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G20 AND BRICS UPDATE

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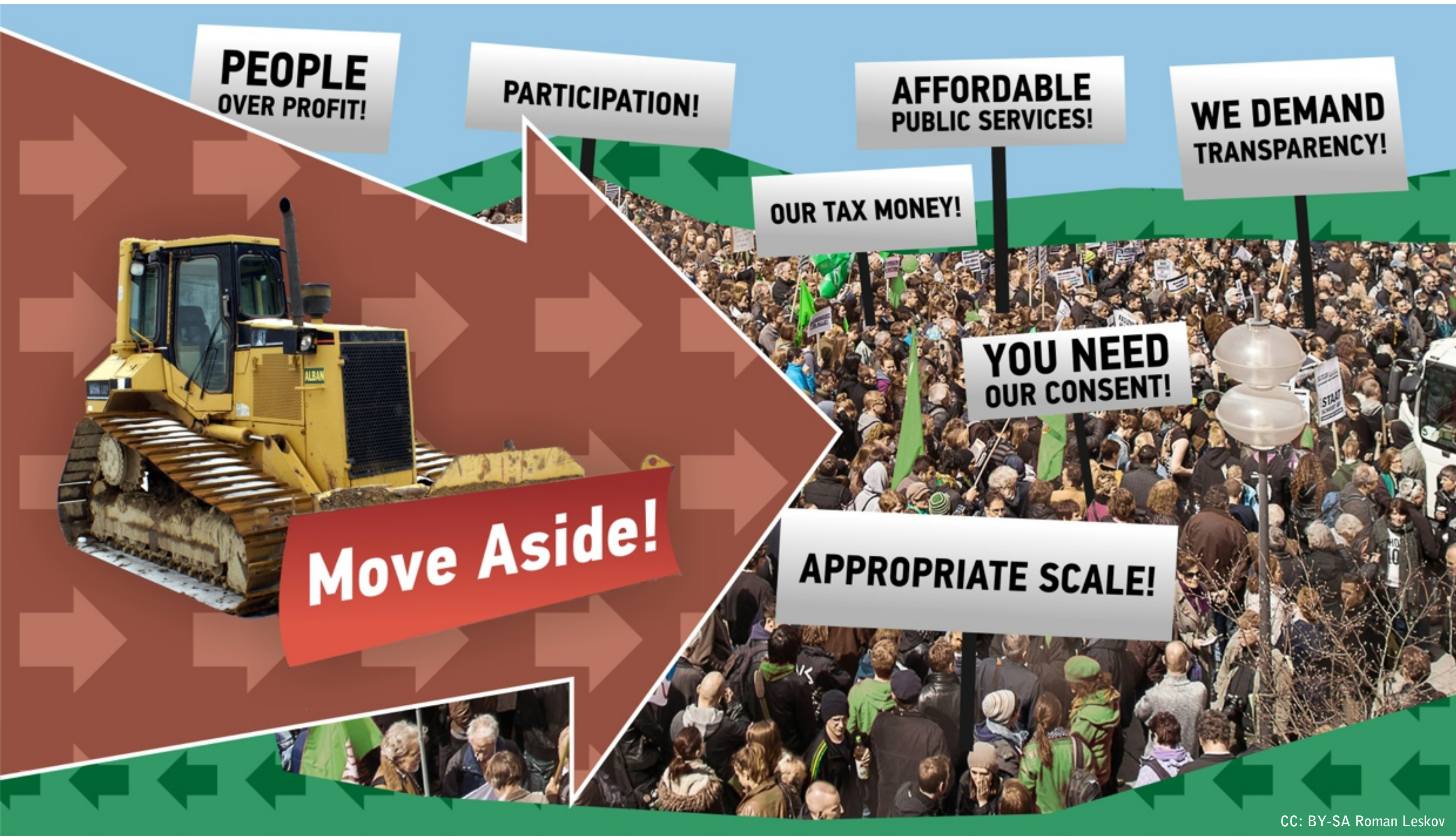
E-NEWSLETTER

Bulldozing Consensus on (Infrastructure) Investment



G20 presidency	Infrastructure		BRICS Bank	Must Reads
In her article, "The 2014 G20 Summit: Will Australia's Presidency Rise to the Challenge?" **Susan Harris-Rimmer, Director of Studies, Asia Pacific College of Diplomacy, Australian National University**, describes the dynamics in the run-up to the November Summit.	In her editorial: "Bulldozing Consensus on a New (Infrastructure) Investment Model," **Nancy Alexander, Director Economic Governance Program, Heinrich Boell Foundation, NA**, describes aspects of the Global Infrastructure Initiative, which the G20 will launch at its November Summit.	In "Lessons from Korea's Experience with Public Private Partnerships (PPPs)", **Jungwook Kim, Korea Development Institute**, describes ways that poorly-conceived PPPs can jeopardize fiscal soundness and borrow from future generations.	In "The New Development Bank: Strategic Objectives and Proposals to achieve them," **Rathin Roy, Director and Chief Executive, National Institute of Public Finance and Policy, India** describes his three recommendations for the BRICS' New Development Bank (NDB).	**G20 Summit to launch Global Infrastructure Initiative.** **Report of the Intergovernmental Committee of Experts on Sustainable Development Financing**, (August 2014) recommends "pooled funds" for wholesale infrastructure financing. **Moral Hazard? Mega public-private partnerships in African agriculture**, **Oxfam, 2014** **Emerging powers - Rise of the South or a reconfiguration of elites?** **by Achin Vanaik, TNI fellow.**
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Introduction

In her editorial, *"Bulldozing Consensus on a New (Infrastructure) Investment Model,"* **Nancy Alexander**, Director Economic Governance Program, Heinrich Boell Foundation - North America, notes how poor governance promotes consensus beyond the public eye, as the G20 is doing with regard to most aspects of its Global Infrastructure Initiative, which will be launched at the G20 November Summit in Brisbane. The initiative will privatize aspects of governance in order to move from "retail" to "wholesale" investment strategies through use of "pooled funds" to finance large "portfolios" of Public Private Partnerships (PPPs) projects despite their demonstrated high failure rate as the must read on the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing describes. (See para. 138)

Our first feature article examines the upcoming G20 Summit in Brisbane, Australia. In *"The 2014 G20 Summit: Will Australia's Presidency Rise to the Challenge?"* **Susan Harris-Rimmer**, (Director of Studies, Asia Pacific College of Diplomacy, Australian National University) quips that "hosting a G20 Summit in the current international environment is the diplomatic equivalent of a triple somersault pike from the high diving board." The Australian Presidency has been facing a rise of global conflicts (reflected in a failed attempt to "ban Putin" from the Summit) and recent anemic or negative growth rates among G20 countries. Yet, there is positive momentum on the aspects of the taxation and employment agendas and an ominous consensus with respect to infrastructure development.
These Summit processes are having impacts on the real world by, among other things, changing the model of (infrastructure and other) investment, as described in the editorial and "must reads." In the new model, we see a rise in the use of "pooled finance" for Public Private Partnerships (PPPs).

A second feature article reviews what we can learn from Korea's experience with Public Private Partnerships. In *"Lessons from Korea's Experience with Public Private Partnerships (PPPs)"* **Jungwook Kim**, Korea Development Institute, describes Korea's experience of implementing more than 600 PPP projects since the 1997 Asian Financial Crisis. Initially, the government offered supports to the private sector, such as Minimum Revenue Guarantees (MRGs), based on wildly optimistic assumptions (e.g., demand for infrastructure services) which have enriched private firms at the expense of the government. When developing infrastructure, Kim asserts that fiscal management should be a top priority for governments in order to avoid borrowing from future generations.

New to the G20?

To find out more about the G20's history, the power dynamics and the issues the group addresses, click on the link below.

INTRODUCTION TO THE G20

In *"The New Development Bank: Strategic Objectives and Proposals to achieve them,"* **Rathin Roy**, Director and Chief Executive, National Institute of Public Finance and Policy, India, looks at the signature achievement of the BRICS Summit in Fortaleza, Brazil: creation of the New Development Bank (NDB) to finance infrastructure and sustainable development projects. Roy suggests that the governance structure of the NDB should reflect three strategic objectives – namely to: advocate for the broadest possible developing country membership of the BRICS Bank; maximize developing countries' voice; and reject policy conditionalities as a way of doing business.
One "Must read" draws on The Communique of G20 Finance Ministers & Central Bank Governors, September 2014 to describe how the Australia G20 Summit will launch a Global Infrastructure Initiative. For a full review of the communiqué, see the analysis by Jesse Griffiths, Director of EURODAD.

As mentioned above, another "Must read" draws on the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing to the UN General Assembly (unedited draft, 8 August 2014) to highlight the fact that the G20 and the Intergovernmental Committee are both promoting the same investment model, e.g., *"a portfolio approach for pooling funds for multiple projects."* (See para. 139)

Oxfam's report "Moral Hazard? Mega Public Private Partnerships (PPPs) in African Agriculture" (2014) makes a compelling case for the way that large-scale agriculture is being promoted by the G20 and how it could undermine Africans' land rights, worsen inequality and damage the environment. Researcher **Robin Willoughby** asked three simple questions of these initiatives: Who primarily benefits from them? Who shoulders the burden of risk? And who holds power in decision-making?

In the new TNI Working Paper "Emerging Economies - Rise of the South or Reconfiguration of the New Elites?" , by Achin Vanaik,TNI fellow, former professor, University of Delhi and Member, Coalition for Nuclear Disarmament and Peace, asks whether the emergence of a multipolar global order opens up policy space for alternative economic visions and poses a necessary challenge to a US and Northern-dominated global order? Or might it instead just reinvigorate capitalism and exploitation by a new constellation of corporate elites?

Bulldozing Consensus on a New (Infrastructure) Investment Model

By Nancy Alexander, Director Economic Governance Program, Heinrich Boell Foundation, NA

Poor governance bulldozes consensus beyond the public eye, as the G20 is doing with regard to most aspects of its Global Infrastructure Initiative, which will be launched at the November Summit. The initiative will privatize aspects of governance in order to move from "retail" to "wholesale" investment strategies through use of "pooled funds" to finance large "portfolios" of public private partnership (PPP) projects (despite their demonstrated high failure rate). Below, part 1 reviews aspects of the G20's Global Infrastructure Initiative and part 2 reviews the performance evaluation of World Bank-financed PPPs over a decade.

Great Deal? A "Glut" in Savings to Fill a "Gap" in Infrastructure Financing

The G20 aims to increase global GDP by more than $2 trillion (2% over trajectories for each country) by 2018, especially by helping to fill the global infrastructure gap. A Business 20 report estimates that, by 2030, the gap in infrastructure financing will amount to $15–20 trillion, since only $45 trillion of the necessary $60–70 trillion in additional global infrastructure capacity is forthcoming.

The B20 predicts that "Over the long run, closing this gap could create up to 100 million additional jobs and generate $6 trillion in economic activity every year." To help fill the gap, the G20 has its eye on the *glut in long-term institutional investment (e.g., pension funds)*, estimated at over $80 trillion.

Also, new and existing institutions, plus taxpayers and users of infrastructure services, will fill the gap. Shortly, the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) will pour new resources into infrastructure. Then, in the next decade, the World Bank will increase the amount of loans on its balance sheet by $100 billion to roughly $300 billion. [The multilateral development banks (MDBs) are also expected to exchange "exposure risks" in order to boost lending volumes.] Importantly, more will also be asked of taxpayers and users of infrastructure services. (The G20's Development Working Group asks development institutions "to consider moving towards partial or full cost recovery" from users.)

A "glut" of resources to fill a "gap" in infrastructure financing sounds like a happy situation, but the G20 has strong preferences:

- Toward PPPs over conventional financing of public works;
- Toward mega-projects over "appropriate scale;"
- Toward massive scale-up of PPPs versus a trial-and-error approach;
- Against setting limits on how much public money should offset risks of private firms;
- Toward "pooled finance" with a group of investors for large groups of projects;
- Toward creating an infrastructure "asset class" for developing countries;
- Against binding environment, social, and gender safeguards;
- Against adequate consideration of climate-related impacts, even though the G20 Initiative focuses on energy, transport and water sectors; and
- Against transparency, participation, and accountability in the scale-up of its Global Infrastructure Initiative.

The impact of these preferences are described below.

Part 1: Elements of the G20 Initiative to Scale-Up Infrastructure Investment

The G20 is directing the multilateral development banks (MDBs) to scale up their work to reform countries' investment climate. That is, national and sector-wide reforms (formerly called "structural adjustment") are needed to pave the way for private sector engagement. Other elements of the Initiative call for:

- **Building Project 'Pipelines'.** The B20 sees "the greatest barrier to more private involvement in public infrastructure is the absence of a credible pipeline of productive, bankable, investment-ready infrastructure projects offering acceptable risk-adjusted returns to both public and private investors." Such returns will be in the range of 20% - 25%. To address this problem, the G20 Development Working Group has called for new MDB Project Preparation Facilities [e.g., the Asian Development Bank's Asian Project Preparation Facility (AP3F); Africa 50].

- **De-risking project portfolios.** The G20 is calling for governments and development banks to "optimize public balance sheets" to absorb the costs of project preparation and offset the risks of private investors.

- **Moving from "Retail" to "Wholesale" Investment Models.** A new G20 report calls for governments to *"take a portfolio approach for pooling funds in multiple projects."* (para. 190ff). The policy effectively calls for privatizing aspects of governance in order to move from "retail" to "wholesale" investment strategies. The G20 has asked MDBs to "maximize financing options including: having an 'open access' approach to possible sources of funds"; and securitizing their loans, while moving towards establishment of an "asset class" for infrastructure in developing countries that can deliver high returns.

- **Setting up Platforms (or a "Match.com") to bring together project sponsors and investors** (e.g., the South Africa Infrastructure Fund (SAIF)).

Part 2: PPPs: WHERE ARE THE RESULTS?

A review of "World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, FY02-12" by the Independent Evaluation Group (IEG), World Bank Group (2014).

> **Launch of the Global Infrastructure Facility (GIF)**
>
> The GIF is a global, open platform that will facilitate preparation and structuring of complex infrastructure PPPs, to enable mobilization of private sector and institutional investor capital. Over the longer term, it will help develop infrastructure as an "asset class." Operating out of Washington, DC and Singapore, the GIF will initially focus on "upstream" reforms with only about $80 million. Then, it will seek $200 million from its Partners to capitalize a downstream window for transactions. Its Governance Council will consist of funding partners including the World Bank Group and donors as well as technical partners including bilateral agencies (e.g., Export Credit Agencies) and regional development banks.
>
> Global Infrastructure Facility: Update for the G20, September 2014.

Over the decade, the World Bank Group has tripled its support for PPPs due mostly to increased support for water and energy PPP operations. Now, the re-organized institution is poised to further increase the volume of infrastructure operations and launch a Global Infrastructure Facility (GIF), which will be managed from its new PPP-Cross Cutting Solution Area (CCSA).

In light of this pro-PPP trend, the evaluation asks: "How effective has the World Bank Group been in assisting the private and public sectors in client countries in improving access to infrastructure and social services through PPPs?" An honest answer to the question would have been "we don't know."

Although the Evaluation addresses PPP operations of four "arms" of the World Bank Group [World Bank, International Finance Corporation (IFC), IFC Advisory Services, and MIGA], the following review focuses only on World Bank-financed PPPs.

1. **Additionality? "PPPs generally do not provide additional resources to the public sector."** But, "in cases where efficiency increases offset the higher financing costs of the private sector, the PPP may have a higher "value for money" and hence be the preferred option for the government." (p. 5) But, the Evaluation finds that **results from improved efficiency were "mixed."**

2. **Sustainability? Results? These are unknown. A useful analogy? The Evaluation tells us that the World Bank can build a "boat," but not whether the "boat" can "float" or be navigated to any destination.** The Bank monitors its PPPs only in the short-term – that is, until loan closure (when funds are fully disbursed) at which time most PPP contracts are executed or the project is under construction. (p. 98) Of the 128 PPPs in the sample, the number with results on the following six dimensions appear in parentheses: access to services (14); pro-poor (3); quality (10); efficiency (8); financial (6); and fiscal (1). (p. 67)

   The Evaluation states that: "Fiscal implications would go unrecorded as well as affordability issues." (p. 64) " ...[A]ctual data on the effects of PPPs on the poor —for example, better access through expansion into poor areas or subsidy scheme targeting the poor to improve affordability—are not systematically recorded." And, "The scarcity of data makes it difficult to draw conclusions at the portfolio level." (p. 66)

As the Evaluation says, *"If the World Bank Group plans to intensify its PPP support as envisaged in its latest strategy, it better put arrangements in place that allow it to monitor the performance of its PPPs throughout major parts of their lifespan." (p. 104) And "There is an urgent need to introduce a more systematic way of monitoring PPPs; such a system should not only capture better the end-user aspects of PPPs, but should also monitor PPP performance beyond the early years of operational maturity."* (p. 81)

This is important because more than half of all PPPs contracts get renegotiated, on average every 2 years (tariffs up, concession fees down, obligations postponed).[1] Even when they do not get re-negotiated, many problems can occur.

3. **Success Rates – Downstream in deal closing. The Evaluation states, "The main measure of "success" is profitability –other factors rarely considered."** With this measure, 62 percent of its PPP transactions are rated satisfactory or better, although the failure rates in certain sectors were high: water (41%) and energy distribution (67%.). (p. 64) Most of "implementation completion reports" (ICRs) of these "downstream" operations lack any environmental or social data. "ICRs contain little information about actual PPP success." (p. 97)

4. **Success Rates – Upstream in sector reform.** The World Bank failure rate in sector reform is 45% -- "an important finding, given that proper sector reform is often a necessary condition for implementing PPPs successfully. Failures were most evident in the water and energy sectors, which show the lowest success in achieving their objectives because of their complexity." (p. viii)

5. **Safeguards are nice, but they promote alternatives to World Bank financing, such as China.** The evaluation concludes that "Adhering to environmental and social safeguards has also contributed to slow implementation, to the extent that it sometimes "clouded" the positive perception of project benefits. But implementing these safeguards was important and delivered public benefit." (p. xi) Yet, in its case study of Uganda's Bujagali dam, the evaluation implies that Uganda now prefers Chinese financing over World Bank's because Ugandan "stake-holders perceive that the World Bank Group was more concerned about compliance with its institutional accountability requirements than about delivering results." (p. 96) Given all the flaws in the Bujagali dam project, this sounds preposterous.[2]

6. **Risk-Sharing?** For the 128 PPPs in its sample, the evaluation cannot definitively show how much risk is borne by the private party (in relation to the public sector) because it finds that *"contingent liabilities are rarely quantified at the project level."* (p. 40)

7. **Choice of PPP?** A sound methodology would assess whether the Bank decides to finance PPPs based on their superiority over public sector comparators (PSCs) using traditional procurement. Yet, when the evaluation closely examined a subset of countries, it found that *"the strategies provide few analytics for assessing how much private sector participation was the best choice, instead they assume it would be good". (p.28)*

We conclude from the Evaluation that the G20 should not favor the dramatic scale-up in PPP operations of the World Bank. Instead, the Bank should favor its clients with an objective comparison of the costs and benefits of PPPs versus public works. The Bank should suggest that when PPPs are selected, it should proceed in a transparent and participatory manner, including close monitoring and evaluation of the applicable social and environmental Performance Standards (PSs). As of June 2012, the PSs of the International Finance Corporation (IFC) apply to World Bank-financed PPPs, rather than the safeguards.

Photo credit: stopthecap.com

The "Must Read" section about the report of the Intergovernmental Committee of Experts on Sustainable Development Financing echoes the policy decisions of the G20 in the area of international private financing.

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[1] "Managing Risks From PPPs," Maximilien Queyranne, IMF-FAD, Yaoundé, March 2014.

[2] At any rate, as of June 2012, safeguards no longer apply to World Bank-financed PPP transactions; the IFC's Performance Standards do. Therefore, the evaluation lacks data on the impact of this policy change. Moreover, safeguards do not apply to most of the upstream sector reform work that is done to prepare for PPPs. These operations are primarily conducted through programmatic loans that are exempt from the safeguards.

MUST READ

G20 Summit to launch Global Infrastructure Initiative

Promoting a New Model of Investment: The Communique of G20 Finance Ministers & Central Bank Governors, September 2014, including attached reports, cover a range of issues intended to boost world growth rates, including macroeconomic policy, investment, financial regulations, and strategies to address tax avoidance and evasion. For a full review of the communiqué, see the analysis by Jesse Griffiths, Director of EURODAD.

The communiqué describes the G20's intent to launch a Global Infrastructure Initiative which would effectively privatize aspects of governance in order to move from "retail" to "wholesale" investment strategies. Specifically, it will:

(1) implement the multi-year infrastructure agenda, including through developing a knowledge sharing platform and a consolidated database of infrastructure projects to help match potential investors with projects;
(2) improve investment climates to attract private sector participation;
(3) support investment by optimizing public balance sheets, including those of the World Bank Group and regional and national development banks; and
(4) launch a set of voluntary "Leading Practices" to promote and prioritise quality investment, particularly in infrastructure to complement our continuing work to facilitate long-term financing from institutional investors...Furthermore, work is currently underway to improve the transparency and functioning of securitisation markets.

The recommendations echo the report of the Business 20 (B20) Infrastructure Investment Task as well as the policy option of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), (see adjoining column), by calling for governments to *"take a portfolio approach for pooling funds in multiple projects."* (See "Report on Effective Approaches to Support Implementation of G20/OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors" (para. 190ff)).

The G20 Development Working Group (DWG): Report on Assessments of Project Preparation Facilities in Asia and Africa describes the role of investment plans in those two regions. It directs the new project preparation facilities (PPFs) of multilateral development banks (MDBs) to work together to "significantly enhance the overall capacity to engage with the private sector and move towards establishing infrastructure as an asset class for a broad range of national and international long term investors." This will require that MDBs "maximise financing options including through having an "open access" approach to possible sources of funds."

The G20 DWG welcomes the responses to its earlier directives – namely, continued development of the Asian Development Bank's Asian Project Preparation Facility (AP3F) and Africa 50, which was launched this year to implement the Program for Infrastructure Development in Africa (PIDA), among other things. The DWG calls on MDBs and development assistance agencies "to consider moving towards partial or full cost recovery as countries develop and their project preparation capabilities improve."

For its 2015 agenda, the DWG announces three priorities:

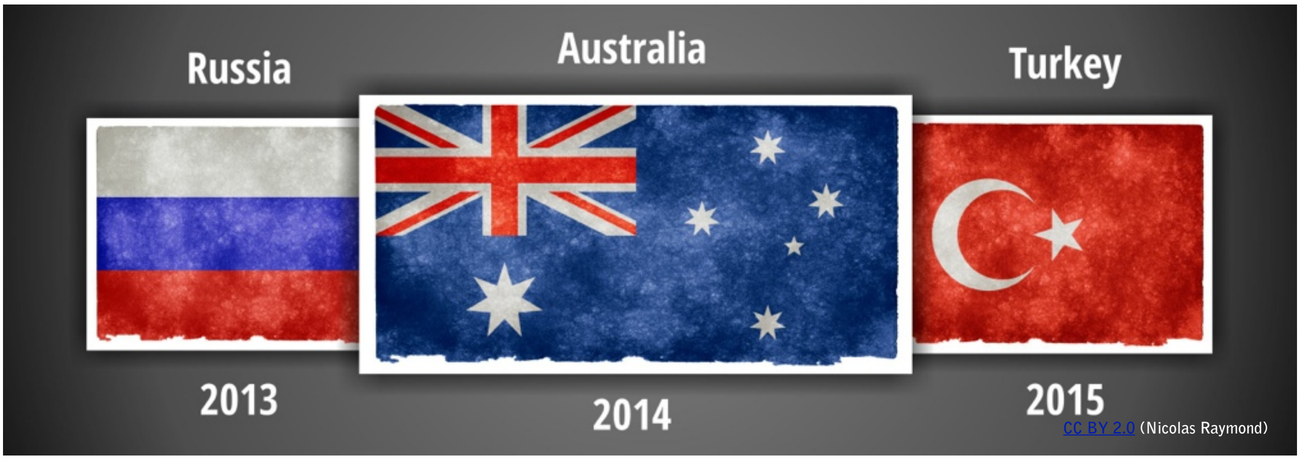
(1) strengthening the upstream environment for infrastructure project preparation;
(2) maximizing the effectiveness of project preparation facilities to leverage greater private sector investment; and
(3) promoting better understanding of risk and return in infrastructure investment in low-income countries.

The full list of the communiqué´s investment related reports can be found in our G20 documents dossier.

The "G20/OECD Checklist on Long-Term Investment Financing Strategies and Institutional Investors" is of particular interest.

The 2014 G20 Summit: Will Australia's Presidency Rise to the Challenge?

By Susan Harris-Rimmer, Director of Studies, Asia Pacific College of Diplomacy, Australian National University



Make no mistake: hosting a G20 Summit in the current international environment is the diplomatic equivalent of a triple somersault piked from the high diving board.

Add to the inherent difficulty, Australia's high hopes. According to recent remarks by Treasurer Joe Hockey on 5 September, Australia had high ambitions to re-energise the G20 as a peak decision making body. For starters, Australia's troika partners for the Summit process are Russia and Turkey and the relationship, especially with Russia, has been fraught with difficulty.

No one could have foreseen the downing of Malaysia Airlines flight MH17 in Eastern Ukraine. The Russian government was implicated in this tragic July 17 crash which killed 298 passengers and crew members, of whom 27 had Australian passports. Another 11 passengers were residents of Australia. Suddenly, Australia's troika partner Russia and the Russian President Putin and his expected visit to Brisbane in November was in the mainstream Australian news every day. Senior ministers spoke of 'disinviting' him unless an inquiry was held.

Then, in reaction to a media statement that implied that Australia was taking an overly proprietary approach to the Summit, the foreign ministers of the BRICS (Brazil, Russia, India, China, South Africa) issued a communique saying that they "noted with concern, the recent media statement of the forthcoming G20 Summit to be held in Brisbane in November 2014. The custodianship of the G20 belongs to all member States equally and no one member State can unilaterally determine its nature and character." The Russian foreign minister went further and said, "We altogether, not just Australia, formed the G20."

Australia's troika partners for the Summit process are Russia and Turkey and the relationship, especially with Russia, has been fraught with difficulty.

Relations with Australia's other troika partner, Turkey, are better, with a growing focus on the MIKTA grouping (Mexico, Korea, Indonesia, Turkey, Australia). However, Australia is currently assisting with the delivery of weapons to the Peshmerga (Kurdish fighters) to assist in their defence against the Islamic State in Iraq. When asked if any of those weapons would end up in the hands of the Kurdistan Workers Party (PKK), which is considered a rebel group by Turkey and the West, Foreign Affairs Minister Julie Bishop said there were 'always risks'. The PKK is currently in peace talks with the Turkish government.

On top of the foreign policy issues, the Abbott Government has faced domestic disquiet over the Federal Budget released in May. The tough budget faced many roadblocks in the Senate and several key measures are still blocked. Reaction to aspects of the Budget relating to welfare cuts led to mass protest marches around Australia.

There is not much sunshine to be found in the economic landscape either. In Hockey's words:

As I said, when we started our G20 presidency, the global economy was in a mediocre state.

The IMF had downgraded its global growth outlook six consecutive times over the previous two years. Unemployment in some economies was at near record highs, while global consumer and business confidence was at very low levels.

And in my first G20 meeting in Washington last year, just before taking over the Presidency, I was struck by the level of policy and reform fatigue that was reflected in discussions between ministers and central bank governors after five years of crisis management following the Global Financial Crisis.

OECD data released on 11 September for the second quarter of the year found that growth rates in G20 countries are unimpressive. Indeed, in Australia and Korea growth rates are declining, while other economies are contracting (e.g., Japan, Germany, Brazil, Italy). See box, below.

"G20 GDP Growth Picks up to 0.8% in second quarter of 2014," OECD:

Quarterly Gross Domestic Product (GDP) in the G20 area grew by 0.8% in the second quarter of 2014, up from 0.6% in the previous quarter, according to preliminary estimates. This, however, masks diverging patterns across countries.

Among G20 economies, growth accelerated in the second quarter in China (2.0%, compared with 1.5% in the previous quarter), Mexico (1.0%, compared with 0.4%) and Canada (0.8%, compared with 0.2%).

Following contractions in the previous quarter, GDP rebounded in the United States (1% in the second quarter, compared with minus 0.5% in the first quarter) and South Africa (0.2%, compared with minus 0.2%).

GDP growth remained stable at 1.2% in Indonesia and 0.8% in the United Kingdom and remained flat in France for the second consecutive quarter.

GDP growth slowed to 1.2% in India and to 0.5% in Australia and Korea, compared with 1.9%, 1.1% and 0.9%, respectively in the previous quarter.

In Japan, GDP growth contracted significantly (by 1.8%), partly reflecting the effects of April's increase in consumption tax that brought spending forward and drove GDP up by 1.5% in the previous quarter. GDP also contracted in Germany, by 0.2%, following an increase of 0.7% in the first quarter of 2014. GDP continued to contract in Brazil and Italy, by 0.6% and 0.2%, respectively, following contractions of 0.2% and 0.1% in the previous quarter.

Review of the key G20 initiatives

The headline for the Australian Presidency is undoubtedly the country strategies to lift growth by more than 2 per cent above current trajectories over five years, 'to avoid becoming entrenched in a world of weak growth'. At their September meeting in Cairns, Australia, the G20 Finance Ministers and Central Bank Governors will present their plans. This will be a pivotal moment in the Australian Presidency.

OECD data released on 11 September for the second quarter of the year found that growth rates in G20 countries are unimpressive. Indeed, in Australia and Korea growth rates are declining, while other economies are contracting (e.g., Japan, Germany, Brazil, Italy).

The Government has identified four other priorities:

•Firstly, we are boosting new private investment, particularly in infrastructure. New economic infrastructure not only lifts demand in the near term, it enhances the productivity of our economies to meet challenges in the future.

•Secondly, we are undertaking domestic reforms in the areas of competition and deregulation. This will reduce the cost of doing business across our economies.

•Thirdly, we are implementing policies to increase employment and participation in the workforce – with special attention being paid to making sure those that can work, should work.

•And finally, we committed to address the challenges of a global trading system, recognising that our futures are best served by developing closer economic ties.

It has not always been clear even to the interested observer what specific actions might implement each of these priorities. On the G20's Investment and Infrastructure Working Group, there is little information in the public domain – although it appears that the G20 is working with the World Bank to mobilize pension funds and other long-term investors in infrastructure as an "asset class." The G20's Development Working Group is also promoting improved Infrastructure Project Preparation Facilities (IPPFs) in each region that can prepare large-scale public-private partnerships (PPPs) in infrastructure. As with most other countries, Australia is increasing its investment in infrastructure. Nevertheless, the infrastructure focus remains controversial (due to expectations that the private sector can provide widespread public goods) as does the lack of a clear climate focus. Australia does seem to be slowly embracing the anti-corruption and illicit financial flow agendas, however.

The headline for the Australian Presidency is undoubtedly the country strategies to lift growth by more than 2 per cent above current trajectories over five years, 'to avoid becoming entrenched in a world of weak growth'.

The outcome of the recent Employment Ministers Meeting in Melbourne is more specific in some respects, and more positive – there are stronger references to youth unemployment, and a new reference to ending child and forced labour.

In the area of women's economic empowerment, the Ministers agreed that:

•G20 members will draw on the policy priorities set forth by ILO conventions and recommendations on equality of opportunity and treatment and the OECD Gender Recommendation.

•They would recommend to Leaders the adoption of a goal (as a reference for action) – namely, that of reaching 25 per cent increased female participation in the formal economy by 2025 to bring more than 100 million women into the labour force.

In terms of process, the G20 Taskforce is generally thought to be acquitting itself well, with significant information available on the website about activities and attendance. The Sherpa meeting in Uluru is often mentioned by diplomats as a highlight. However, there is still little or no information about what is being discussed at each meeting.

The Sherpa and Ministers have worked with each of the engagement partners, the L20, C20, T20, Y20, Girls 20 and B20. It is clear the B20 has been most influential in its policy recommendations, assisted by Boston Consulting. As Treasurer Hockey noted:

"Under Australia's leadership business leaders have provided the G20 with valuable policy recommendations. The B20 has added important momentum to our G20 reform agenda.

The recommendations delivered at the B20 Summit in July align closely with the G20's work on investment and infrastructure.

This year more than ever, business leaders must be an integral part of the G20 policy formulation process. The traditional stimulatory levers of expansive fiscal policy and accommodative monetary policy are, in the main, at their limit around the globe. So, I say again, it will be the private sector that will reinvigorate global growth over the next decade."

Outreach to other countries has been far more transparent and systematic than is apparent from practice in years past, with Australia trying to reach as many groupings as possible, reminiscent of the campaign for Australia to be elected to the Security Council. In his travels and outreach efforts, Daniel Sloper, the Special Representative for the Department of Foreign Affairs and Trade (DFAT) has even introduced a hint of whimsy in a Lego version of his presentations.

Tweet by the Australian Special Representative for the G20, Daniel Sloper @G20SR

Outside of the 'Ban Putin' debate, awareness of the G20 by the general community remains low. Many civil society groups are concerned about the high levels of security for the Summit itself and new rigid security legislation passed by the Queensland Parliament.

The recommendations delivered at the B20 Summit in July align closely with the G20's work on investment and infrastructure.

My advice to the Presidency would be simple: try not to let military and security issues, both domestic and international, overwhelm the Summit, as some progress must be shown on the core agenda as the G20 comes up to the six year mark.

In previous Summits, "hot" security topics have swept other issues off the table. To prevent this, the Prime Minister should use the Foreign Minister and Defence Minister to deal with the security issues on the fringes of the November G20 Summit. Australia should use its Presidency of the Security Council for these issues, rather than utilise a Leaders' Summit which lacks a mandate related to security.

With regard to the G20's core economic agenda, the Australian narrative of economic growth still sounds very blunt and lacks nuance compared to the sophisticated economic conversations occurring around the globe about inequality and inclusive growth.

The challenges likely to be inherited by Turkey and its new Sherpa are immense. This may be the first time since World War II that a majority Muslim country has held the reins of global economic governance. Turkey is not in the BRICS or G8, so as with the Australian Presidency, it will need to forge alliances in the region and beyond. Like Australia, the opportunity of hosting the G20 needs to be weighed by a disciplined approach in order to see what can realistically be achieved.

With regard to the G20's core economic agenda, the Australian narrative of economic growth still sounds very blunt and lacks nuance compared to the sophisticated economic conversations occurring around the globe about inequality and inclusive growth.

Tweet by the Australian Special Representative for the G20, Daniel Sloper @G20SR

Source www.leightoncontractors.com.au

MUST READ

"Report of the Intergovernmental Committee of Experts on Sustainable Development Financing", unedited draft, 8 August 2014

This important report makes recommendations that, if implemented, would pose grave risks to both sustainable development and national economic and financial systems. What is the background?

Two years ago, after the UN Conference on Sustainable Development (Rio +20), the UN General Assembly called for the establishment of an intergovernmental committee of thirty experts nominated by regional groups to prepare options for a sustainable development financing strategy. In August 2013, the Committee elected Pertti Majanen (Finland) and Mansur Muhtar (Nigeria) as its Co- Chairs and began a series of (mostly closed) meetings.

The Committee sought to build on and update the outcomes of Rio +20 and the Monterrey Consensus of the International Conference on Financing for Development in order to achieve the post-2015 development agenda (as described, for instance, by the Open Working Group on Sustainable Development Goals).

The Committee's report analyzes financing needs and trends; presents a strategic approach; and reviews policy options with regard to public and private (domestic and international) sources of financing as well as blended finance.

In the area of international private financing, the Committee echoes the policy decisions of the G20 – namely, by focusing on ways to engage institutional investors, including sovereign wealth funds (which hold an estimated $80-90 trillion in assets) in financing infrastructure public-private partnerships (PPPs). The Committee sees problems with PPPs: *"Private investors often demand upward of 20–25 per cent annual returns on 'bankable projects' in developing countries. These costs need to be offset by efficiency gains or other benefits to make their use attractive. Furthermore, projects often struggle to deliver as planned, in both developed and developing countries, with a 25-35 per cent failure rate of PPPs in developed countries due to delays, cost overruns and other factors, and even higher failures in developing countries."* (para. 138)

Despite these problems, the Committee recommends a massive scale-up of PPPs saying: *"Engagement in isolated PPPs, managed in silos, should be avoided. The investing public entity should carry out a number of projects simultaneously and thereby take a portfolio approach for pooling funds for multiple projects, similar to risk diversification carried out by DFIs (development finance institutions) and the private sector. In such an approach, mechanisms with equity "upside" would allow for gains from successful investments to compensate for losses on failed projects. This would be particularly appropriate for investments in innovation, where both risks and returns are extremely high."* (para. 139)

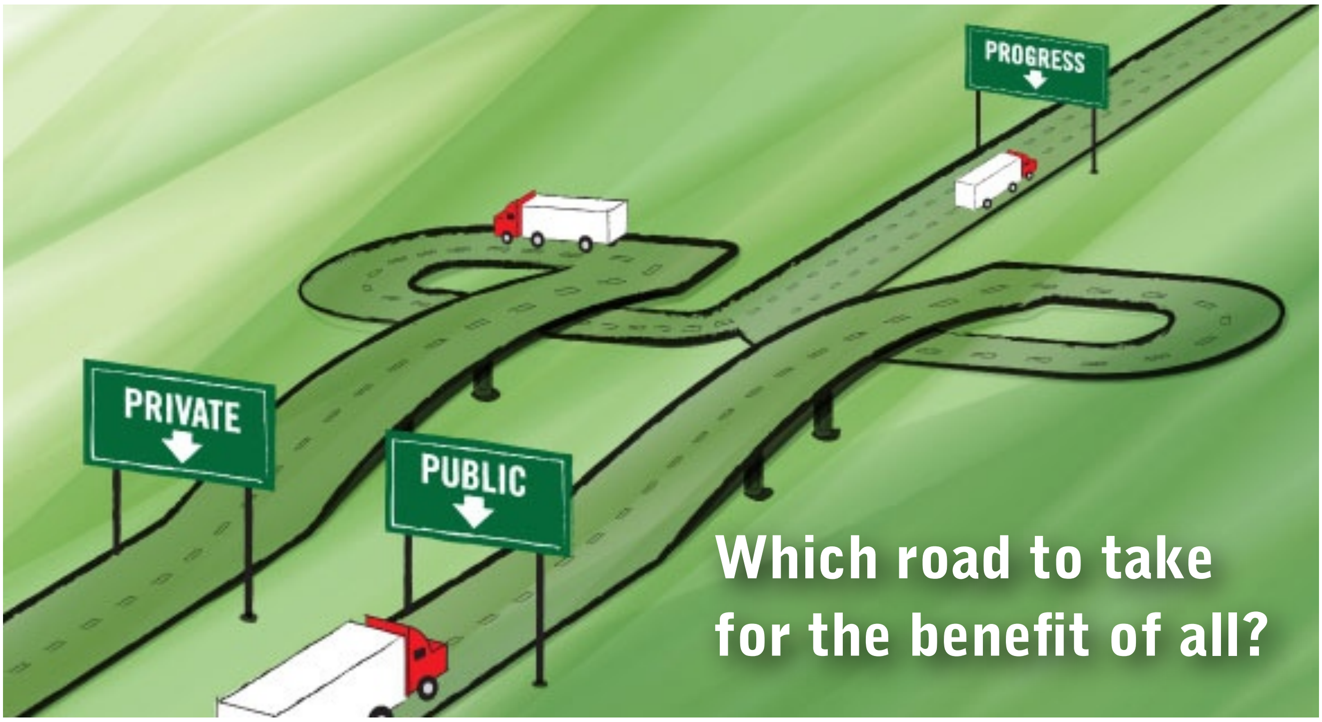
To implement such schemes, the Committee calls for creating pipelines of 'bankable' projects (which the G20 is promoting via Infrastructure Project Preparation Facilities (IPPFs)). In addition, the Committee recommends "joint platforms" (such as the South Africa Infrastructure Fund (SAIF)).

In other words, the Committee sees "the solution includes better aligning private incentives with public goals and creating a policy framework that encourages for-profit investment in these areas, while also mobilizing public resources for essential sustainable development activities."

This high risk strategy recommended by the Committee's report undermines its other prudential recommendations with regard to: a) domestic public resources; b) domestic private financing; and c) international public financing, such as official development assistance (ODA).

Lessons from Korea's Experience with Public Private Partnerships (PPPs)

By Jungwook Kim – Korea Development Institute



Courtesy by Inbound Logistics Magazine

Popularity of PPP

Most developed and developing countries need more infrastructure, yet their fiscal resources are limited. To fill the gap between demand and supply of infrastructure finance, an increasing number of countries are implementing (or considering the possibility of) public private partnership (PPP) projects. It is undeniable that PPP is viewed as a good option for infrastructure development. Moreover, multilateral development banks[1] try to support and promote PPP in various ways. In these circumstances, the experience of Korea may offer some valuable lessons to various actors in PPPs.

Performance of PPP in Korea[2]

The legal framework of the PPP system in the Republic of Korea was first put in place in 1994 with the passage of the Act on Promotion of Private Capital Investment in Infrastructure. At the beginning of the 1990s, Korea found itself with a serious shortage of infrastructure facilities, such as roads, railways, seaports, and airports. Considering the fiscal limits to its ability to fund the needed infrastructure construction, the Korean government realized the need to induce private sector participation in infrastructure investment[3]. The government began to push for PPP projects in earnest with the August 1994 law. However, there was not much PPP activity until 1998 for several reasons. The public sector was reluctant to initiate PPPs, since it was inexperienced and afraid to be criticized for "favoritism" toward its private partners. Also, the public sector frequently selected unprofitable projects as PPP candidates for implementation, which obstructed the private sector's participation.

Korea has implemented more than 600 projects since the 1997 Asian Financial Crisis, partly due to the introduction of these government support measures, including its generous risk sharing measures.

In December 1998 (following the 1997 financial crisis), the 1994 law was revised and superseded by the Act on Private Participation in Infrastructure (PPP Act). The revision strengthened risk-sharing mechanisms such as the Minimum Revenue Guarantees (MRGs), buy-out rights, and sharing of foreign exchange risk. The government's willingness to share more of the project risks encouraged the private sector's participation in infrastructure development. In addition to a construction subsidy, the government provided an operational revenue subsidy through the MRG. Basically, the MRG scheme is a means for the private sector and the government to share the risk of inaccurate revenue forecasts. The higher the MRG level (or the narrower the guarantee and redemption band), the more risk is transferred to the government from the private sector. Korea has implemented more than 600 projects since the 1997 Asian Financial Crisis, partly due to the introduction of these government support measures, including its generous risk sharing measures.

Of course, Korea's experience with PPPs has not been problem-free. For example, transport PPP projects in Korea largely relied upon the MRG scheme. But this scheme placed an excessive fiscal burden on the government, which was aggravated by overly optimistic demand forecasts. As a result, in 2009, we saw the demise of this powerful scheme to induce private sector participation. By 2011, the total government burden for 36 PPP projects with MRGs was estimated at some US$ 2.6 billion. Naturally, after the MRG was abolished, the level of private sector participation in infrastructure development significantly declined.

Expected Effects of PPP

Generally, the public sector intends to promote public private partnership (PPP) projects because it has difficulties in mobilizing public financing. Also, it can take advantage of the private sector's creativity and efficiency in delivery and due diligence in operation of infrastructure facilities.

The promotion of PPP projects is expected to have significant effects [4] on the national economy through three channels: economic growth resulting from the inflow of private capital, increased social welfare resulting from the timely delivery of social services and the early realization of social benefits, and reduction in the government's fiscal burdens through better "value for money" (VFM).

Of course, some countries also promote implementation of PPPs as a fiscal stimulus. Interestingly, many countries tried to utilize PPP as a fiscal stimulus when responding to the Global Financial Crisis around 2009. Those countries include France [5], Thailand [6], Taiwan [7] and Korea.

PPP-related Challenges

Several challenges arise from the use of PPPs. Private sector investment requires that governments borrow money from future budgets; therefore, support to the private sector can be seen as a loan to be paid off in the mid- and long-term. This implies that PPP implementation requires borrowing from future generations to enhance the present infrastructure. As we need to consider the legacy of PPPs, the challenges of fiscal management may grow as more PPP projects are implemented.

Thus, there is an inherent tension in the PPP agenda. For example, Korea initially put a high priority on PPP promotion, but rapidly shifted toward another priority: fiscal discipline [8]. Currently, the Korean government faces this tension in its efforts to reinvigorate the PPP market. On the one hand, in order to mobilize private sector resources for PPPs, the public sector should offset more risks of or provide support for the private sector. On the other hand, taking such measures will jeopardize fiscal soundness.

PPP implementation requires borrowing from future generations to enhance the present infrastructure. As we need to consider the legacy of PPPs, the challenges of fiscal management may grow as more PPP projects are implemented.

In managing PPP projects, it is not only necessary to construct a facility on time and within budget, but also to sustain the quality of service during the operational period. So, in the partnership, the private sector must have sufficient incentives for sound performance during the operational period as well as the construction period. This requires the design of sophisticated and elaborate mechanisms in the PPP contract along with an appropriate system of performance monitoring by the public sector.

On the one hand, in order to mobilize private sector resources for PPPs, the public sector should offset more risks of or provide support for the private sector. On the other hand, taking such measures will jeopardize fiscal soundness.

Determining tariff levels can be challenging too. The tariff for PPP transport facilities tend to be higher than public ones, since the relevant facilities should have sufficient profitability to induce private participation. When PPP projects are implemented, users bear a greater share of life cycle costs than is the case with public works. As PPP projects are not distributed evenly throughout the population, the big discrepancies between tariffs of PPP facilities and public ones may result in some citizens bearing proportionally more costs than others.

Discussing Arguments on PPP

Based upon PPP experience and research, some important arguments can be set out:

- PPPs are not a "must"
As we are aware, the PPP is just one of various options available for infrastructure delivery. Therefore, we need to ask why PPPs should be pursued. The answer can be resource mobilization from the private sector, fiscal stimulus, maximization of value for money or enhancement of efficiency. However, each and every country should clarify and build a consensus regarding the primary reasons for implementing PPPs. When the priority in favor of PPPs is clearly set, the country must also consider and implement a support scheme to induce private participation.

The tariff for PPP transport facilities tend to be higher than public ones, since the relevant facilities should have sufficient profitability to induce private participation.

Lessons from Korean PPP experience show that PPP implementation should be pursued wisely – that is, by considering fiscal management along with economic development (or short-run fiscal stimulus).

- PPPs are not free

Implementation of PPPs is not cost-neutral. Indeed, the public perception is that the PPPs are more costly than public works. While public investment in infrastructure is crucial to economic development, fiscal management should be the highest priority. Lessons from Korean PPP experience show that PPP implementation should be pursued wisely – that is, by considering fiscal management along with economic development (or short-run fiscal stimulus).

What about PPPs as fiscal stimulus?

While PPPs can offer a fiscal stimulus[9], their effects should be assessed carefully. Some research[10] reveals that private investment via PPPs crowds out public investment. This indicates PPP investment just tends to replace conventional government expenditure, so the PPP offers a very limited fiscal stimulus, if any.

Despite the long and rich history of PPPs around the world, more research is needed. Designing and implementing PPPs in certain countries should be based upon research and evidence. To that end, experience and lessons from Korea's PPPs offer an important source of information and potential guidance.

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[1] By announcing "Strategy 2020", Asian Development Bank (ADB) plans to scale up private sector development and private sector operations in all operational areas, reaching 50% of annual operations by 2020. World Bank Group stresses bringing in more private sector financing into infrastructure in "Transformation Through Infrastructure, World Bank Group Infrastructure Strategy Update, FY 12-15".

[2] This part is mostly based upon "Case Studies from the Republic of Korea on Public-Private Partnership Infrastructure Projects"(Jayhyung Kim et al. Asian Development Bank, 2011).

[3] Another measure was setting up the Transportation Infrastructure Special Account. To find stable financing sources, an ear-marked tax was introduced in 1994 -- specifically a gasoline consumption tax. This ear-marked tax revenues and the relevant special account aim to facilitate the expansion of transport infrastructure, and to ensure the efficient management and operation of the infrastructure facilities. The life of the tax, which was renamed as Transport, Energy and Environment Tax, has been extended multiple times and is still active.

[4] Those effects were identified and evaluated in Korea. For the details, see "Case Studies from the Republic of Korea on Public-Private Partnership Infrastructure Projects"(Jayhyung Kim et al. Asian Development Bank, 2011) or "Evidence of Public-Private Partnership Contribution to the National Economy", (Jungwook Kim, Journal of Budget and Policy, 2012.5.).

[5] See "What are countries doing under the crisis: the case of France", (Francois Bergere, ASEM PPP Conference, 2009).

[6] See "SP2 & Government's Initiatives to facilitate Public-Private Partnerships in Thailand", (Theeraj Athanavanich, Director, Public Debt Management Office, Ministry of Finance, Thailand Infrastructure Forum: Public Private Partnerships and Private Finance Initiatives, 2009.11).

[7] See "2010 Investor Manual", (Public Construction Commission, Taiwan Government).

[8] The Value for Money test was for instance introduced in 2005 to appraise PPP projects.

[9] See "Did Fiscal Stimulus Lift Developing Asia out of the Global Crisis? A Preliminary Empirical Investigation", (Seok-Kyun Hur et. al., ADB Economic Working Paper Series, No. 215, August 2010).

[10] See "Macroeconomic Effects of Private Sector Participation in Infrastructure", (Campos, Estache, Martin and Trujillo, 2003) for Latin American cases. Also see "Private Participation in Infrastructure and Macroeconomy: The Experience of Korea", (Lee, Hangyong and Changyong Rhee, Performance Evaluation and Best Practice of Public-Private Parnerships, KDI, 2007) for Korean case.

MUST READ

Moral Hazard? Mega public-private partnerships in African agriculture, Oxfam, 2014.

Oxfam's report asserts that government policies and almost US$6 billion in aid money are supporting large partnerships with the private sector, which could undermine Africans' land rights, worsen inequality and damage the environment.

It highlights the fact that, over twenty years, spending by donors and African governments on agriculture has been low, despite the heavy dependence on agriculture for livelihoods of Africans. Despite agreements to invest more than 10% of national budgets in agriculture, governments presently spend an average of only 5% on the sector. In comparison, initiatives call for governments to spend 6% to 8% of national budgets on infrastructure.

Source Oxfam International

The report describes the land, tax and trade incentives that companies are offered to enter into mega-PPPs. "Within just five countries hosting mega-PPPs, the combined amount of land in a target area for investment is larger than France or Ukraine." Because there are weak land tenure policies in many African countries, these land subsidies and transfers are likely to undermine local communities' land rights and worsen the already-high levels of inequality and the status of women.

This blog by Kornegay and Alexander describes the PPP infrastructure mega-projects that facilitate the scramble (mining, moving, and exporting) for natural resources in Africa. This Oxfam report emphasizes the scramble for land and agricultural commodities, as part of this dynamic. It illustrates the trend by examining mega-PPP 'growth corridor' projects in Tanzania, Burkina Faso, Malawi, Ghana and Mozambique. For example, in the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), the combined annual revenue of the input companies -- Bayer, Monsanto, Syngenta, Yara and United Phosphorus – is nearly $100bn or triple the gross national income (GNI) of the Tanzanian economy. Oxfam emphasizes the risk of monopolies and the crowding out of local enterprise in these markets.

The global initiatives to support the mega-PPP agenda emanate not only from the G20, but also from the New Alliance for Food Security and Nutrition, supported by G8; and GROW Africa, a large-scale PPP initiative supported by the World Economic Forum.

The report recommends that governments and donors should:
1) revitalize public investment in African agriculture targeted at the needs of small-scale producers and women;
(2) ensure that land legislation and policies are in place to protect the land rights of local communities prior to the initiation of any large-scale investment programme;
(3) unlock the potential of domestic and regional markets and local SMEs to deliver for African agriculture; and
(4) with companies, ensure that any agriculture investment builds the climate and environmental resilience of local communities. Finally, it calls for:
(5) the sponsors of current mega-PPP projects to urgently revisit the fairness, transparency and accountability of these arrangements. To this end, the report includes a set of "Suggested principles for improved governance and accountability of mega-PPPs."

The New Development Bank: Strategic Objectives and Proposals to achieve them

Rathin Roy, Director and Chief Executive, National Institute of Public Finance and Policy, India

Courtesy by http://www.rmlt.com.cn

The recently concluded BRICS summit was marked by the signing of an agreement to set up a New Development Bank (NDB). The NDB intends to mobilize resources for infrastructure and sustainable development projects in developing countries. In my view, there are three key strategic objectives for the NDB and its governance structure should reflect these objectives.

1) Advocate for the broadest possible developing country membership of the BRICS Bank

India, together with Brazil and South Africa, stand to benefit significantly if the NDB governance structure is conducive and attractive to participation of other developing countries. Currently, China and Russia are the only countries that are running a current account surplus at this time. Hence, for these countries, the NDB provides an alternative avenue to invest these surpluses, other than US treasury bonds. This is not the case with the others. These countries are, in effect, investing borrowed resources in the NDB. They are, at this stage, weak financial partners. Linking finance to governance is therefore not attractive.

India, together with Brazil and South Africa, stand to benefit significantly if the NDB governance structure is conducive and attractive to participation of other developing countries.

China has a disproportionately powerful voice within the BRICS due to its economic size and political aggressiveness. The Chinese have initiated several other moves to create alternative financial vehicles outside BRICS including the forthcoming launch of the Chinese-led Asian Infrastructure Investment Bank (AIIB); an Association of Southeast Asian Nations (ASEAN) infrastructure fund (AIF) of the Asian Development Bank (ADB) and a strategy to bid for the presidency of the ADB. For China, the NDB, therefore, is an attractive opportunity to invest its surpluses while socializing the risk of its expanded financial interventions - when Myanmar pushes back against further Chinese investment, the NDB can come in instead. This is an important context for China's economic diplomacy in its approach to the NDB. The only realistic way to temper Chinese dominance would be for the other BRICS countries to argue for a broader core membership of the New Development Bank.

2) Maximize developing countries' voice

A putative lesson from what's happened with the World Trade Organization (WTO) negotiations is that the impact of a specific developing country's economic diplomacy is considerably strengthened when its interests elide with a large pool of developing countries. In this context India's positioning is of particular interest. India is a large developing country, and the poorest member of the Group of Twenty (G-20) countries and BRICS. It shares the same acuteness with respect to poverty, hunger, and basic needs with other poor developing counties. India should leverage this positioning at the leaders level. This means advocating a governance structure that provides voice to poor developing countries in the governance of the Bank. It appears that it would also be in the interests of Brazil and South Africa to align with this positioning.

3) Reject policy conditionality as a way of doing business

The history of the damage done to countries by policy conditionality is a profound and depressing one. Recently, some countries in the European Union too have had to partake of the poison pill of policy conditionality that has triggered

Shanghai will be the Headquarters of the New Development Bank

huge street protests. Yet, despite pious statements to the contrary, my own research shows that the temptation to persist with policy conditionality remains endemic. Discretion continues to inform the lending practices of the multilateral development system. The IMF, at the apex of this system, claims to have reformed. It has not. At the country level, there continues to be a tendency to provide "one size fits all" advice, with an implicit preference for fiscal deficits of less than 2 per cent of GDP and public debt thresholds that represent a fraction of what OECD countries tend to hold. This reduces the monitoring costs of IMF surveillance, but does little to increase the much needed flow of development resources to countries where it is needed the most.

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Proposals

The first two strategic objectives are best met by advocating that the NDB be founded on the principle of "one stakeholder one vote", in a complete break from existing practice in other development banks. A major step forward in this context has already been taken. As per the agreement, for the time being each BRICS country will hold equal equity in the bank. If China and Russia wish to invest more of their surpluses in the NDB they can do so by lending to it. Delinking the issue of capital adequacy from the governance structure is of redline importance. This will also allow speedy incorporation of other emerging and developing economies interested in joining the NDB. An important principle has been established here.

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However, the agreement falls short in providing voice to other stakeholders from the developing world. There is a window to rectify this, as the architecture of the Bank takes shape. Participation of those developing countries (especially those which are not classified as emerging economies) in the governance of the NDB can be fostered by creating a category of developing country "stakeholder members" (SMs). SMs could rotationally or permanently elect members to the Board of the NDB with full voting powers. The number of SMs to be appointed to the board could vary from one to five. One Stakeholder Member will, in essence, provide token voice. At the other extreme, five would imply that the equity holders and stakeholder members would have equal voice.

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The number of Stakeholder Members is a function of the extent to which the NDB is branded as a bank of the developing world. The stronger the political preference for such a branding, the greater the number of SMs. However, it is key that the principle of "one member one vote" be maintained with the SMs as well, so that stakeholder participation in governance is not linked with financial clout or economic weight. This would clearly differentiate the NDB from entities such as the International Monetary Fund, the World Bank and Regional Development Banks in which voting power is directly related to financial clout.

The NDB Agreement is rather fuzzy though about future membership, stating that it is open to "all members of the United Nations." In my view the NDB should be specifically branded as a Bank of equal partners from the developing world. To this end, the NDB should not admit developed countries and other multilateral developing banks controlled by developed countries as members. The main argument for opening membership to this constituency is the superior leveraging power provided by their attractive ratings profile. However, unless these entities were to have a significant and demonstrable controlling interest in the NDB, the improvement in the ratings profile would not be significant, and this will dilute the branding of the NDB as a bank for, of and by, the developing world.

On the third objective --policy conditionalities-- the NDB has an historic opportunity to put this ghost to rest in the design of its lending and contracting strategies. Here the developing world must appreciate the constraints. Securing fiduciary responsibility will be a redline requirement for the NDB; with the current system of international financial appraisal stacking the dice against emerging economies. That is, the country credit ratings of the founding members will be used to assess the terms and magnitude of the financing that the Bank can raise from the international financial markets. This means that the Bank will only be able to leverage finance on terms that are far less attractive than the World Bank (with its triple A ratings) and the regional development banks. For this reason, the NDB Agreement heralds a cautious expansion of the Bank's lending capabilities by relying on a slow buildup of internal resources.

The NDB should not admit developed countries and other multilateral developing banks controlled by developed countries as members.

This cautious strategy affords the Bank an opportunity to break with conditionality. Apart from the compelling political economy reason to do so, this will also be essential if the Bank is to make a difference to infrastructure lending. It is well-known that there is market failure in mobilizing finance for infrastructure – put simply, a developing country finds it easier to attract FDI from Tesco than it does to build a port. In the overwhelming majority of cases, the fallback benchmark for infrastructure ratings is the country credit rating – the reason for this is typically cited as uncertainty owing to regulatory risk.

Here, there is an opportunity for the NDB to change the game. The objective is to ensure that the sovereign government of the borrower country bears the burden of national regulatory risk that adversely impacts project execution. This can be done by drawing up an exhaustive global menu of possible regulatory risks. When signing onto the project, the borrower country´s sovereign needs to issue guarantees that cover the exposure of the NDB in case regulatory risks arise from events in the borrower country during the course of project execution. The specific regulatory risks impacting a project in a particular location would comprise a subset of the global menu. These would be clearly spelt out and made transparent. The country would not be liable for exogenous shocks, macroeconomic downturns or other unanticipated contagions that arise from events outside the control of the national authorities.

Courtesy by Stand Up For The Truth

The Bank will only be able to leverage finance on terms that are far less attractive than the World Bank (with its triple A ratings) and the regional development banks.

Consequently, the NDB would not attempt to prescribe the structure of national policies, including those relating to macroeconomics, social or the delivery of public goods; whether assets should be owned by the public or private sector; and whether "reforms" in the workings of the government and markets should or should not be pursued. This would, of course, raise the level of risk exposure of the NDB. But, in the spirit of things, if the NDB is to function as a Bank for the developing world, then the objective surely must be for the Bank to socialize the risks that asymmetrically impact the developing world as a whole; this is exactly what the fiduciary practices of existing multilateral development banks do not do.

The NDB would not attempt to prescribe the structure of national policies, including those relating to macroeconomics, social or the delivery of public goods; whether assets should be owned by the public or private sector; and whether "reforms" in the workings of the government and markets should or should not be pursued.

The result is that, for decades, the playing field for access to international finance for development remains skewed against developing countries and forces them to make a horrible choice – either to accept intervention in internal economic and social policy-making and, thus, subject the country to normative and biased assessments of "capability" or to lose access to the largesse that the system provides with the blessings of its shareholders. The NDB must not play this game; indeed, this is the game that the NDB can, permanently, change.

Additional Information on the NDB

Excerpt from the BRICS Declaration on the New Development Bank (NDB)

"The Bank shall have an initial authorized capital of US$ 100 billion. The initial subscribed capital shall be of US$ 50 billion, equally shared among founding members. The first chair of the Board of Governors shall be from Russia. The first chair of the Board of Directors shall be from Brazil. The first President of the Bank shall be from India. The headquarters of the Bank shall be located in Shanghai. The New Development Bank Africa Regional Center shall be established in South Africa concurrently with the headquarters. We direct our Finance Ministers to work out the modalities for its operationalization." (paragraph 12)

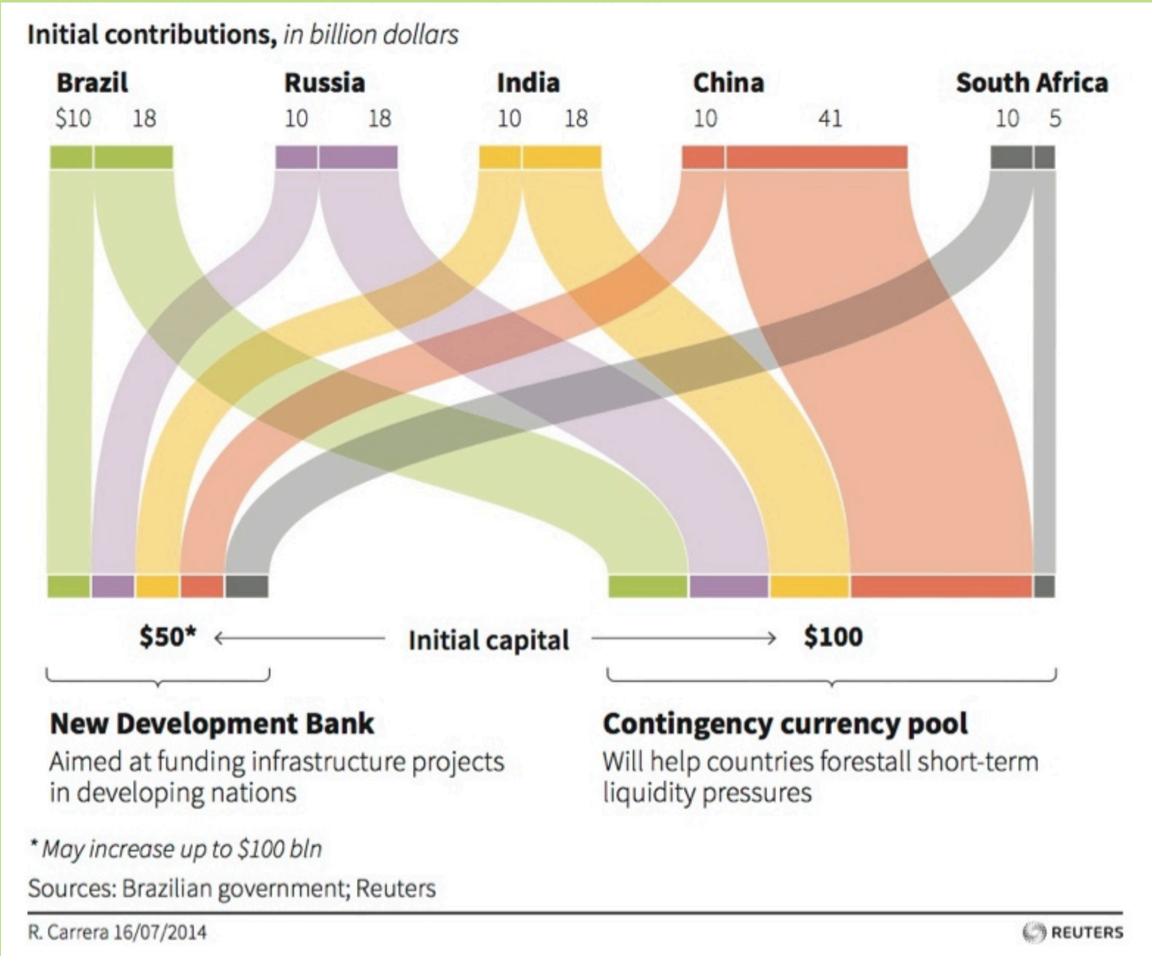
According to the minutes of the Ministerial Meeting,

a) The order of rotation of Presidents of the Bank will be India/Brazil/Russia/South Africa/China.

b) The establishment of the first regional office in Johannesburg will be launched concurrently with the headquarters.

c) The subsequent regional offices will be established, as needed, in Brazil, Russia and India. The second regional office will be established in Brazil.

d) A Special Fund will be created within the Bank for the purpose of helping project preparation and implementation. China will be the largest contributor.



Courtesy by Thomson Reuters

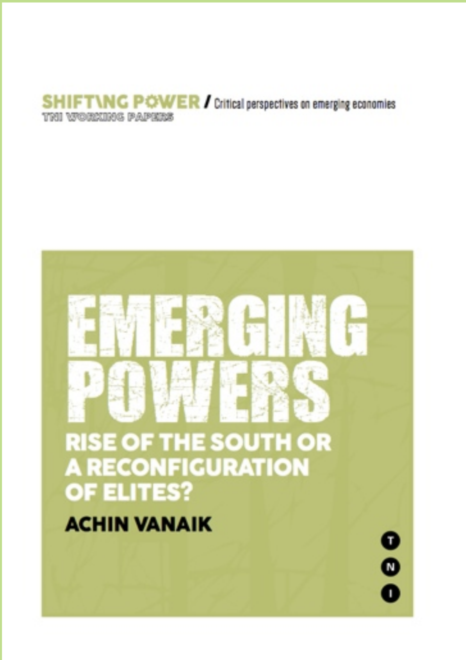
MUST READ

Emerging powers: Rise of the South or a reconfiguration of elites?

By Achin Vanaik, TNI fellow, former professor, University of Delhi and Member, Coalition for Nuclear Disarmament and Peace, Transnational Institute Working Papers, 2014

Vanaik posits the existence of a "truly capitalist world order" for the first time (notwithstanding some outlying countries). He points to a "hub and spoke" arrangement in which the US (with its dominant currency) is the hub that coordinates and mediates relations within the "quintet" of powers including the EU, Russia, China and India. Yet the "center of gravity" is moving inexorably toward China and the Pacific. Vanaik sees others, such as Brazil, Mexico and Turkey on the outside due to their relative weaknesses in terms of military and corporate muscle.

To substantiate his points, Vanaik uses comparative data to diagram the relative positions of countries with regard to factors including: (youth) population, GDP, Human Development Index, size of middle class, land grabs, top investors in Africa, military expenditures, nuclear weapons arsenals, biggest corporations, and net international investment position.



Source Transnational Institute

Vanaik is especially concerned with the implications of "emerging powers" for the Global South. To probe this matter, he asks key questions, "...will the selective elevation of some nations lead primarily to greater social and class differentiations within the major countries of the South and to a greater distance between them and the rest of the developing countries? If so, will this not mean a "north" emerging within the South? Will this new "North of various elite dominated regimes... work together against the older North to shift power relations significantly towards itself? Or will its individual country components be more preoccupied with prioritising their relations with the power centres of the North and with the existing governing institutions that serve their interests, than with forging ever closer relations with each other?"

With regard to intra-South collaboration, there are worrying trends. Vanaik analyzes the inequalities among the BRICS and the pattern of land grabbing by Brazil, China and India in Africa – as well as the South Africa's role as a conduit for foreign capital and the extraction process. He concludes that these countries are joining, rather than "leading the charge" against Northern exploitation of Africa.

Vanaik also examines job markets in the BRICS where (with the exception of Russia) there is a high proportion of youth together with a relatively low level of per capita income (masked by high inequality). The rising level of capital intensity (even in agriculture) and the lower levels of organized and unionized labor forces are factors that lay the foundations for unrest and upheaval as well as problems with intra-South cooperation.

According to Vanaik, unless or until the political power of the US is weakened, groupings, such as BRICS, will play within the rules of the existing global governance institutions. The resistance to US hegemony is greatest in Latin America where, despite their problems, regional governance has progressive traits. In Asia, Vanaik sees two initiatives as critical to shifting power: the Asian Collective Energy Security Grid and an Asian Monetary Fund (assuming that Japan's historical reluctance is overcome). In addition, he posits the key "global solidarity efforts" that are needed, especially in the Middle East.

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