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INTERNATIONAL WORKSHOP ON QUALITY INFRASTRUCTURE INVESTMENT

13 September 2015   Antalya, Turkey

SUMMARY REPORT, ON BEHALF OF THE CO-ORGANIZERS

0. Introduction

- Delegates from governments including G20 country delegations, multilateral development banks, bilateral development institutions, international organizations and research organizations met to discuss the quality of infrastructure investment, on the eve of the Fourth Development Working Group meeting under Turkey's G20 Presidency. The workshop was co-organized by the World Bank Group, the Governments of Japan and Australia, co-chaired by the latter two, with the support of Turkey's G20 Presidency as the host.

- The workshop was structured around four themes that were deemed relevant for the purpose of ensuring that the current global infrastructure gap is filled in such a way that promotes inclusive, sustainable and resilient growth and that addresses development challenges as reflected in goal number nine of the SDGs: i) aligning of infrastructure investment with economic/development strategies and connectivity; ii) promoting effective resource mobilization including through PPPs; iii) addressing potential social and environmental impacts; and iv) ensuring quality of infrastructure, including life-cycle-cost/resilience. The timeliness and the relevance of this topic was noted by the co-chairs and the keynote speaker of the workshop, and by the representative of the Turkish G20 Presidency. This Summary Report gives a brief overview of the issues covered, the common points among participants that emerged from the discussion, as well as an overview of the questions and challenges that were identified for further examination and action. A full suite of presentations is also available.

1. Aligning infrastructure investment with economic/development strategies and connectivity

- A general recognition emerged out of the discussion that ensuring alignment with socioeconomic development and development strategies of developing countries is essential for infrastructure investment projects to contribute to growth and to address developmental challenges. The importance of coherence and coordination between national and regional priorities was also pointed out by a number of participants.

- It was also reiterated by participants that, to this end, planning remains central to sound infrastructure development. There was a general recognition that strong planning institutions, with appropriate support from donors at early planning and preparatory stages, if necessary, in combination with adequately funded infrastructure plans, can help limited public resources as well as private resources to be strategically deployed to greatest impact.

- At the same time, the participants also noted that modern development challenges make infrastructure planning increasingly complex. It was pointed out that processes can be adapted to bring in cross-sectoral, cross-country perspectives, and to facilitate the development of coherent long-term plans, to be shared among various stakeholders, taking into account relevant factors such as human resource development and demand forecasting, as well as associated risks including political, social and environmental risks.

- India's experience with infrastructure planning was presented as a relevant case illustration. India's 12th National Plan (2012-2017) represents a doubling in the absolute value of infrastructure investments relative to previous plans, so as to reach an overall share of 10% of GDP. The plan has a strong regional integration dimension. This entails both linking India to the rest of South Asia drawing on a dedicated regional integration fund, and building strong economic corridors along the "golden quadrilateral" that links Kolkota, Chennai, Bangalore and, in particular, Mumbai, to Delhi. The plan also includes a number of cross-sectoral initiatives, including the development of 100 "smart cities".

- Japan noted that, in its experience, the development of long-term, comprehensive, cross-sectoral and evidence-based master-plans has proved to be pivotal in ensuring that infrastructure projects are aligned with development strategies of recipient countries. It was noted that this calls for an inclusive and transparent process of dialogue among stakeholders, close and effective collaboration between engineers and economists, and early translation of these plans into a medium-term expenditure program to ensure budget alignment.

- China also stressed that linking infrastructure plans to the needs of the productive sectors of the economy to promote local economic growth, in accordance with respective situations and development stages, is key to the development of quality infrastructure. China also noted that it is critical to link national and regional infrastructure investment plans, while ensuring that local needs and preferences remain paramount. It was also noted that the new AIIB could become a major contributor, drawing on the latest international experiences and taking into account standards set by existing MDBs.

- While the long term perspective is always the ideal, it may not be feasible in all settings. Japan noted that the experience of fragile and conflict-affected states, such as Afghanistan and South Sudan, illustrate that the emphasis in such states needs to be on quick and visible infrastructure reconstruction, following a highly inclusive process that keeps all stakeholders engaged. A strong capacity-building component also needs to be included as part of an explicit commitment to longer-term support.

- Delegates discussed how the digital revolution may be leading to substitution of traditional communications infrastructure (roads) with modern communications infrastructure (internet). China was of the view that roads continue to be of paramount importance as the starting point for development, with digital infrastructure coming later on a step-by-step basis. India noted that it has have experienced some degree of substitution between physical and digital infrastructure in its own development plans.

- Beyond planning, implementation itself poses many challenges. Japan has been a major supporter of Master Plan development, funding some 750 of these since 1974. JICA's vast experience shows that, out of the 118 Master Plans developed between 2000 and 2009, only around half of them proceeded to full implementation. Reasons include changes in political leadership, inadequate leadership, lack of funding, weak inter-governmental coordination and sometimes even the disruption caused by natural disasters. The increasingly short political cycle in recipient countries, and the unpredictability of long-term macro-economic situations and fiscal soundness, were also emphasized as major challenges by a number of participants, with a view to ensuring that long-term commitment is secured and observed by relevant players.

- Even when overall plans are followed, there can be a challenge posed by individual infrastructure projects that may become stalled during implementation. India focused on the need to track and remedy this over time.

- Finally, the World Bank Group (WBG) explained that, to support decision-makers in this complex environment, its PPP Group is developing a new Infrastructure Prioritization Framework. This draft tool, which is a complement to existing approaches such as cost-benefit analysis, provides a practical framework for integrating a wide range of project attributes into two indicators representing overall economic-financial strength and social-environmental strength.

2. Promoting effective resource mobilization including through PPPs

- The discussion was conducted on the basis of a shared recognition that private finance is a key element of meeting growing infrastructure investment needs. A stable regulatory and policy environment, combined with institutional capacity to manage PPPs, at both national and sub-national levels, can help to attract and manage private finance, human resources and know-how. Since SOEs are frequently off-takers of privately financed projects, the governance and viability of infrastructure SOEs becomes an important consideration. Attention also needs to be given to the development of the local financial sector, so as to be able to provide longer-term local currency denominated finance.

- It was also noted that risks associated with private investment can be moderated through dedicating adequate resources to project preparation, appropriate risk sharing by governments and DFIs, including the use of credit enhancements and equity investment, and leveraging IFI resources.

- At the same time, participants noted that identifying the most suitable way to finance infrastructure projects requires considerations of specific national, project and financing characteristics and the costs that they entail.

- The OECD noted that it estimated that the private sector funds close to half of developing country infrastructure, with DFIs accounting for 6-8%. Total multilateral and bilateral support for infrastructure in developing countries during 2013 amounted to approximately US $60 billion, while support to private sector entities, including PPPs, accounts for only 10% of this amount.

- Among OECD countries, in those that have most actively pursued private finance, PPPs account for around 15% of their total infrastructure asset value. The main advantages of PPPs is completion of higher-quality infrastructure projects on time and within budget; the main disadvantage is the higher transactions costs associated with setting them up.

- Germany highlighted that, despite high expectations from PPPs, the evidence base is not very strong; either on the actual amount of private capital flowing into such projects, or the transaction costs of bringing them about. When comparing public and private options, it is important to recognize that the private sector will typically face a higher cost of capital, although where public debt is constrained the private sector may offer the only route to increasing infrastructure investment.

- Indonesia explained that it had laid the regulatory foundations for its PPP program in the 1990s and has accumulated significant experience since then. Most PPP projects have not proved to be commercially viable, requiring government support for their implementation, for example through viability gap financing. It was explained that this is due to the low purchasing power of the population combined with the small scale of projects dispersed across the archipelago, which combine to reduce the profitability of infrastructure investments. Indonesia also noted that land acquisition was another difficult area, and that further progress also needs to be made on project preparation and management.

- It was also stressed by several participants that, while PPPs face challenges, so does public sector investment. When comparing the cost of public and private investment, one should consider not only transaction costs, but full lifecycle costs, which is where the benefits of PPPs become more apparent. Several delegates also emphasized the importance of identifying those projects for which a PPP approach may be feasible, while getting the risk allocation right using sophisticated tools. In this regard, it was noted that if all the risk is placed on the private sector, they will either pull out or find ways to transfer the cost to government and users. It was also pointed out that the reality is that a significant number of PPP contracts are renegotiated, and that the Australian experience of how to handle PPP renegotiation effectively is quite instructive.

3. Addressing potential social and environmental impacts

- The discussion was based on the shared recognition that ensuring that adequate and coherent environmental and social standards and policies for infrastructure investments are in place is key to sustainable, inclusive and resilient growth. The presentations by the WBG and Canada both highlighted that these standards are now converging around risk-based approaches, with a greater emphasis on risk management and adaptation to issues that may arise during implementation. It was suggested that governments could consider gradually mainstreaming and incorporating international good practice into national frameworks, based on an evaluation of their costs and benefits. Capacity for managing impacts is also important at sub-national levels.

- A number of participants emphasized that an inclusive process that features thorough stakeholder consultation both early and often is critical to the success of infrastructure projects. Large infrastructure projects – particularly PPPs – cannot be implemented without social license; else they risk unravelling and deterring potential financiers. An intensive program of consultations helps to build ownership and buy-in from those affected. It was also noted that there is a need to constantly educate the public and raise awareness and understanding about infrastructure projects. Otherwise, implementation of identified safeguard measures may be difficult. New social media provide powerful channels for reaching a broader range of stakeholders in real time.

- It was also noted that it may be challenging to harmonize social and environmental safeguards where regional infrastructure projects are concerned, and this, in turn, can dissuade financiers. Finding the right balance requires a great deal of consultation and high level participation. However, it was suggested that, over time, national and regional plans become mutually supportive.

- South Africa explained that it situates infrastructure development within a broader sustainable development framework and seeks an appropriate balance between development and protection of the environment. Delegates shared the view that, although there may be some trade-offs, including with regard to the speed of project implementation, it is not a zero-sum game. South Africa stressed that it is important not to curb the development aspirations of countries, particularly in a continent like Africa where deficient infrastructure is holding back economic growth by 2 percentage points, while noting that G20 was a useful venue for parties to engage in constructive discussion with a view to accommodating both requirements of greater quantity and greater quality of infrastructure. South Africa also noted that the issues are complex, and it is important to manage risks, including the risks associated with the unintended consequences of safeguards.

- The WBG explained that its safeguards reform process began in 2012 and is now entering its third phase of consultations. The reform is wide-ranging and will bring a number of new elements into the safeguards framework, including climate change, labor standards, and non-discrimination. The framework will be flexible and adaptable, beginning with an assessment of risk and allowing safeguard interventions to be targeted at where risks are greatest, recognizing that this may shift over time. It was stressed that the new framework aims to make use of countries' national environmental and social policies and legislation to increase ownership and reduce transactions costs. The WBG also noted that there will be enhanced accountability, allowing issues to be flagged more rapidly to management as a prior stage to the use of the Inspection Panel.

- It was also noted that, given that MDBs have a relatively small slice of infrastructure finance (less than 10 percent), the signaling impact of MDB safeguards policies to other financiers may be far greater than its direct impact on the projects they actually finance.

4. Ensuring quality of infrastructure, including life cycle cost and resilience

- A number of participants noted that, given that the quality of infrastructure critically affects the economic and developmental impacts of investments, due consideration has to be given at all stages of infrastructure development to such aspects as lifecycle cost, safety hazards and resilience against natural disasters. It was noted that a number of regional and multilateral initiatives focused on ensuring the quality of infrastructure are currently underway, including, for example, initiatives led by APEC.

- Lifecycle analysis should consider the full economic life of the asset. Under-maintenance of infrastructure assets, particularly during periods of budgetary austerity, is a frequent concern. MDBs can help by encouraging governments to sustain maintenance effort, although this is far from straightforward.

- The Asia Development Bank (ADB) and the Republic of Korea (ROK), in presenting their respective cycles of infrastructure projects, emphasized that ensuring the necessary quality of infrastructure requires sound practices and institutional arrangements throughout the project cycle, from strategic planning, during the procurement process, and during contract management. Adequate attention should be paid to risks across all of these stages, including the construction, maintenance, management and evaluation phases of infrastructure. It was emphasized that a comprehensive approach, including transfer of related skills, is therefore essential for ensuring the quality of infrastructure.

- The participants also discussed emerging new practices, including 'collaborative approaches' to procurement and contract management, which have been used successfully in Europe. These involve engaging collaboratively with the private sector during initial design and procurement stages, and later during implementation and contract management stages. Since problems will invariably arise during the implementation of a large infrastructure project, there are benefits to establishing a collaborative rather than adversarial relationship. While MDBs are increasingly exploring these collaborative approaches, both the ADB and the ROK noted that they have yet to put these methods into practice. The discussion indicated that, between countries, there are sharp differences between countries where an independent party is appointed to facilitate an improved relationship between client and contractor, and those where a more adversarial approach remains the norm.

- ADB noted its growing emphasis on country procurement systems for infrastructure projects. For countries with solid national systems, thresholds have been introduced below which national procurement processes can be used. This change has been very positive in drastically shortening the time taken to implement the procurement process.

- The ADB noted that the new AIIB is expected to learn from and adopt good practices based on the experience of other MDBs, and that it could start-up by co-financing projects with other MDBs, while its own pipeline gradually builds up. Furthermore, it was noted that OECD representation on the AIIB board could also help to bring a more balanced perspective on safeguards and procurement issues.

5. Update on the Global Infrastructure Hub

- The Australian delegate gave a brief update on the new Global Infrastructure Hub (GIH), which is in the process of being established as per the Brisbane Mandate. It was explained that the GIH will have an important focus on filling knowledge and data gaps that matter to the private sector and making these available through an open source platform, as well as building a knowledge network of projects, people and materials. The GIH will also work on public sector capacity building and dissemination of G20 best practices. The Global Infrastructure Hub consulted widely in the drafting of its business plan, and will continue to work closely with multilateral development banks, the G20 working groups and the B20.
- It was also pointed out that the GIH will also play an integral role in the APEC process, notably in the development of an APEC PPP knowledge portal, as mandated in the Sebu Action Plan that was just adopted by APEC finance ministers.

6. Conclusion

- A key theme of the workshop was that in order to ensure that infrastructure projects are aligned with development strategies at the national and regional levels, planning for high-quality infrastructure outcomes increasingly needs to expand its horizons to go beyond individual sectors, national frontiers, and traditional supply-side expansion. Greater attention is needed to cross-sectoral issues, regional integration, and managing the demand side of the equation. The vital importance of long-term approach in project planning and prioritization was highlighted, together with the several challenges the approach faces, including political, cyclical, financial and environmental risks. It would be useful to further explore the development and application of modern planning tools that could bring this kind of joined-up thinking within our reach, albeit only if institutional coordination can keep pace. In the meantime, governments and MDBs have accumulated relevant practices and lessons-learned, which could also inform interested players, while they require further updates.

- Mobilization of private finance was seen to depend critically upon sound legal, regulatory and institutional frameworks, as well as adequate project preparation and management. It is important to understand the relative costs and benefits of public and private provision of infrastructure. Private involvement can bring benefits in terms of higher quality outcomes delivered to time and budget constraints. However, there may also be higher transactions costs and costs of capital. Not all projects may present adequate commercial viability. The lack of relevant data and accounting method emerged as a challenge to be further explored.

- Social and environmental issues are critical. If they are not properly addressed, public support for a project will quickly erode. Increasingly, the trend is towards using risk-based approaches in addressing the social and environmental consequences of projects, and designing projects to be adaptable to uncertain outcomes. Existing policy frameworks need to incorporate emerging issues, such as climate change on the environmental side, and greater consideration of marginalized and vulnerable groups on the social side, adapting relevant international practices to the local contexts. Infrastructure projects need to secure their 'social license' to operate, through careful dialogue with local communities and by the thoughtful design of suitable benefit-sharing arrangements. The significance of further engaging in constructive discussion by relevant stakeholders with a view to accommodating those different requirements, in such venues as the G20, was recognized.

- In order to ensure the quality that delivers value for money throughout the full life cycle of infrastructure, practices and institutional arrangements that are fit for purpose have to be in place at key stages of project cycle, including procurement. A number of multilateral and bilateral initiatives, including those conducted in the WBG and the APEC, as well as stocktaking of existing international practices, could inform stakeholders and form a basis of examining and developing ways to address such challenges as managing risks and technology transfer. The latest thinking points towards collaborative approaches to procurement and contract management, which provide contractors with incentives for innovation and the flexibility to adapt to risks. A growing array of insurance and related instruments can also help to transfer or at least mitigate such risks.

- Overall, the workshop demonstrated that governments and MDGs from around the world recognize the need and have been taking actions to promote inclusive, sustainable and resilient growth by promoting quality infrastructure investment, as mandated in Goal 9 of SDGs, while, significant challenges remain. The G20, which has the track-record of functioning as an effective forum through which differences of opinion can be constructively discussed, should continue to provide venues for members to explore ways to jointly meet these challenges, ultimately leading to meaningful agreement and successful outcomes.