

Recent developments in quality infrastructure investment From consensus building to international standard development

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(Summary)

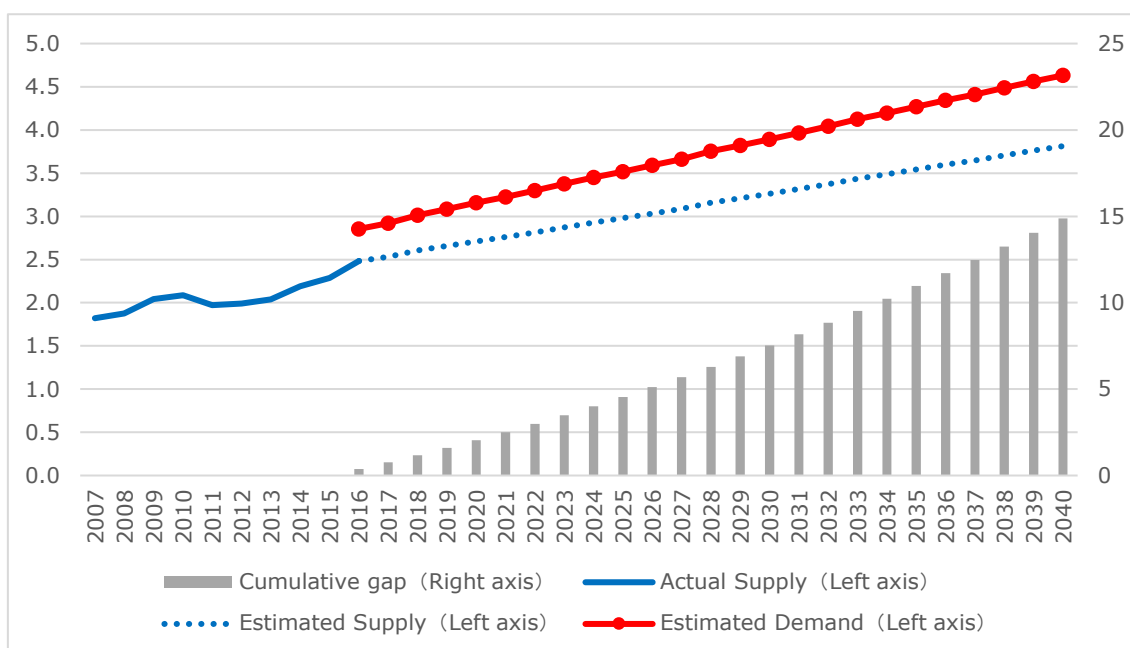
- Introducing infrastructure as the foundation of social and economic activities is indispensable for a nation's robust and sustainable growth. Despite the rise of infrastructure investment demand, a concept of so-called "Quality Infrastructure Investment" emerged and began to spread.
- "Quality Infrastructure Investment" reached an international consensus when "G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment (2016)" and "G20 Principles for Quality Infrastructure Investment (2019)" were established under Japan's leadership.
- The OECD (Organization for Economic Co-operation and Development) was established in 1961 to promote cooperation for free and open trade development. It plays a crucial role in spreading and implementing common understandings - consensus built at G7 or G20 level through international standard development - to countries or regions, including OECD members.
- Thanks to the foundation built by experiences in global investment and public governance areas, the OECD developed: "Compendium of Policy Good Practices" and "Implementation Handbook".
- The OECD is now considering the "Blue Dot Network Certification System" that supports implementing quality infrastructure investment. This system intends to give an international certification to quality infrastructure investments.
- In the next issue, I will provide an overview of the certification scheme and give some recommendations for more effective and efficient implementation.

1. International consensus building for quality infrastructure investment

(1) Overview of the global infrastructure investment

Introducing infrastructure as the foundation of social and economic activities is indispensable for a nation's robust and sustainable growth. The cumulative gap between demand and supply of global infrastructure investment is estimated to reach 1.5 billion USD by 23 years from 2017 to 2040 (Material 1).

Material 1 Supply and demand gap of global infrastructure investments (trillion USD)



(Source) [G20 Global Infrastructure Hub](#)

Note: The units of both the left and right axes are trillion USD, and the demand-supply gap is the cumulative sum of "demand minus supply" after 2016.

Despite the rise of infrastructure investment demand, an infrastructure investment that, in the end, obstructs the nation's growth, for example, a "debt trap," which leads to the bankruptcy of national or local governments that construct infrastructures due to the unrealistic debt repayment plan, is more and more seen as a global issue these days (*1). The rising risk of bankruptcy is serious, especially among low-income countries. IMF (International Monetary Fund) points out that 10 countries, including Laos and Sudan, are in debt distress, and 26 countries, including Afghanistan and Ethiopia, are at high risk (*2).

Against this backdrop, a concept of so-called "Quality Infrastructure Investment" that prioritizes qualitative aspects, including debt sustainability, openness, transparency, or economic rationality, emerged and began to spread.

(2) Japan's leadership toward international consensus building

"Quality Infrastructure Investment" reached an international (*3) consensus (*4) when "G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment (2016)" and "G20 Principles for Quality Infrastructure Investment (2019)" were established under Japan's leadership.

These two principles share common aspects, including value-for-money and quality investment, in promoting sustainable growth and improving social resilience (Material 2).

Material 2 Comparison of G7/G20 principles on "Quality Infrastructure Investment"

G7 principles		G20 principles	
1	Ensuring effective governance, reliable operation and economic efficiency in view of life-cycle cost as well as safety and resilience against natural disaster, terrorism and cyber-attack risks	1	Maximizing the positive impact of infrastructure to achieve sustainable growth and development
2	Ensuring job creation, capacity building and transfer of expertise and know-how for local communities	2	Raising Economic Efficiency in View of Life-Cycle Cost
3	Addressing social and environmental impacts	3	Integrating Environmental Considerations in Infrastructure Investments
4	Ensuring alignment with economic and development strategies including aspect of climate change and environment at the national and regional levels	4	Building Resilience against Natural Disasters and Other Risks
5	Enhancing effective resource mobilization including through PPP (Public Private Partnerships)	5	Integrating Social Considerations in Infrastructure Investment
		6	Strengthening Infrastructure Governance

(Source) "[G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment](#)" and "[G20 Principles for Quality Infrastructure Investment](#)" (Ministry of Foreign Affairs of Japan)

2. International standard development on quality infrastructure investment

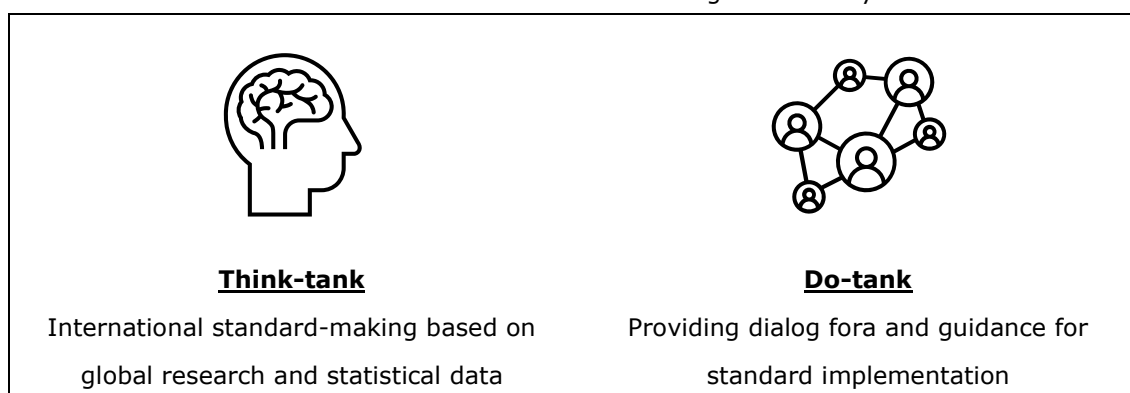
(1) The role of OECD in the global society

The OECD (Organization for Economic Co-operation and Development) was established in 1961 to promote cooperation for free and open trade development. Today, the OECD plays a crucial role in spreading and implementing common understandings - consensus built by G7 or G20 level through international standard development - to countries or regions, including OECD members.

The OECD secretariat, so-called "the world's biggest think-tank", holds 2,000 experts including economists and data analysts dispatched from member countries. International standard developed by utilizing high analysts skills and expert network, is based on cross-cutting research and analysis works of 300+ committees and working groups.

Furthermore, the OECD, also called the "Do-tank" (*5), plays a role as an international policy coordination platform, supporting implementation of standards in member countries, through sharing best practices (Material 3).

Material 3 The role of OECD in the global society



(Source) Dai-ichi Life Research Institute

(2) International standards on global investment and public governance

The OECD has developed and implemented several international standards in the area of international investment and public governance.

For example, in the international investment area, there are the "Multinational enterprise (MNEs) guideline" which states the role and responsibility of MNEs doing business globally to the economy and society, and the "Principles for Private Sector Participation in Infrastructure" which states principles of private sector participation in infrastructure development.

In the public governance area, there are the “Recommendation on Improving the Quality of Government Regulation” and the “Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships” (Material 4).

Material 4 Key OECD instruments on global investment and public governance

Global investment area	Public governance area
<ul style="list-style-type: none"> · Declaration on International Investment and Multinational Enterprises (1976) · Recommendation of the Council on Principles for Private Sector Participation in Infrastructure (2007) 	<ul style="list-style-type: none"> · Recommendation of the Council on Improving the Quality of Government Regulation (1995) · Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships (2012)

(Source) [OECD Legal Instruments](#)

Thanks to the foundation built by experiences in global investment and public governance areas, in 2017 (*6), the OECD was able to raise its hand to become a facilitator in developing and implementing the standard of quality infrastructure investments and developed: "Compendium of Policy Good Practices" and "Implementation Handbook", to be described in the next paragraph.

(3) International standards of Quality Infrastructure Investment

The "OECD Compendium of Policy Good Practices" is a guidance for policymakers consisting of essence pulled out of 340 best practices from more than 50 existing standards. For example, on one of the essential aspects of quality infrastructure investment, “Integrating Social Considerations in Infrastructure Investment (Principle 5 of G20 Principles for Quality Infrastructure Investment)”, the compendium exemplifies best practices such as respecting RBC (Responsible Business Conduct) stated in the MNEs guideline or executing risk-based due diligence (Material 5).

Material 5 An example from the OECD Compendium of Policy Good Practices

Practical examples on “Integrating Social Considerations in Infrastructure Investment”, principle 5 of G20 Principles for Quality Infrastructure Investment:

- ✓ Require private participants, as well as state-owned enterprises that participate in infrastructure projects, to follow internationally accepted RBC standards.
- ✓ Promote risk-based due diligence, a process through which businesses identify, prevent and mitigate their actual and potential negative impacts and account for how those impacts are addressed.

(Source) Excerpted from [OECD Compendium of Policy Good Practices for Quality Infrastructure Investment](#)

The “Implementation Handbook for Quality Infrastructure Investment” compiles concrete and practical solutions for key issues based on best practices. For example, to scale up financing for quality and sustainable infrastructure, the handbook points out the need to review or reform capital market regulation and the importance of innovative and collaborative models beyond public-private partnerships. The handbook also introduces specific examples, such as the existing taxonomy of instruments for infrastructure financing and the Canadian institutional investor’s project on the rail system (Material 6).

Material 6 OECD Implementation Handbook for Quality Infrastructure Investment

Mobilizing finance for quality infrastructure investment

- ✓ Review and where appropriate reform capital market regulation to ensure the availability of appropriate capital market instruments.
- ✓ Consider innovative collaborative models beyond Public Private Partnerships (PPPs) that involve a long-term vision and a sharing of risks and rewards over time.

(Source) Excerpted from [OECD Implementation Handbook for Quality Infrastructure Investment](#)

3. Implementation of “Quality Infrastructure Investment”

The OECD is now considering the “Blue Dot Network Certification System” that supports implementing (*7) quality infrastructure investment. This system, based on the standards mentioned above, intends to give an international certification to quality infrastructure investments.

In the next issue, I will provide an overview of the certification scheme and give some recommendations for more effective and efficient implementation.

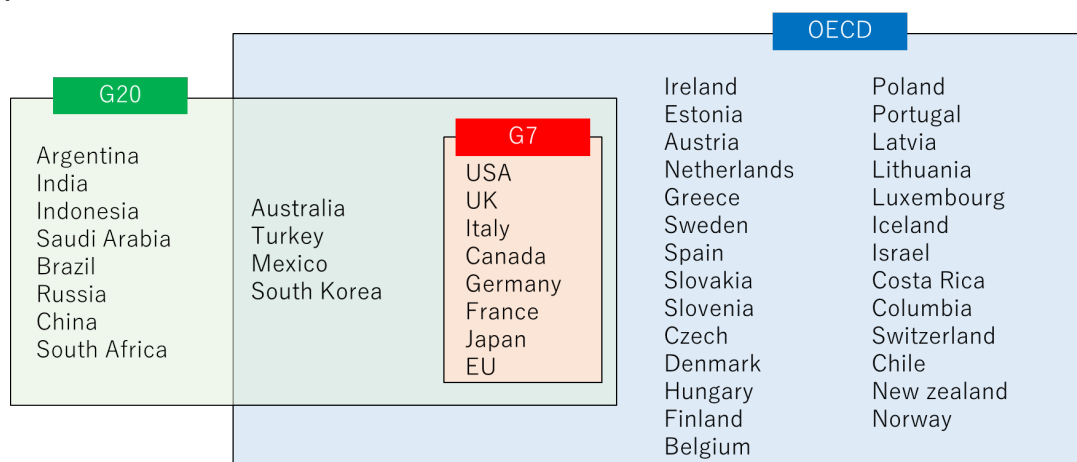
(To be continued)

【Notes】

(*1) “One of the factors that can significantly affect debt sustainability of countries, including low-income countries, is infrastructure investment. Infrastructure projects such as ports and railroads come at a large cost, and debt repayments can become a significant burden for the borrowing countries. When financing infrastructure projects, it is necessary for both the borrowers and lenders to fully consider debt sustainability. Loans without consideration of debt sustainability are criticized as a “debt trap” by the international community”- [White Paper on Development Cooperation 2020](#), P36 (Ministry of Foreign Affairs of Japan)

(*2) “As of November 30, 2023 and based on the most recently published data, 10 countries are in debt distress, 26 countries are at high risk, 26 countries are at moderate risk, and 7 countries are at low risk of debt distress”- [List of LIC DSAs for PRGT-Eligible Countries As of November 30, 2023](#)(IMF)

(*3) The members of G7 · G20 · OECD are as follows:



(Source) Dai-ichi Life Research Institute

(*4) This report categorizes the journey to implementing international common principles in three steps: 1) international consensus building, 2) international standards development, and 3) implementation of the standards. “International consensus building” stands for G7 and G20 outcomes, such as documents or agreements, and “International standards” stands for OECD legal instruments. Examples are below:

- Hiroshima AI Process Comprehensive Policy Framework (G7、2023)
- G7 Statement on Climate Club (G7、2022)
- AI Principles (G20/OECD、2019)
- Charlevoix common vision for the future of artificial intelligence (G7、2018)
- Principles of Corporate Governance (G20/OECD、2015)

- High-Level Principles on Financial Consumer Protection (G20/OECD, 2011)
- Consumer Protection in E-commerce (OECD, 1999)
- Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data (OECD, 1980)
- Declaration and Decisions on International Investment and Multinational Enterprises (OECD, 1976)

(Source) [Promotion of global rule-making and policy coordination](#) (Ministry of Foreign Affairs of Japan), etc.

- (*5) “OECD has the role of think/do-tank facilitating the implementation through a system that member countries assess each other on the level of achievement of standards that they should adhere to (peer-review) and through effective communications” - [Message from Ambassador Okamura](#) (Permanent Delegation of Japan to the OECD)
- (*6) “We confirm the importance of promoting quality infrastructure with open and fair access and encourage the OECD to elaborate guidelines and good practices in this area, giving appropriate consideration to the principles for quality infrastructure and related issues agreed by international fora” - [2017 Ministerial Council Statement](#), para13(OECD)
- (*7) In this report, “Implementation” means that the OECD member country reflects the legal instrument to their own legal or regulatory framework, and functions or establishes it among the economy and society.

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