Policy Note

Increasing investment in infrastructure

"Developing countries need new infrastructure, developed countries need rebuilt infrastructure and almost every country is struggling to finance the infrastructure it needs."

Prime Minister Tony Abbott, World Economic Forum, Davos, January 2014

Meeting the growing need for modern infrastructure

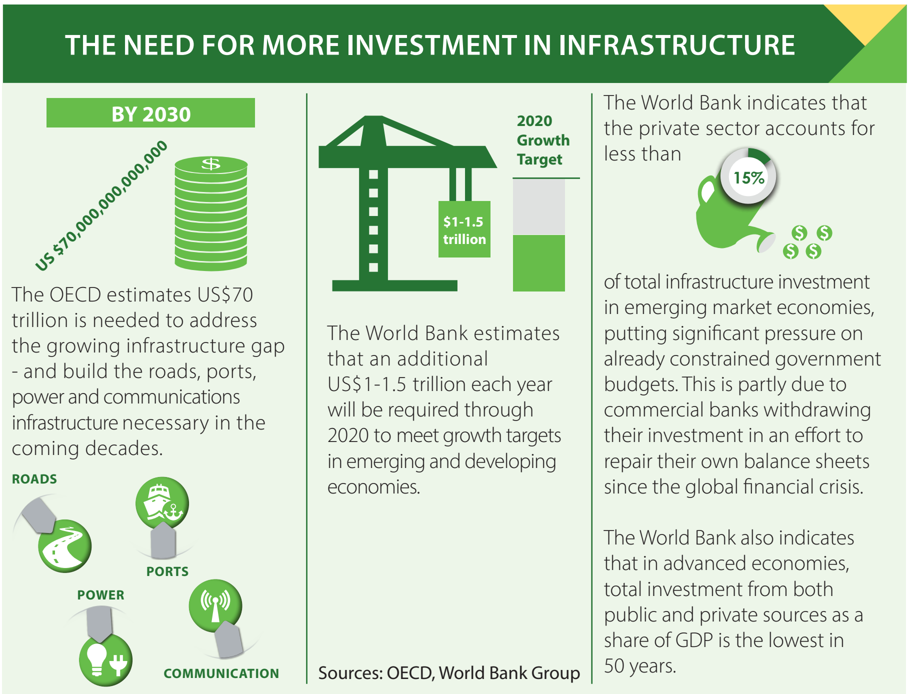
Infrastructure is critical for modern economies. Businesses rely on roads and ports to access markets, on power stations for energy to operate, and on telecommunications to engage with their customers and remain competitive.

A major shift in infrastructure spending is under way. Even before 2008, developing country spending had overtaken developed country spending on infrastructure, and the global financial crisis has accelerated this shift.

While developed economies will continue to increase their spending on infrastructure, according to Oxford Economics their share of the global total will shrink from nearly half today to about one-third by 2025.

Accelerating urbanisation in developing countries, particularly China, India, and Indonesia will require spending growth in water, power, telecommunications, and transportation infrastructure.

The OECD estimates that global air passenger traffic could double in 15 years, air freight could triple in 20 years, and port handling of maritime containers could quadruple by 2030.



Countries need to prepare for these changes to maximise growth and productivity, and meet the future demands for the global movement of people and goods.

CLOSING THE INVESTMENT IN INFRASTRUCTURE GAP WILL GENERATE GROWTH AND JOBS

Nations are not spending enough on infrastructure to meet future demand. By 2030, the OECD estimates that $70 trillion in additional infrastructure capacity will be needed globally.

The B20 Infrastructure and Investment Taskforce estimated in July 2014 that, with current policies, only around $45 trillion of this investment may be realised, leaving a gap of tens of trillions of dollars.

INCREASING PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE

The availability of long-term investment financing from all sources diminished during the global financial crisis and has not fully recovered due to persistent weakness and uncertainty in the global economy. It is still difficult for governments to secure finance for major infrastructure projects.

Banks will continue to play a key role in long-term investment, but closing the infrastructure gap requires other sources of investment.

Institutional investors (like pension funds) have the potential to step in and finance longer-term infrastructure projects – as they hold over $85 trillion in assets. These investors need to be confident in the availability of productive investment projects and their longer-term returns.

Private investment in capital projects can free up public sector budgets and also provide more revenue to the government as a result of an increase in the local tax base.

For well-planned and delivered public infrastructure projects, the World Economic Forum estimates that every dollar invested will generate an economic return of between 5 and 25 per cent.

A key challenge for the G20 is to reduce impediments in the investment environment so more private capital can be connected with the infrastructure projects that are needed.

IMPROVING THE ENVIRONMENT FOR INVESTMENT

Improving the global investment environment requires a multi-year approach to improve the extent and quality of public and private investment, and help governments deliver the infrastructure needed by communities and business more quickly.

Country-specific actions

As part of their comprehensive growth strategies, G20 members are developing actions to improve the conditions for investment, particularly by the private sector in their own economies.

These actions will make it easier for business to invest in quality infrastructure projects and improve the efficiency of public investment. Actions include better regulation and more efficient public-private partnerships.

Measures to streamline project approvals and improve openness to foreign investment will also create better investment environments.

CREATING CONDITIONS FOR INFRASTRUCTURE INVESTMENT

To realise growth over the next decade, G20 members are creating conditions conducive to infrastructure investment. Examples of actions G20 members are taking include:

- clear and transparent models for evaluating and making decisions on the types of projects to be undertaken
- fiscal responsibility, focusing on quality of public investment
- removing barriers to investment, particularly for foreign direct investment
- stable legal and regulatory frameworks
- access to financing, particularly venture capital
- risk mitigation instruments
- public-sector capacity to create and manage projects
- faster approval processes

G20-wide actions

The G20 is supporting the efforts of Multilateral Development Banks (MDBs) to increase their lending capacity through more cooperation and project risk sharing with regional development banks. Members are considering the World Bank's proposal to establish a Global Infrastructure Facility to get more projects off the ground in emerging and developing countries.

Implementing leading practices to identify, prioritise and deliver infrastructure projects will provide more transparency and certainty for investors. The G20 will work with MDBs and the private sector to implement these practices on a voluntary basis and develop 'pipelines' of productive, market-ready infrastructure projects.

The G20 is also working to make it easier to channel private-sector finance to infrastructure. Measures include improving the transparency and functioning of securities markets for infrastructure; making it easier for small and medium-sized enterprises to secure finance; and enhancing project preparation in developing countries.

HOW IT HAPPENS

The G20's work on investment in infrastructure is conducted through the Investment and Infrastructure Working Group (IIWG), in close cooperation with the Framework Working Group and the Development Working Group.

The IIWG is responsible for developing the investment and infrastructure elements for inclusion in G20 member growth strategies, and for working with the Development Working Group to increase financing for infrastructure investment in developing countries.

- prepared by the Australian Presidency

Further information

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