Practitioners’ Views

Promoting Infrastructure Investment: The G20 and the Multilateral Development Banks

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Abstract

The G20 is committed to promoting infrastructure investment and has called on multilateral development banks (MDBs) to increase their infrastructure lending to help boost global growth. Alongside long-standing MDBs such as the World Bank and Asian Development Bank (ADB), new MDBs such as the Asian Infrastructure and Investment Bank (AIIB) and the New Development Bank have been established, and G20 members would like both old and new multilateral banks to scale up their infrastructure investment by developing a pipeline of bankable projects.

Even with all the MDBs investing more, they will not be able to satisfy the global need for infrastructure. What they can do, however, is start to fill the infrastructure gap by catalyzing private investment and cooperating on standards and regional infrastructure. Concerns have been raised about the geo-political implications of the new MDBs which underscore the need for MDB cooperation. There are challenges to and opportunities for this cooperation. The G20 needs to be clear about the role it can play in encouraging MDB cooperation and infrastructure investment, and must also be aware of the limitations on its role given that each MDB has its own mandate.

Specifically, the G20 can downplay the perceived trade-off between efficiency and standards in the MDBs, encourage cooperation on new standards for sustainable or green infrastructure, invest in the Global Connectivity Alliance as a coordinating body for the MDBs and help align the G20 work on infrastructure with the United Nations Sustainable Development Agenda.

Key words: infrastructure; investment; G20; multilateral development banks


Introduction

Estimates of the global infrastructure investment gap vary widely. The United Nations Financing for Development conference in Addis Ababa in 2015 suggested that there is an annual global infrastructure gap in developing countries of between $1 to $1.5

1 The editorial board received the article in December 2017.
trillion [Third International Conference on Financing for Development, 2015]. In the
Asian region alone, the Asian Development Bank ([ADB] [2012]) estimated that the
total investment needed between 2010 and 2020 would be in the order of $8 trillion.
These are large numbers, even if they are not precise. Infrastructure investment is a
major public policy challenge for both developing and developed economies.

The biggest challenge to reducing the gap is the need for technical expertise to pre-
pare “bankable” projects. To this end, the Asian Infrastructure and Investment Bank
(AIIB) and the New Development Bank (NDB) have been established. This article will
focus on some of the opportunities and challenges for cooperation between the new
multilateral development banks (MDBs) and the longer-established institutions. It will
also comment on the role the G20 can play in promoting infrastructure investment and
MDB cooperation.

There is already a rich body of literature on the impediments to infrastructure in-
vestment and on the relationship between infrastructure and growth. The International
Monetary Fund (IMF) and MDBs have produced their own knowledge on the subject
and numerous reports and case studies have been produced by private and public in-
tstitutions. Therefore, rather than arguing the case for infrastructure investment, this
article assesses the role of the G20, which has been promoting the message that more
infrastructure investment would have a positive effect on global growth.

What Is the Gap?

The infrastructure gap is a global problem – there is huge demand for long-term infra-
structure projects that are simply not being financed. The impediments to infrastruc-
ture investment vary across countries. Developing countries need financing and tech-
nical expertise. They tend to have less access to external finance, and the access they do
have to conventional markets comes at a high cost because of their credit ratings. They
also often lack the appropriate legal frameworks and policy tools required to facilitate
long-term infrastructure planning and building [Qobo, 2014]. Here, the MDBs have a
particular role to play given their “additionality” – they can finance projects that would
otherwise remain unfunded due to a poor investment climate.

On the other hand, middle-income countries want policy-oriented lending, tech-
nical expertise, and targeted lending that will help unlock resources from other areas
(for example, through the private sector or private-public partnerships). Even in high-
income developed countries without a need for the MDBs, there is a growing need to
replace or repair infrastructure.

There is a strong case to be made for filling the infrastructure gap. U.S. economist
Lawrence Summers [2014] famously referred to infrastructure investment as a “free
lunch” because governments can use infrastructure to strengthen both the economy
and their own financial positions. The IMF also supports the message that infrastruc-
ture spending is good for growth because “if properly formulated, more public infra-
structure investment may enhance, rather than weaken, fiscal positions as shown in
many countries” [Zhang, 2016]. In this context, it is not surprising that the G20 has made infrastructure investment a priority in recent years, or that new multilateral banks focusing on infrastructure have been established. However, an important caveat is that investments should be efficient and the G20 and the MDBs need to focus on bankable projects.

What Are the New Multilateral Development Banks?

A multilateral development bank differs from a conventional bank in that it provides advice for economic and social development in addition to finance, and its shareholders are sovereign states. Traditionally, MDB lending was to be driven by a focus on development outcomes. Another characteristic that differentiates the MDBs is their governance structure. As multilateral organizations, they are governed through consensus, although the relative voice of shareholders has been a source of contention and major shareholders are able to influence decision-making to pursue their own interests. MDBs have been attractive to both borrower and donor countries in the past because of “their traditional political neutrality, freedom from special interests and corruption, technical professionalism, long-term development perspective and hands-on program design and finance engagement” [Linn, 2015].

The very concept of development has shifted dramatically away from official development assistance led by sovereign states and through the MDBs. In the past, MDBs played a role in infrastructure investment through project lending. But in recent years, as finance sources have diversified, more attention paid to using the multiplier effect of MDB investments to help fill the infrastructure gap. According to the World Bank [2015], for every one dollar invested directly by MDBs in private-sector operations, some two to five dollars are mobilized in additional private investment. In this way, an MDB can “bring investors on board by virtue of its global or regional presence, technical expertise, due diligence, negotiation capability and, in some cases, by extending its preferred creditor status to other investors” [Moore and Kerr, 2014]. The idea is that MDBs can act as guarantees for risk and thus encourage private investment. They can catalyze additional private and public resources for infrastructure, especially by leveraging their relationships with governments.

Since the global financial crisis, borrowing costs have been low while infrastructure bottlenecks have built up in many emerging-market and developing economies. In particular, there is a desire for governments to build “core” infrastructure, that is, large and capital-intensive projects in transportation, energy and communications [IMF, 2014, ch. 3]. Many countries have been frustrated by the impediments to infrastructure investment in these areas because private actors have been unwilling to take on risks or because MDB projects take too long. The AIIB and NDB have been set up with emerging economies as major shareholders with ambitions to help unlock infrastructure investment.
**The Asian Infrastructure Investment Bank**

The Chinese-led AIIB has 57 founding members, a capital base of $100 billion and a mandate to finance regional infrastructure. Its establishment caused geo-political tensions when the United States and Japan (major shareholders in the established MDBs) declined to join the new bank and other U.S. allies, including several European countries and Australia, signed on. The United States declined to join ostensibly because of concerns about governance and standards. The AIIB has been perceived as a challenge to regional banks such as the ADB and even the World Bank given its potential global influence.

The AIIB was set up relatively quickly. It was established in 2015 but six projects were already approved in 2016, including several that are co-financed with other MDBs. The AIIB is still defining itself vis-à-vis the more established MDBs. Jin Liqun [2016], AIIB president, suggests that it will “find its niche among the MDB family.” Documents on the AIIB website refer to the fact that the AIIB is an MDB “conceived for the 21st century,” implying that older MDBs have not evolved to face new challenges [AIIB, 2016, p. 27]. The AIIB promises to be “lean, clean and green” and focuses on regional connectivity, green infrastructure and private sector financing [AIIB, undated]. The AIIB is caught between wanting a good credit rating and wanting to take on more risks compared to what it sees as the overly cautious approach taken by established MDBs. This has raised a new debate across all the MDBs about a trade-off between standards and efficiency.

**The New Development Bank**

The New Development Bank (NDB), established by the BRICS grouping of Brazil, Russia, India, China and South Africa, has a capital base of $100 billion to foster infrastructure and sustainable development initiatives. It is the most tangible outcome of cooperation among BRICS countries to date. The NDB acts like a credit cooperative among the five founding members, and this more limited structure means it is a better example of South-South cooperation among developing economies. It also means that it poses less of a challenge to the traditional MDBs than the AIIB. Currently, NDB invests only in projects within the five founding countries whereas the AIIB invests more broadly.

Unlike the AIIB, the NDB seems more willing to take risks. Its president, former private banker K. V. Kamath, wants the NDB to offer “a different mindset” and more flexibility in its operations [PTI, 2015]. Although the NDB’s website has since changed, it originally described the bank as “an alternative to the existing US-dominated World Bank and International Monetary Fund” [Tiezzi, 2015]. The NDB struggles to get a good credit rating given its membership. In contrast, the AIIB’s credit rating is helped by a number of AAA-rated members.
The new MDBs are still evolving, so it is very difficult to comment on how their governance, standards, lending and project selection will develop. As the new banks co-finance projects with the older MDBs they may begin to adopt similar outlooks and practices. Alternatively, they may take on more risks to differentiate themselves, even though this could have consequences for their credit ratings or lead to inefficient projects with potentially negative social or environmental consequences if proper safeguards are not enforced.

Challenges and Opportunities for MDB Cooperation

So far, there have been positive signs of cooperation between the new MDBs and the older institutions. For example, the presidents of the World Bank and ADB both officially welcomed the new banks and offered to co-finance projects. Behind closed doors, the established MDBs may have some concerns about the new players, but they have responded well to them in public. World Bank president Jim Yong Kim spoke about both new banks as “potentially strong allies” and “great new forces” [Donnan, 2015]. ADB president Takehiko Nakao said his bank would “cooperate closely with AIIB in supporting the development of the Asia Pacific region” [ADB, 2016].

There is an opportunity for the old and new MDBs to cooperate on standards for sustainable or green infrastructure. Although there is a global push for infrastructure, there is also growing awareness of the environmental effects of large-scale infrastructure projects. The 2015 Paris climate agreement and the United Nations 2030 Agenda for Sustainable Development demonstrate a new commitment to mediating the effects of climate change. A 2016 report from the Center for Global Development calls for more sustainable infrastructure, that needs to be even cleaner and involve the private sector as much as possible [High Level Panel on the Future of Multilateral Development Banking, 2016]. Currently, there is no clear global standard of what constitutes a sustainable investment.

Regional infrastructure is yet another area where the MDBs could cooperate. More work is needed to harmonize infrastructure across borders to facilitate the movement of goods, services, people, capital and technology. For example, MDBs could help to mediate disputes among neighbouring landlocked countries that prevent cooperation on roads and tolls. Another example is energy access, where regional infrastructure can help better match energy producers and consumers.

However, some potential areas of competition could undermine cooperation among MDBs. At the project level, if one MDB provides the technical assistance and project set-up, another bank could come in and offer better terms midway through the project. There have already been concerns about a “race to the bottom” as competing banks offer lower standards and faster delivery. The worst-case scenario would be a fragmentation of the MDB landscape along geo-political fault lines with client countries choosing MDBs that align with their geo-political interests. This is where the G20 can potentially play a role by legitimizing the new banks and encouraging MDB co-
operation. The more the MDBs can find common areas of cooperation, the lower the risk of inconsistent infrastructure standards, and the better the chance for the growth outcomes.

**A Role for the G20**

The G20’s mandate is to promote strong, sustainable and balanced growth. The so-called “premier forum for international economic cooperation” has long promoted the link between infrastructure investment and global growth. Infrastructure was an important pillar of the 2010 G20 Seoul Development Consensus for Shared Growth. During China’s 2016 G20 presidency, finance ministers and central bank governors agreed to “reaffirm our commitment to promote investment with focus on infrastructure in terms of both quantity and quality” supported by a joint declaration by 11 MDBs [G20 Finance Ministers and Central Bank Governors, 2016]. This declaration included announcements of quantitative ambitions for high-quality infrastructure projects within their respective institutional mandates as well as their efforts to maximize the quality of infrastructure projects, strengthen project pipelines, collaborate further among existing and new MDBs, strengthen the enabling environment for infrastructure investment in developing countries, as well as catalyze private resources [G20 Finance, 2016].

The MDBs [2016] have agreed to work to “identify bottlenecks that hinder greater levels of private and public sector infrastructure investment” through a list of measures including identifying legal barriers, supporting government infrastructure projects, identifying opportunities for the private sector and sharing knowledge. However, in the same document, the MDBs made clear that their work is subject to client demand and their institutional mandates.

The G20 has already called on the MDBs to optimize their balance sheets. It calls on the MDBs [MDBs, 2015] to “increase lending without substantially increasing risks or damaging credit ratings” [emphasis added]. To help grow the pipeline of bankable projects, the G20 launched the Global Infrastructure Hub under the 2014 Australian presidency, although it has struggled to establish itself. In 2016, the G20 finance ministers and central bank governors [2016] also set up the Global Connectivity Alliance to “enhance cooperation and synergies of existing and future global infrastructure and trade facilitation programs seeking to improve connectivity within, between and among countries.” The World Bank would serve as secretariat, working closely with the Global Infrastructure Hub, the Organisation for Economic Co-operation and Development, the MDBs, global and regional infrastructure programmes, and other international organizations.

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The G20 has already played an important legitimizing role by including the new MDBs in its recommendations. This gives de facto recognition that the G20 will support actions by the new MDBs to fill the infrastructure gap. The G20 should keep encouraging MDB cooperation and calling for a boost in infrastructure in both developing and G20 countries.

Although the G20 can set the direction for more investment from the MDBs, it should be wary of directing or tasking the banks too stringently. There have been criticisms of the G20’s approach to the MDBs, for example, “the G20’s development agenda, which points to a central role for the MDBs, tends to reinforce fragmented and ad hoc approaches ... [This] agenda has tasked MDBs with countless reports and white papers across hundreds of topics and subtopics with little high-level decision making” [High Level Panel, 2016]. The G20 works best as an agenda setter. In this case, G20 leaders can continue to encourage cooperation among the MDBs without unnecessarily commissioning an endless pile of working papers.

Attempts to fulfil growing infrastructure demands (especially regional integration) will require better coordination between the MDBs and other actors. There are already many different arenas for setting an agenda for infrastructure investment. In addition to the G20’s efforts, the 2030 Agenda has 17 Sustainable Development Goals (SDGs), with the ninth being to promote “industry, innovation, and infrastructure” [UN, 2015].

The G20 can support the alignment of the MDBs with the UN’s ambitious (yet non-binding) SDGs. A statement from the World Bank and IMF annual meetings in 2016 noted that the MDBs would “provide not only the necessary financing – either directly or by helping to ‘unlock’ and catalyze additional public and private resources – but also policy advice and technical assistance supporting countries to build domestic capacity” in order to meet the 2030 Agenda [World Bank, 2016]. Given that the G20 is made up of a selection of developed and emerging economies, the 2030 Agenda might be more suitable for framing MDB activities as the SDGs are universal goals that include all developing countries.

This article proposes several ways in which the G20 can play a role in promoting MDB cooperation to increase infrastructure investment, namely:

- downplaying a trade-off between efficiency and standards among the MDBs and encouraging the new MDBs to uphold high standards while they seek more efficient ways to do business;
- encouraging the MDBs to cooperate on new standards on sustainable or green infrastructure and to continue to facilitate regional infrastructure;
- investing in the Global Connectivity Alliance as a coordinating body to promote complementarity and avoid duplication among the MDBs;
- aligning the G20 work on infrastructure with the 2030 Agenda, especially with regards to infrastructure investment in non-G20 developing countries; and
- working to diffuse any tensions that might arise among relevant major shareholders that are also G20 members in the event of overt competition among the MDBs.
Conclusion

The MDBs – both old and new – cannot meet the global infrastructure gap alone. Bridging that gap will require a coordinated effort and a great deal more private sector activity. Infrastructure projects are naturally slow, so there should be realistic expectations about what can be achieved in any given timeframe. The G20 is just one arena for discussions on global infrastructure needs. The 2030 Agenda potentially offers a more long-term and inclusive framework for MDB investment.

There are positive signs that the MDBs are working together and increasing their lending, with future opportunities for them to set the standards for more innovative, sustainable infrastructure and invest in regional infrastructure. This is a fruitful area for future research. The new MDBs have the potential to help unlock infrastructure investment and the G20 has taken a positive step in recognizing their legitimacy. The G20 should continue to promote infrastructure investment and MDB cooperation without intruding on the mandates of the MDBs.

References


Развитие инфраструктурных инвестиций: «Большая двадцатка» и многосторонние банки развития1

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«Группа двадцати» приняла обязательство стимулировать приток инвестиций в инфраструктуру и призывает многосторонние банки развития (МБР) увеличить кредитование инфраструктурных проектов для содействия глобальному росту. Наряду с существующими МБР, такими как Всемирный банк и Азиатский банк развития, были созданы новые структуры – Азиатский банк инфраструктурных инвестиций и Новый банк развития. Страны «Группы двадцати» ожидают от новых и ранее созданных МБР увеличения объемов инвестиций в инфраструктуру за счет непрерывного роста потока рентабельных проектов. Однако даже если все МБР станут наращивать объемы инвестирования, они все равно не будут способны удовлетворить глобальный спрос на инфраструктурные инвестиции.

МБР могут разрешить проблему дефицита инвестиций в инфраструктуру путем привлечения частных инвесторов и более глубокого взаимодействия между собой при выработке стандартов и в развитии региональной инфраструктуры. Существующие опасения относительно геополитических последствий возникновения новых МБР только стимулируют углубление взаимодействия между банками развития. Существует ряд вызовов и возможностей для сотрудничества в этой сфере. «Группа двадцати» должна ясно представлять, в чем состоит ее роль в процессе углубления взаимодействия между банками и увеличения объемов инвестирования в инфраструктуру, а также воздерживаться от выхода за рамки этой роли, всегда учитывая наилучшие собственной сферы полномочий и ответственности у каждого банка из группы МБР.

«Группа двадцати» может сгладить ощутимое несоответствие между количественной эффективностью и принятыми стандартами в деятельности МБР путем поощрения взаимодействия банков при выработке новых стандартов устойчивой / «зеленой» инфраструктуры, внося вклад в деятельность Альянса для глобального сопряжения инфраструктуры, выполняющего роль координатора деятельности МБР, а также помогая совместить деятельность «Группы двадцати» по развитию инфраструктуры с Повесткой дня ООН в области устойчивого развития ООН.

Ключевые слова: инфраструктура; инвестиции; «группа двадцати»; многосторонние банки развития


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