



B7 GERMANY
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INFRASTRUCTURE POLICY

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Bundesverband der
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Introduction

Infrastructure is one of the backbones of any economy. Modern, high-quality and sustainable infrastructure benefits people, countries and businesses worldwide. The COVID pandemic has made that obvious in many areas, most pressing in health, health security infrastructure and related fields. It has also been commonly known in the past years that the infrastructure investment gap is largest in developing countries. At the same time, ageing infrastructure and lack of digitalization are also becoming more of a problem in developed economies. To narrow the investment gap in the medium term and to unlock potential for infrastructure development around the world is a goal of politics and businesses alike. Improved infrastructure will help to ensure a strong economic recovery from the pandemic as well as secure progress towards carbon neutral economies in alignment with international climate goals.

Infrastructure Development

The needs for new and modernized infrastructure are substantial both in developing and emerging markets. The World Economic Forum put the gap between “projected investment worldwide and the amount needed to provide adequate global infrastructure by 2040” at a little below 15 trillion US Dollars (2021). For Asia-Pacific alone, the Asian Development Bank has put the need of investment in infrastructure at 26 trillion US Dollars for the period between 2016 and 2030, or 1.7 trillion per year, including climate related adjustments (estimate from 2017).

To close the infrastructure gap efficiently and unlock investments must be a goal of infrastructure policy – keeping in mind that Russia’s illegal war of aggression in Ukraine will likely bring additional challenges to the global economy to an extent not yet foreseeable. As leading developed nations, the G7 member countries face elevated responsibility here, but global efforts and close cooperation between businesses and governments are needed too.

Infrastructure should be defined broadly, starting with classic physical infrastructure such as energy, transport (air, rail, ports, roads), water and communications. But complemented by digital infrastructure, including provisions for cybersecurity, healthcare infrastructure, education and research infrastructures. Infrastructure policy is clearly one of the cross-cutting topics within the B7 working groups, and it has the potential to deliver not only economic, but also social value.

To encourage sustainable infrastructure development, financing mechanisms and instruments need to be evaluated regarding their performance and coordinated action at the G7 level needs to be taken to adjust and to modernize instruments where necessary. This could include the facilitation on **untying aid** for infrastructure projects to make more effective use of funding and give more options to countries with a high need for new or upgraded infrastructure.

Policy Recommendations

- **Broad definition of infrastructure:** Infrastructure policies need to be based on a broad definition of infrastructure. In a globalized world, infrastructure should be defined beyond classic economic infrastructure and include digital infrastructure as well as social aspects such as infrastructure for health care, education and vocational training.
- **Sustainability of investments:** G7 member countries should ensure that any infrastructure investments are sustainable and viable – financially, economically, ecologically and socially. It is important that

carbon footprints of any infrastructure investment as well as potential carbon lock-ins are considered. Life cycle costs instead of mere purchase prices of infrastructure projects should be taken stronger into account and become a basis in public procurement processes. “SOURCE”, the multilateral platform for sustainable infrastructure led and funded by Multilateral Development Banks (MDBs) supporting the development of well-prepared projects to bridge the infrastructure gap, should be promoted in G7 member countries and beyond to ensure a strong and efficient preparation of infrastructure projects. The positive impact of infrastructure projects on the GDP and on the economic growth – through their direct and indirect fiscal return over their lifecycle – should be measured and compared to their overall cost.

- **Decarbonization:** G7 initiatives must be in line with the Paris climate agreement and the SDGs. Investments should be made based on national climate neutrality. The infrastructure required for the development of carbon neutral economies, must take into account the rapidly growing deployment of renewable energies and other climate friendly approaches such as the widespread use of low-carbon hydrogen.
- **Blended Finance** approaches should be operationalized for unlocking private investments by the finance sector.
- **Financial instruments:** A variety of approaches in financing infrastructure projects should be available to unlock public and private sector finance driven investments. International best practices in BOT (Build-Operate-Transfer) or BOO (Build-Operate-Own) models should be taken into consideration. One example could be **Asset Recycling**. Governments could unlock capital from existing infrastructure assets through sale or concessions and then re-invest the proceeds received into new and needed infrastructure. This would allow and induce the risk averse private sector to invest more money in green field infrastructure.

Connectivity Initiatives

Connectivity is both the goal for and the result of any sustainable and high-quality infrastructure, from a small to a global scale. The G7 Carbis Bay Communiqué has established the importance of improving connectivity for developed and developing nations with the G7 eventually establishing the G7 Partnership for Infrastructure and Investment (G7 PII) all in the spirit of driving forward our values and underlying them with the highest standards in terms of sustainability, values, resilience, good governance and quality. In addition to G7 PII, G7 member countries have separately initiated and are involved in connectivity initiatives and partnerships on different scales and levels such as the Blue Dot Network, the EU’s Global Gateway or the British Investment Partnerships.

Create complementarity and a meaningful interlocking of these initiatives and partnerships with as little friction or duplication as possible is crucial for their success. The B7 agrees in the analysis of the problem – lack of connectivity and infrastructure – and in the solution – upgrade of infrastructure and thus connectivity – that allows for a fundamental rise in prosperity. The goal is ambitious. In this context, the B7 calls for the implementation of the recommendations made by the G7 PII. Additional goals such as the security of infrastructures, their intelligent networking or the social dimension of connectivity should be considered.

Policy Recommendations

- Follow the **long-term agenda** and **implement the initial steps** defined in the G7 Leaders Statement Partnership for Infrastructure and Investment in 2021.
- **Interlock connectivity initiatives and make them complementary not competing.** Initiatives, partnerships and international connectivity cooperation need to be closely coordinated, focus on the needs of and benefits for partner countries, be based on shared values and adhere to internationally recognized rules and standards. This also means to further substantiate the **Build Back Better World (B3W) Partnership**.
- **Involve business expertise to a larger extent:** Companies understand the circumstances on the ground, know the specific needs of developing countries and can take projects from paper to reality. To maximize impact and effectiveness of any strategic approach, business associations of the G7 member countries and companies should be regarded as natural partners for government in infrastructure modernization and development.
- **Improve communication:** Opportunities generated through connectivity initiatives for companies and business need to be communicated early and clearly. The benefits of projects funded by the G7 member countries need to be showcased openly and widely.

Level Playing Field

The B7 businesses operate in highly competitive markets and depend on a reliable and permanent level playing both in G7 member countries and in third countries. Non-market economies distort competition and restrict access to own markets. The B7 takes up responsibility in advancing social progress through liberal values and environmental standards. In order to do this successfully, the B7 needs more political efforts towards common standards of the G7 member countries. Strengthening the alliance of value partners and deepening cooperation are important aspects. The B7 highlights the need for G7 coordination of instruments such as those currently envisaged by the EU with its anti-subsidy policy or the International Procurement Instrument IPI.

International trade rules and economic partnership agreements between the G7 member countries and third countries must be enforced more effectively, and open markets must be protected against unfair competition from third parties. In ensuring this, the G7 member countries must not foster the international trend toward protectionism but must strategically counteract it. At a time when the global economy is coming under geopolitical and geo-economic pressure, the G7 member countries should focus on international cooperation, their strategic interests, rules-based and free trade and investment with its economic partners around the world. They can count on support from the B7.

Policy Recommendations

- To work towards a global level playing field, highest standards are one key requirement. The G7 member countries should be, as agreed in 2021, at the forefront of a movement to establish **best in class social, and environmental standards** for infrastructure investment. Developed economies must not engage in a race to the bottom concerning standards.
- Successful and efficient infrastructure investment requires **equal market access for local and foreign companies**, especially in public procurement. Ideally, a liberalization of international procurement laws can be reached through international negotiations and cooperation. G7 member countries should strengthen coordination of national measures to guarantee a level playing field in public procurement.
- **Check instruments for their applicability:** any offensive measures and defensive instruments that foster a level playing field and strengthen the competitiveness of G7 and their partners, should be checked for their applicability in the G7 context.
- Connectivity projects need to be generally open to bids from businesses from around the world but **measures to address abnormally low bids** that may result from foreign subsidies need to be put in place.
- Fight against corruption: G7 member countries should promote the best standards when it comes to fighting corruption in infrastructure projects in developing countries.
- G7 member countries should facilitate the harmonization of the contractual frameworks and policies of Multilateral Development Banks, especially on Environmental, Social and Governance (ESG) clauses and deploy efforts to harmonize ESG criteria and the various taxonomies currently being developed or effective.

Impressum

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