez Fortea	CEO	GLOBALVIA
Mr	Oleg	Preksin	Executive Vice President	RSPP
Mr	Giuseppe	Recchi	Chairman	Telecom Italia
Mr	Domenic	Rotili	Country President	Alstom SA
Ms	Uschi	Schreiber	Global Markets, and Global Government & Public Sector Leader	Ernst & Young
Ms	Lisa	Schroeter	Global Director of Trade and investment Policy	The Dow Chemical Company
Dr	Christoph	Schumacher	Managing Director	Union-Investment Institutional Property GmbH
Mr	Martin	Senn	Group CEO	Zurich Insurance Group Ltd.
Mr	Christoph	Steck	Director of Public Policy & internet	Telefónica S.A.
Ms	Alison	Tarditi	Chief Investment Officer	Commonwealth Superannuation Corporation (CSC)
Mr	Lee	Tashjian	Special Assistant to the CEO	Fluor Corporation
Mr	David	Thodey	CEO	Telstra Corporation
Mr	Danny	Truell	Chief Investment Officer	The Wellcome Trust
Mr	Alain	Viallix	Director, Public Affairs	Alcatel-Lucent
Mr	Laurent	Vigier	CEO	CDC International
Mr	Jan Dirk	Waiboer	Senior Partner, Head of CIS region	The Boston Consulting Group
Mr	Marcus	Wallenberg	Chairman of the Board	SEB
Mr	Sam	Walsh	CEO	Rio Tinto
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Ms	Jennifer	Westacott	CEO	Business Council of Australia
Mr	Alex	Wong	Senior Director	World Economic Forum
Mr	Wong Kim Yin	Wong	Group Chief Executive Officer	Singapore Power Limited
Mr	Serdar	Yesilyurt	Director, Representation Office to the European Union	Confederation of Businessman and Industrialists of Turkiye
Mr	Qing	Zhang	Managing Director	China Investment Corporation
Ms	Sabine	Zindera	Vice President	Siemens AG

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