

## BACKGROUND NOTE SESSION 1

### **Responding to globally growing infrastructure demands: Establishing global standards to promote quality infrastructure investment and new finance**

Quality infrastructure is expected to support strong and sustainable growth, especially in emerging economies. Despite expectations of continued robust growth in Emerging Asia – its average annual GDP growth is forecast at 6.2% over the medium term (2017-21), according to the OECD's *Economic Outlook for Southeast Asia, China and India 2017* – the region faces challenges in meeting its large infrastructure needs. Limited financing options and capacity of governments will need to be addressed to ensure that infrastructure projects are implemented effectively. Infrastructure projects may also be exposed to additional risks of delay and increased costs, or may produce negative externalities such as environmental and social costs. It is therefore important for Emerging Asian countries to not only expand infrastructure, but also ensure its quality.

At the regional level, infrastructure initiatives have been implemented to improve regional connectivity. The Master Plan on ASEAN Connectivity (MPAC) 2025 was adopted in September 2016 to direct deeper integration of the region in five strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility. Recent infrastructure and connectivity developments and issues in Emerging Asia are regularly covered in the OECD Development Centre's biannual *Economic Outlook for Southeast Asia, China and India*.

#### **Policy issues**

##### ***Sources of infrastructure financing***

Diversifying financing methods, including domestic fiscal and financial efforts, is crucial in promoting increased infrastructure investment in Emerging Asia. The region has largely focused on increasing private investment and PPPs, while public financing received little attention. Current approaches may be complemented, however, by the use of additional sources of public finance, including tax revenues, government debt financing/fiscal loan mechanisms, and increased use of public incentives for investors. Development partners also assist in leveraging private investment for Emerging Asia's infrastructure by providing financial instruments, such as equity, loans, and guarantees, as well as various advisory and facilitation services.

##### ***New forms of financing***

While infrastructure demands continue to increase in the world with Asia at the top of the list, the supply of funds for infrastructure development cannot keep up with the demand. It is difficult to deal with the ever-growing infrastructure demand in developing and emerging countries through conventional means of public financing, and thus the mobilisation of private funds is indispensable. For future infrastructure development, we need new forms of finance that combine public and private funds in a coordinated manner such as Public-Private Partnerships (PPPs). At the same time, a new category of countries is emerging that is in need of infrastructure funding but that the existing international rules have not anticipated: there are countries whose infrastructure development needs are high, but which cannot receive concessional financing under the international rules because their income levels are relatively high. It is a very important task for policy makers to think of how to deal with such cases in a flexible manner under the relevant rules. Furthermore, as infrastructure development funding sources are diversified, the number of new lenders that are not subject to existing international rules has been increasing. It is a challenge for policy makers to cope with this situation.

### ***Catalysing the financing for green infrastructure***

Asian economies are facing important environmental challenges such as air and water pollution and sanitation and waste management. Green infrastructure is a fundamental building block in meeting these challenges and financing is perceived as the main challenge. OECD work on Green Infrastructure Finance will identify strategic priorities for low-emission and climate resilient development, understanding infrastructure investment requirements in order to limit greenhouse gas emissions so that global warming does not exceed 2°C.

### ***Standards to be met in promoting quality infrastructure investment internationally***

We should avoid focusing only on the quantity of infrastructure and neglecting the quality. It is important for the international community to share an understanding about the quality of infrastructure. In developing infrastructure, both physical quality of the infrastructure and how it is built are important factors. The physical quality of infrastructure is important in terms of economic efficiency in view of life-cycle cost and resilience, while factors such as job creation for local communities and social and environmental impacts should be taken into account in developing infrastructure. In this regard, the "G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment" agreed upon at the G7 Ise-Shima Summit showed one direction on the basic elements upon which the international community could align its infrastructure investments. The G20 Hangzhou Summit confirmed the importance of these principles. Sharing such principles more widely internationally will greatly influence the quality of infrastructure investment in developing and emerging countries, and eventually have an impact on potential global growth.

#### **The G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment**

At the G7 Ise-Shima Summit held in Japan in May 2016, the leaders of the G7 countries agreed on the Ise-Shima Principles for Promoting Quality Infrastructure Investment, five principles for ensuring that infrastructure investments are made taking full account of value for money and the quality of infrastructure.

- Principle 1: Ensuring effective governance, reliable operation and economic efficiency in view of life-cycle cost as well as safety and resilience against natural disaster, terrorism and cyber-attack risks.
- Principle 2: Ensuring job creation, capacity building and transfer of expertise and know-how for local communities.
- Principle 3: Addressing social and environmental impacts.
- Principle 4: Ensuring alignment with economic and development strategies including aspect of climate change and environment at the national and regional levels.
- Principle 5: Enhancing effective resource mobilisation including through PPPs and other forms of innovative financing, including through Multi-lateral Development Banks.

### **Questions for discussion**

- How to deal with infrastructure demands in developing and emerging countries by using public funds, including Official Development Assistance, and further mobilising private funds, as well as broadening financing methods, including through fiscal and financial efforts.
- Actions needed for the G7 Ise-Shima principles for promoting quality infrastructure investment and the G20 Leaders' Communique to be employed by governments, international organisations, including multilateral development banks, bilateral agencies, and other investors in their respective infrastructure investments.
- Standards to be met by the international community in promoting quality infrastructure investment.