Development Conference: ***Infrastructure for Inclusive Growth***
Wednesday, 29 June 2011 (Cape Town, South Africa)

SUMMARY OF THE DISCUSSION

Alan Hirsch from the South African Presidency opened the conference hosted jointly by the South African Government, the Development Bank of Southern Africa and the Agence Francaise de Developpement, providing participants with the context for the conference, with particular reference to the ongoing discussions within the G20 on effective ways to support development in low-income countries. Increasing the production and provision of infrastructure, and in particular, regional infrastructure is one of the nine pillars of the Seoul Development Consensus for Shared Growth[1]. South Africa expects significant advances with respect to this agenda through these processes during 2011 and beyond. Mr Hirsch emphasised that the purpose of the conference was to provide an opportunity to hear a range of perspectives from different stakeholders on this issue, including the private sector, academia and that of civil society. Many of the members of the G20 Development Working Group as well as some of the members of the High Level Panel on Infrastructure[2] also attended the conference.

The Deputy Minister Finance of South Africa made the keynote speech. He emphasized the value of cooperation between G20 countries in addressing systemic problems in the global economy and detailed the two core elements of the G20 response, the Framework for Balanced and Sustainable Growth, and the Seoul Consensus on Development. He stressed that the G20 Development Agenda provides a platform through which members can examine:

- how to improve the institutional environment for growth in developing countries in general and in low income countries in particular;
- what lessons there are for making global growth more inclusive; and
- whether global public development institutions, where the G20 are the major shareholders serve the needs of their major stakeholders, low income countries.

He also stressed the importance of ensuring that the G20's work on development is complementary to excellent work being done elsewhere, such as the highly effective campaign within the UN system on the MDGs and efforts to improve aid effectiveness. The Deputy Minister further stressed the particular challenges facing low-income countries in Sub Saharan Africa, and the missed opportunities for increased regional trade as a result of bottlenecks in the infrastructure network. He suggested that these economies provide an opportunity for advanced economies, given their surplus capacity, as well as an opportunity for the better allocation of global liquidity towards more productive use. The Deputy Minister concluded that South Africa will continue to play a key role in the Development Agenda of the G20, given its potential to

[1] http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf
http://www.g20.org/Documents2010/11/seoulsummit_annexes.pdf
[2] http://www.g20.org/Documents2011/02/COMMUNIQUE_HLP.pdf

make a real impact on the quality of policy advice and improved access to appropriate financing and support for low income countries, especially in Sub Saharan Africa.

Session 1 was chaired by **Mmakgoshi Phetla-Lekhethe**, Deputy Director General for International and Regional Economic Policy, within the National Treasury. The session considered the role of Infrastructure for Trade and Regional Integration, and Ms Phetla-Lekhethe began the discussion by stressing the lack of intra-regional trade as a result of poor infrastructure and interconnectedness between countries, limiting the growth potential of many countries in the region, as well as their ability to make a bigger contribution to overall global recovery.

The first speaker in this session, Changyong Rhee, Chief Economist of the Asian Development Bank, began his remarks by describing how, when Korea engaged with countries on which issues where of the greatest importance for their growth and development, African and Asian countries stressed the central importance of infrastructure. From the perspective of the Asian experience, Dr Rhee explained that the concept of shared growth or inclusive growth is of particular relevance to their region, as there is an appreciation that the benefit of Asian growth is not sufficiently shared. While Asian economies are growing, income inequality is rising, and non-income indicators such as the human development indicators are lagging. He noted however that many economies in the region, particularly the larger economies, understand that this trend: (1) poses a threat to stability and social cohesion; and (2) could limit sustainability of current growth, constraining the realization of the region's full economic potential. There is increased understanding that larger groups of beneficiaries and participants must be included in this success if it is to be politically and economically sustainable.

Dr Rhee expanded on why in his view infrastructure is an appropriate focus for the G20. He provided three reasons for this. First, the comparative advantage of the G20 as gathering of governments, and their ability to focus on public goods provision as well as issues central to public policy and expenditure makes this the right topic for them to address within the development agenda. Second, Dr Rhee noted that the particular coordination and institutional problems that characterise cross-border investment could be addressed more effectively through the collective 'weight' of the G20. Some of the problems that he identified for cross-border projects resulting in less interest by private sector agents included: an absence of financial capacity; a lack of bankable projects at a regional level; the risks of ownership and challenges of coordination and cooperation; the lack of a wider vision, especially with respect to the use of donor resources and a tendency to 'free ride' on cross border projects. Finally he stressed that the problem of global imbalances, which at least in part result from the misallocation of global capital missing productive investment opportunities, is one of the major challenges that the G20 is tasked finding solutions for. Encouraging –through providing risk mitigating instruments- developing countries with high savings (and SWFs) to invest in infrastructure in other developing countries could help in this effort.

Dr Rhee also emphasised the need to distinguish between the challenges facing middle-income countries and low-income countries, as there was a tendency to group these together within the overall approach to support for development. He noted that while middle-income countries can attract private sector investment and develop creative modalities for the financing of infrastructure, for low-income countries this is much more difficult. This is why national and global public resources are more likely to be required to support production in resource constrained contexts. Dr Rhee suggested that the High Level Panel on Infrastructure should: 1) Ask MDBs to list cross border priority projects 2) Launch a project preparation fund, and 3) to promote securitization as a way to strengthen PPPs.

Marianne Fay, Chief Economist of the Sustainable Development Network at the World Bank noted that research from the African Infrastructure Country Diagnostic (AICD) process and other sources has identified that the magnitude of resources required are enormous relative to the resources available. The data also revealed that infrastructure services are much more expensive than in other regions. However, country physical and economic size makes it critical to 'go regional' with infrastructure projects. She stressed that larger projects incur larger costs in preparation (between 3-10% of total costs), and project preparation facilities are fragmented and frequently inadequate for the scale of what needs to be done. Dr Fay indicated that the work of the World Bank included a methodology for the evaluation of regional projects, which included the extent of integration they would promote, the extent of political support the projects currently enjoy and the transformative potential of these projects. This analysis forms the basis of current recommendations to the G20 in a report in infrastructure provision led by the World Bank.

Ashraf Karim, from the South African National Planning Commission introduced the work of the South African government with respect to the decision at the NEPAD Heads of State and Government Orientation Committee (HSGOC) to champion regional and cross-border infrastructure projects in order to attract investment and enhance regional integration. This Pan African effort is referred to as the Presidential Infrastructure Champion Initiative and is based on the African Union (AU) NEPAD African Action Plan (AAP) and the Programme for the Infrastructural Development of Africa (PIDA). In particular, the President of South Africa is championing the North-South Corridor, and the National Planning Commission leads this work. Mr Karim identified that in seeking to advance this work, analysts within the National Planning Commission had found that: (1) costs cannot be borne by users only, as the volumes of traffic would be insufficient to attract private sector investments in this corridor; (2) some parts of the corridor have been prioritized for upgrading but this is inadequate and private funding for this projects remains a constraint; (3) the cost of crossing borders remains high. Mr Karim also indicated that efforts are underway to: (1) engage both the public and private sector in a process and (2) to find a way to establish a common funding framework for this corridor. There are a number of political problems in finalizing a project preparation and implementation framework.

Nazir Alli, the CEO of the South African National Roads Agency further expanded on the challenges of implementation of projects of this kind, and in particular the need to get clarity on the relative roles of: the public and private sector, the multilaterals and the host country in the implementation of regional projects. He emphasized the importance of issues of participation and ownership in informing attitudes with respect to paying for the use of services, as well as perceptions of equity and affordability. He further identified that over time, a cost fatigue sets in with users, and thus perception and frustration with respect to ongoing (and increased) payments over time could become unsustainable. He also reflected on the choice between an incremental approach to project development, versus a 'big bang' approach to the implementation of regional projects, making reference to the experience of the Maputo Corridor. He stressed the advantages of a 'big bang' approach in addressing political constraints that risk becoming protracted where there is not a significant degree of pressure to deliver the overall project. He concluded with an emphasis on the value of good governance as the costs of rent seeking with respect to the tendency of officials to extract 'informal charges' keeping transport costs high. Mr Alli stressed that roads are a public good, and their financing and management must be informed by this fundamental understanding.

Participants raised a number of issues during the Q&A session including:

1. The challenge of inequality within and between countries and the need for infrastructure investment that benefits poor people and have inclusive and social development dimensions;
2. The importance of investment in smaller scale infrastructure connecting to major networks;
3. The importance of identifying appropriate criteria for the prioritization of projects;
4. The importance of the reinforcement of African initiatives;

5. Frustration with respect to the pledge by developed countries to support the need for further investment in this sector, and to deliver on ODA pledges;
6. Raising questions about what the failure by developed countries and global public institutions suggested with respect for the need for a paradigm shift;
7. The importance of inhouse country capacities with respect to project preparation, as opposed to this being externally driven;
8. The need to think about the use of trunk infrastructure which is predominantly moving primary commodities – how to support 'densification' of economic activities along these corridors;
9. The risks of expecting private money to substitute for public money;
10. The lessons of Latin America with respect to the PPP model.

The second session considered Infrastructure for Improved Productivity in Agriculture and was chaired by **Jay Naidoo**, chair of the Board of Directors of the Global Alliance for Improved Nutrition. Mr Naidoo opened the session emphasizing the dangers of a path of economic growth that is exclusionary.

Geraldo Martha, Researcher at Embrapa in Brazil, detailed the process through which Brazil transformed productivity in agriculture from the early 1970s to date. He described how the food price spike of the early 1970s created social pressures through a range of forces, and how the government recognized the importance of increasing food supply in order to maintain social stability. At that time yields were low and production was concentrated in particular areas. A decision was taken to increase production further north in the *cerado* region. Dr Martha indicated that this was against mainstream advice at that time, and domestic policy makers identified that if this were to succeed, it would require new approaches to farming from subsistence agriculture towards much greater use and absorption of science and technology. Government commitment, the entrepreneurship of farmers and the development of basic infrastructure were central in achieving this.

Dr Martha stressed that Brazil was able to increase domestic supply at faster rates than demand for food, resulting in a fall in prices resulting in huge benefits to the Brazilian consumers, and particularly the poor. Research into the impact of this increased production showed very positive effects on other sectors. Brazil increased production through very significant increases in productivity, not land area under production, allowing for a huge decrease in deforestation rates. In addition, regions of Brazil where these farming activities have taken place also demonstrate significant improvements in their human development indices. Brazil provided very little direct incentives to agriculture (particularly relative to the US and other OECD countries), but rather through investment in the enabling environment. While there is good basic infrastructure, one of the major constraints on Brazil's further production and efficiency in this sector is challenges in infrastructure, particular given the increased distance between ports and areas of production. Dr Martha concluded with a number of lessons from the experience of Brazil in increasing production including: (1) it is possible to have efficient and competitive agriculture in the tropics, not only in temperate climates; (2) huge productivity gains are possible in the right institutional contexts and in the presence of technology. Roads and other infrastructure are necessary but not sufficient in pursuit of increased production of food crops.

Dr Ritu Anand, a representative from the Infrastructure Development Finance Company in India, shared the particular experience of India with respect to rural infrastructure and agricultural productivity, with reference to the 'Green Revolution'. She explained that this was a period of agricultural intensification and increased labour productivity and a reduction in rural poverty. Key components to affect this revolution included: (1) access to technology; (2) use of higher yield varieties of seeds; (3) use of fertilizers and pesticides; (4) credit provision. However the success was underpinned by infrastructure: rural electrification, irrigation (esp. groundwater); road infrastructure; storage and communication infrastructure. Government subsidized electricity production (esp. rural electrification) and groundwater infrastructure provision, supported processes of increased public information and awareness through the state broadcaster. Dr Anand also discussed the recent and increasing role of rural telephony in providing productivity enhancing extension services.

Dr Anand indicated that among the challenges that have emerged include a slowdown in production, which can be attributed to a decline in investment in agriculture as a share of GDP which has fallen to 2.4 percent of GDP (from 4 percent in the 1970s). In addition, subsidies to this sector amount to about 2.5 percent of GDP and have affected incentives in this sector, with a number of adverse effects. There are concerns about over extraction of water and negative affects on soil quality. The policy response to support production in rural areas has been to support greater agricultural diversification and increased investment into productivity enhancing investments, particularly in rural infrastructure.

Jose Garcia Barahona, Associate Country Director for Oxfam in South Africa stressed the very large number of people excluded from growth and prosperity in the global economy. In addition, he stressed that the manner in which we undertake economic activity is unsustainable. Mr Barahona drew attention to a series of statistics with respect to policy choices that illustrate very high levels of support for farming in developed countries and much less in developing and especially in low-income countries. He stressed that smaller scale producers need access to technology and infrastructure and are generally less well represented in the policy process than industrial scale farmers. He noted the positive step forward in the political support for the interests of small-scale farmers in the G20 Agriculture Ministers recent Communiqué. Mr Barahona emphasized the need for policy to ensure that growth is shared and that people are able to participate in economic benefits. He suggested that this means more equitable investment in infrastructure, and that farmers engaged in smaller scale infrastructure also benefit from efforts to increase investment in infrastructure.

Masaki Noke, from the Ministry of Foreign Affairs in Japan stressed the linkages between the infrastructure and food security pillars of the G20 Development Agenda. He stressed the value of greater transparency with respect to agricultural production and market based mechanisms to address the challenges of volatility in prices in the short term, while addressing longer-term issues of production requires increased investment in infrastructure. Mr Noke suggested that there is considerable value in taking more comprehensive approach to agricultural production within an overall development plan, and in particular a value chain approach to production, agro-processing, distribution and sale. Mr Noke detailed Japan's development cooperation experience in East Asia, particularly with respect to infrastructure provision citing examples in China and Indonesia. He also stressed the potential value of triangular cooperation using the more recent experience of countries such as Brazil in particularly with respect to their particular experience of farming in tropical countries. Mr Noke stressed that challenges that are this extensive cannot be addressed with quick solution. The example of Indonesia suggested that it could take decades for external support to have a transformative effect, and it is vital that this is a long-term agenda.

Participants raised a number of issues during the Q&A session including:

1. Issues of land access and a sense of exclusion;
2. The need for a review of WTO regulations on agriculture and giving developing countries sufficient policy space to develop policies responsive to national needs and in support of the domestic market;
3. The potential for densification of agricultural activities along large corridors or trunk roads.

There was a briefing by **Ambassador Nene of the South African Department of International Relations and Cooperation** on the plans for **COP17 in Durban in November**. The Ambassador stressed the value of G20 support for the UNFCCC led process. The Ambassador emphasized the commitments that South Africa has been willing to make to move towards a green economy to make its contribution to the risks posed by emissions. He emphasized that it is South Africa's intention to build on what was achieved in Cancun, but that the agreements reached in Durban are credible and acceptable to all stakeholders. This includes not only state parties to the UNFCCC process, but also other relevant interlocutors through advocacy groups. He advised participants that in order to achieve this objective, extensive discussions to reduce areas of disagreement are ongoing. The Ambassador encouraged countries to avoid transferring disagreement and conflicting views from one for a to another, and in particular in this delicate process that requires all stakeholders to engage in good faith.

The third session was chaired by **Admassu Tadesse** of the Development Bank of Southern Africa and focused on the challenges of Financing Infrastructure.

The first speaker, **Jacques Moineville of Agence Française de Développement** focused his remarks on financing needs for infrastructure in Sub Saharan Africa. He stressed that much of the infrastructure in this region not only needs improved maintenance, but also increased rehabilitation. Mr Moineville stressed that growth of GDP is high as is demand for infrastructure services, and that this presented an opportunity for investment. He also noted that there is a willingness to pay for infrastructure services in Sub Saharan Africa. One of the challenges he identified was financing project preparation as well as the need for careful review of financing, institutional aspects and environmental concerns and impact. He stressed that information asymmetries result in reluctance by the private sector to become involved, as projects are frequently perceived as too risky. Mr Moineville noted that the private sector wants to go where risk is covered, and where it is possible to establish a long-term relationship with the government, particularly where PPPs are concerned. From the donor perspective, Mr Moineville emphasized that there is not a uniform solution to addressing these challenges, but what is vital is donors' ability to adapt by innovating in how to finance infrastructure and find new partnerships. Mr Moineville stressed the value of support for the legal and institutional framework in beneficiary countries, as well as the role of Multilateral Development Banks to act as catalysts for other forms of finance. He also stressed their role in the policy dialogue with national governments in beneficiary countries and emphasized the need for donor cooperation in support for infrastructure projects.

Jin Liqun, Chairman of the Board of Supervisors of the China Investment Corporation focused his remarks on removing obstacles for financing of infrastructure. He identified that the two key elements with respect to financing are the financing mechanism and institutional support for the mobilisation. Mr Jin identified that the tendency to focus on ways of raising money often led to less attention to the institutional arrangements for the project. Mr Jin also noted that low income countries, with limited resources, face a wider array of obstacles to financing infrastructure, but stressed that it is important to recognized that it is not always possible to address all of these challenges at the same time. He suggested that it would be helpful for governments to try to remove some of them within the national context, paying particular attention to the enabling environment. He nevertheless stressed that there is variance in the quality of governance in many low-income countries, but that this would take time to develop, and requires patience.

Mr Jin identified that finding ways of tapping global liquidity is important to capital poor regions of the world and this should be a continued priority. He also stressed that because infrastructure projects are long term, uncertainty poses a major constraint on the appetite for private investors to make investments that could offer considerable returns. A sound legal framework and increased policy transparency, continuity and predictability would reduce risk perception of particular investment and increase the take up by investors. He stressed that the enabling environment is not just a matter of attracting the investment, but also in ensuring the smooth implementation and running of the project. He stressed that where countries borrow to finance productive investment, as opposed to domestic consumption, they will not find it difficult to repay their debt.

Rosalind Thomas from the NEPAD Business Foundation identified that key issues in the financing of infrastructure is with respect to the bankability of projects and the environment for projects. She noted that the AICD research shows that the public sector is financing more infrastructure than was previously thought. She evaluated investment with respect to variations of investment in different sectors. She identified energy as the sector with the greatest underinvestment. Dr Thomas noted the role that national governments would need to play in developing regional projects, noting that regional organizations are not able to finance or manage projects of the likely magnitude of significant regional projects. She stressed that the greatest financing need is not financing for investment but rather resources for project preparation. She noted that project preparation financing is highly fragmented and of inadequate scale, and she recommended rationalization of project preparation facilities to form a large (at least USD 500 million/3 years) single revolving fund, but to ensure that this is housed where the expertise is the greatest.

David Munro, the Global Head of Investment Banking, Standard Bank Group identified that the central issue is how competitive countries are in seeking to attract capital. Decisions about the allocation of capital are based on whether projects are competitive and whether they are undertaken in an enabling environment. Countries that dedicate themselves to the enabling environment are most likely to succeed in attracting capital, and the best way of ensuring that this arises is through an understanding that there is competition for capital.

Mr Munro identified three 'disconnects' that prevent countries from competing effectively for capital: (1) the currency mismatch given the length of maturity of a project, high risks associated with borrowing in foreign currency for long period and the unavailability of hedging instruments; (2) less money available in commercial banks for longer term projects due to increased regulation of that sector; (3) the need for cross-border projects to get primary commodities from the point of extraction to the ports for export and what can be done (national projects). Mr Munro identified a role for public policy making and global public institutions such as multilateral development banks to try to address those disconnects.

Participants raised a number of issues during the Q&A session including:

1. The challenges of identifying whether projects are productivity / growth enhancing, reducing the risks to debt sustainability;
2. The approaches of private finance to forms of guarantees in developing country contexts;
3. The debt coverage ratio demanded by the private sector investors;
4. The enforceability (and appropriacy) of requiring compliance by legal systems in some advanced economies when contracting debt in advanced countries for project implementation in developed countries;
5. The need to reflect on the nature of goods transported along trunk roads and the need for a vision of what they could transport, not only in the short run, but also over the lifetime of the project;

6. The very limited resources that multilateral development banks make available for regional projects, and that this is an issue of politics.

Professor Harald Winkler from the University of Cape Town chaired the final session on the Greening of Infrastructure.

Ravi Naidoo of the Development Bank of Southern Africa identified the challenge that high costs of transport presents with respect to sustainable growth and development in the region, which is why the political priority given to this issue by the G20 is both valuable and important. He also noted the role that a wide range of funding sources given resource constrained characteristics of economies in the region, but the particular challenges of developing a portfolio of projects in programme areas with respect to 'green' projects. This presents particular challenges with respect to the coordination of funding sources or the 'networking' of funding projects and across the different stages of project financing. He also emphasized that it is not only a question of resources but also the technical capacity required in project execution.

Dr. Tae Yong Jung of the Korea Global Green Growth Institute identified distinct country specific conditions that had led to the policy decision to give priority to green growth or expanding the green economy. The first of these is the extent of energy vulnerability of Korea, with 97 percent of energy coming from abroad, and dependency on fossil fuels for national energy production is more than 80 percent. In addition, the slowdown in the global economy suggested that the country would need to take action to find a new economic engine for their economy. Moving towards a green paradigm has required strong leadership from government, setting up a 'green new deal', and voluntary emission reduction targets. Dr Jung noted that the global agenda requires global cooperation, and Korea is very keen to develop 'green' development partnerships, and the Green Grown Institute was set up to play a role in this.

He stressed that 'green' infrastructure is currently more costly and so implementing green infrastructure projects requires a new framework for 'green financing' and incentives such a regulatory changes to encourage these investments. This requires public sector intervention at the outset, but over time the private sector should be encouraged to play a more expanded role. Dr Jung provided a number of examples of incentives that the government of Korea is able to give private sector investors, and while this approach cannot be uniformly applied, Dr Jung suggested that some context appropriate incentives should be identified. He agreed with other speakers that the institutional environment for investment is vital.

Ms Héla Cheikhrouhou, the Director of Energy, Environment and Climate Change at the African Development Bank stressed the opportunities that greener growth suggests for Africa – in the context of the right incentives. She suggested that with the right blending of market based instruments and concessional financing, it would be possible to support Africa's efforts to grow on a lower carbon path. The region has not been able to access climate finance resources, and this suggests the need for an Africa specific instrument for green investment in infrastructure, an 'Africa Green Fund'. Dr Cheikhrouhou suggested that current negotiations within the Transitional Committee designing the Green Climate Fund provide African countries with an important opportunity to get a fairer share of any future financing arrangements. She referred to the Climate Investment Funds and the lessons from the experience of this transitional instrument.

Ms Tasneem Essop of the WWF South Africa expressed concern with the absence of action on emissions reductions, despite political pledges to take action. She stressed that the most vulnerable to the pressures of climate change are the poor. She stressed concerns about the tendency to see 'green' as some kind of add on and identified that specifying long-term development plan provides an opportunity for infrastructure production in our region to exemplify a 'paradigm' shift.

Participants raised a number of issues during the Q&A session including:

1. the importance of a decentralized approach for infrastructure provision;
2. the inertia inherent in infrastructure projects, and the importance of ensuring that today's prices and incentives do not push us to recommend projects that may have a deleterious effect in the long run;
3. issues of equity (fairness) with respect to imposing constraints on industrialization in Sub Saharan Africa by insisting on (more costly) green energy production.

The three co-chairs of the G20 Development Working Group, Alan Hirsch (South Africa), Remy Rioux on behalf of Serge Tomasi (France) and Enna Park (Korea) closed the proceedings, noting that the diversity of perspectives and insights of speakers, discussants and participants would make a vital contribution to the discussions within the G20 Development Working Group in the days ahead.