

# C20 Infrastructure Working Group Draft Policy Paper 2020

## Relevant G20 commitments

The G20 Finance Ministers, in their meeting held in March 2018, announced that infrastructure would remain a priority for at least the next three years.<sup>1</sup> In the same year, the G20 created and endorsed the Roadmap to Infrastructure as an Asset Class.<sup>2</sup> Following this in 2019, the G20 Osaka Leaders' Summit committed to “ . . . endorse the G20 Principles for Quality Infrastructure Investment as our common strategic direction and high aspiration. These ‘QII Principles’ emphasise that quality infrastructure is an essential part of the G20’s ongoing efforts to close the infrastructure gap in accordance with the Roadmap to Infrastructure as an Asset Class.”<sup>3</sup> The Principles were supported by the ‘G20 Compendium of Good Practice for promoting Integrity and Transparency in Infrastructure Development’.<sup>4</sup>

## Global context

This year marks the beginning of a ‘decade of delivery’ with just 10 years remaining in which to deliver the Sustainable Development Goals (SDGs). Whilst progress has been made on some targets, we are not on course to eliminate poverty by 2030 and unless we cut greenhouse gas emissions, the effects, according to the UN, are likely to be catastrophic and irreversible.<sup>5</sup> In addition to these challenges we must now also deal with the impact of the 2019–20 coronavirus pandemic and the global economic crisis that now seems an inevitable consequence.

The coronavirus pandemic is an era-defining event with far-reaching consequences for how we build and maintain infrastructure and deliver vital public services. It has already exposed the weaknesses of public health systems that have been privatised, deregulated and in many cases, subject to swingeing cuts as a result of austerity. In many instances these measures were the result of the conditionalities attached to financing from multilateral development banks (MDBs).

Infrastructure underpins most of the SDGs, so the task of increasing the volume and quality of investment is one of great urgency. Many of the vulnerabilities that have been exposed by the pandemic also require investment in infrastructure, including importantly addressing chronic underinvestment in social infrastructure. We should therefore avoid framing efforts to achieve the SDGs as competing with the response to the pandemic as in many ways they are the same challenge and both can be addressed most effectively through a coordinated effort.

Another important global trend is the emergence of international initiatives that use infrastructure investment to connect major economies with new and established markets and provide access to primary products. They include China’s ‘Belt and Road Initiative, the US International Development Finance Corporation and the European Union’s EU-Asia Connectivity Strategy. Whilst these initiatives have the potential to bring much needed investment, they also give rise to concerns about conditionalities, indebtedness and of being more concerned with the geopolitical interests of the countries backing them than the priorities of the recipient countries.

Technology is another issue that is transforming the ways in which infrastructure and services are delivered. ‘Smart infrastructure’ for example incorporates sensing technologies which provide real

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<sup>1</sup> <https://www.github.org/blog/transforming-infrastructure-with-g20-roadmap/>

<sup>2</sup> <https://www.oecd.org/g20/roadmap-to-infrastructure-as-an-asset-class-argentina-presidency-1-0.pdf>

<sup>3</sup> [https://www.consilium.europa.eu/media/40124/final\\_g20\\_osaka\\_leaders\\_declaration.pdf](https://www.consilium.europa.eu/media/40124/final_g20_osaka_leaders_declaration.pdf)

<sup>4</sup> <https://www.oecd.org/g20/summits/osaka/G20-Compendium-of-Good-Practices-in-Infrastructure-Development.pdf>

<sup>5</sup> <https://unstats.un.org/sdgs/report/2019/The-Sustainable-Development-Goals-Report-2019.pdf>

time data to service providers thereby reducing bureaucracy and improving decision-making. When applied at a city level, these 'smart cities' enable the use of data to ease traffic congestion, regulate energy use, cut crime and link service users with public officials. However, there are also concerns that smart technologies are being developed top-down by government planners and tech firms and that they can also be used to monitor citizens and restrict civil liberties. Smart technologies should be subject to democratic accountability and used to promote social justice and meet the SDGs.

### **The G20's position**

The Global Infrastructure Hub predicts a \$94 trillion investment shortfall between 2016 and 2040. Meeting this shortfall would require an increase in the proportion of global GDP dedicated to infrastructure investment from 3 per cent currently to 3.5 per cent.<sup>6</sup> The G20 is seeking to address this shortfall by mobilising private and institutional investment through the development of what it has termed 'infrastructure as an asset class'. This involves standardising the ways that investments are planned and brought to market and transforming them into financial instruments which are easy to buy and sell, and which provide an attractive revenue stream for investors.<sup>7</sup>

However, infrastructure projects are inherently risky and frequently unprofitable, particularly in low-income countries (LICs) which are often characterised by poor governance. This makes them unattractive to private investors and in such circumstances, the risks are likely to be passed to the government in the form of contingent liabilities.

G20 adoption of the QII Principles in 2019 was welcomed by the C20 as an indication that it was moving beyond a narrow focus on financing and committing to a more comprehensive approach. This year, the start of the 'decade of delivery' and the challenges associated with the coronavirus pandemic and the ensuing global recession, will put that commitment to the test. Will the G20 continue with its narrow focus on private financing? Or will these global challenges force it to consider a broader and more relevant set of priorities?

### **Recommendations**

- **Infrastructure should remain a priority for the G20 throughout the 'decade of delivery'**

In 2018 the G20 announced that infrastructure would 'remain a priority for at least the next three years', i.e. up to and including 2020. As we enter the 'decade of delivery' and respond to the challenges of the coronavirus pandemic, the G20 should commit to retain infrastructure as a priority up to and including 2030.

- **Prioritise measures aimed at improving governance**

The governance of infrastructure concerns the prioritisation, planning, financing, contracting and delivery of the built assets and associated services that are essential for economic growth and human development. Poor governance occurs when these things are opaque, poorly managed and when they fail to prioritise the needs of people and the environment. G20 member countries should adopt international standards of transparency, accountability and good governance themselves and promote them through the G20.

- **Integrate resilience into planning and delivery systems**

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<sup>6</sup> <https://cdn.gihub.org/outlook/live/methodology/Global+Infrastructure+Outlook+-+July+2017.pdf>

<sup>7</sup> <https://eurodad.org/files/pdf/1546931-three-compelling-reasons-why-the-g20-s-plan-for-an-infrastructure-asset-class-is-fundamentally-flawed-1533475091.pdf>

New and existing infrastructure must be designed and adapted to withstand, respond to and recover rapidly from disruptions related to climate change, physical and cyber-attacks and pandemics. This requires strengthening public institutions, improving design standards and supporting the development of community led infrastructure and decentralised systems. It also requires considering the disproportionate impact of disruptions on the lives of women due to existing inequalities and gender-based roles and adopting measures to reduce and eventually eliminate them.

- **Support public investment**

Public financing is often less costly, more sustainable and more accountable to citizens than private financing. However, public financing is currently starved of funds because of a lack of action at the international level and because the G20 is promoting private financing through privatisation, PPPs and its 'Roadmap to Infrastructure as an Asset Class'. And even where private finance might be appropriate, for example where it frees-up public investment for social infrastructure, strong governance capabilities are needed by governments if they are to make informed choices about the most appropriate financing methods and if they are to manage those investments effectively.

- **Remove harmful conditionality from loan finance**

The conditionalities attached to loan finance provided by MDBs have exacerbated developing countries' vulnerability to pandemics, natural and man-made disasters and the effects of the climate crisis. Measures such as fiscal austerity, market liberalisation, deregulation and privatisation have led to cutbacks in public health provision and the removal of social safety nets. Future financing packages must not impose conditions that ignore the priorities of citizens and their elected governments or undermine their ability to manage future crises.

- **Promote people-centred regional connectivity**

Regional infrastructure connectivity should be planned and implemented with the goal of meeting peoples' needs as its highest priority. This includes creating decent jobs, stimulating local economic development, protecting the environment, reducing inequality, promoting gender equality and social inclusion and building peace. Finance will be needed from MDBs and other sources, but they should work in genuine partnership with representative regional bodies, recipient countries and the communities effected by their investments.

- **Invest in technologies that provide water security for all**

G20 members and MDBs should invest in new water conservation technologies, the development of energy efficient desalination plants, improvements to distribution infrastructure and effective international frameworks. The transfer of technology, especially to developing countries and for waste-water treatments, will help to achieve SDG 6 on clean water and sanitation.

Water is a driver of the global economy, but the G20 should through a combination of regulation and incentives, encourage companies to embed the risks and opportunities of a water secure future into their business, financial and policy decision making. The management of potable water and methods to control its wastage should be implemented along with other methods to overcome the scarcity of water.