

**In Search of Policy Coherence:
Aligning OECD Infrastructure Advice with
Sustainable Development**

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June 2016

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Heinrich Böll Foundation

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Table of Contents

- Executive Summary7
- Objective of this Report13
- OECD and Sustainable Development16
- Findings on Research Questions20**
 - Question 121**
 - Question 223**
 - Question 324**
 - Question 427**
 - Question 529**
- Findings on Thematic Areas31**
 - a. Investment31**
 - i. Investment Policies and Strategies31**
 - ii. Long-term Investment32**
 - b. Modalities of Infrastructure Development33**
 - i. Public Procurement33**
 - ii. Public-Private Partnerships35**
- Conclusion35**
- Recommendations36**
- Annex 1 Core Documents – Summary and Ranking39**

List of Boxes

Box 1: G20 Presidencies

Box 2: G20/OECD

Box 3: OECD Documents Reviewed

Box 4: ESG Defined

Box 5: The UN Guiding Principles on Business and Human Rights

Box 6: Integrating Environmental and Social Sustainability Dimensions in Value for Money/Cost Benefit Analysis

Box 7: Important source of data on infrastructure: Bent Flyvbjerg's Work on Infrastructure

Box 8: The relevance of the UN Guiding Principles on Business and Human Rights (UNGPs) in Public Procurement

Acronyms

COP21	-	21st Conference of the Parties, United Nations Climate Change Conference
ESG	-	Environmental, Social, and Governance dimensions of sustainability
FDI	-	Foreign Direct Investment
G20	-	Group of Twenty
IHWG	-	G20 Investment and Infrastructure Working Group
NAEC	-	New Approaches to Economic Challenges
OECD	-	Organization for Economic Co-operation and Development
PCD	-	Policy Coherence for Development
PCSD	-	Framework for Policy Coherence for Sustainable Development
PFI	-	Policy Framework for Investment
PPPs	-	Public Private Partnerships
RBC	-	Responsible Business Conduct
SDGs	-	UN Sustainable Development Goals
UNGPs	-	UN Guiding Principles on Business and Human Rights

Foreword

On December 1st of this year, Germany will take over the presidency of the Group of the 20 (G20) and host the G20 Leaders' Summit in July 2017 in Hamburg. Strategic leadership of the G20 is required to steer the world community toward a sustainable future.

The Group of Twenty (G20) has called upon the Organisation for Economic Co-operation and Development (OECD) to undertake extensive policy analysis and recommendations relative to a wide array of issues, including infrastructure development. The Group views massive investment in infrastructure (e.g., energy, transportation, water) as a prerequisite to boosting growth and advancing job creation and development.

In a continuing effort to foster coherence among economic, social and environmental policies, the Heinrich Böll Foundation engaged the Institute for Human Rights and Business (IHRB) to review key OECD deliverables to the G20 as they relate to infrastructure investment.

2015 gave much needed boost to multilateralism as a way to debate and reach consensus on policy platforms that respond to systemic global challenges. These platforms include the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (July 2015); the UN Sustainable Development Summit (September 2015) which adopted the Sustainable Development Goals (SDGs); and the UN Framework Convention on Climate Change's Conference (December 2015), which adopted the Paris Climate Accord.

Each event not only played an important role in restoring multilateralism, but also set forth ways that nations must individually and collectively implement actions that will achieve universal sustainable development and environmental goals and commitments in the years ahead. For instance, the world community set targets to limit global warming to 2 degrees centigrade over pre-industrial levels. Now, countries must act to implement the two degrees commitment – or, better yet, one and a half degrees.

The OECD, as an organization that advises countries on their investment and development policies, has a solemn obligation to ensure that its advice is consistent with these global commitments. Through its interactions with its members and, more recently, the G20 countries, the OECD occupies a particular position of trust and prestige in the landscape of global economic governance. At the same time, the OECD is not an institution with universal membership. Its 34 member countries are part of the consensus of the UN's 193 member countries. And while the OECD members include the most advanced countries in the world, its advice must also be relevant to the 8 G20 member countries that are not full OECD members.

The Heinrich Böll Foundation calls on the OECD to use its political clout to demonstrate full policy coherence for investment in sustainable development. The OECD has a privileged relationship with the G20 and a powerful voice on policy related to infrastructure investment and development. We also call on all G20 Leaders, not only as members and adherents of the multilateral consensus, but also as the dominant actors in powerful national and multilateral development banks, to align infrastructure with sustainable development. To achieve effectiveness, the OECD and its Members must shatter the wall that divides financial and economic decisions from sustainable development considerations. It is crucial that Germany, which follows China as the next President of the G20, provide leadership to this end.

Working with more universal institutions, the OECD and the G20 must take action to implement the multilateral consensus on sustainable development and climate goals, and lead the world by example.

Barbara Unmüßig
President

Executive Summary

Purpose of this Research

Infrastructure occupies an important space in the deliberations and actions of the Group of Twenty (G20) nations. Infrastructure investment has dominated the G20's attention since February 2014, when the G20 "finance track" managed by the G20 finance ministers and central bank governors launched the Investment and Infrastructure Working Group (IIWG). The G20 relies on large-scale infrastructure investment to produce much needed economic growth, jobs, and development. Under the 2016 G20 Summit process led by the Chinese presidency, the priorities include investment, trade and infrastructure, and for the first time, the new UN Sustainable Development Goals (the SDGs).

Comprised of 34 Members, the Organisation for Economic Cooperation and Development (OECD) is an international organisation dedicated to promoting policies that will improve economic growth, prosperity, and sustainable development. It is an active partner with the G20 nations, including in the area of infrastructure investment. Among the international organisations working with the G20, the OECD is one of the more visible and prolific. Some argue that the OECD Secretariat has evolved into a "quasi-Secretariat" for the G20. While that may not be the OECD's official position, the OECD dedicates significant financial and human resources in its engagement with the G20, including generous support for the work of the IIWG.

Considering these important roles and expenditures, this report asks whether the OECD policy advice to the G20 in the thematic area of infrastructure investment and development supports the sustainable development aspirations of the G20 nations and their readiness to implement the SDGs.

To respond to this question, this report provides an analysis of existing OECD documents and recommendations aimed at strengthening the OECD's engagement with the G20 in the area of infrastructure and sustainable development, in addition to offering suggestions for other actors advising or researching the activities of the G20.

Research Methodology

In considering the question of whether the OECD's infrastructure policy advice to the G20 is coherent with sustainable development and the SDGs, this report sought answers in 14 key OECD documents on infrastructure investment and development (the Core Documents) and four documents on sustainable development or the SDGs. These documents were chosen from a large pool of OECD documents using several filters, including thematic areas, document type, intended audience, and publication year. The authors then posed five research questions, adapted from the five levels of policy coherence identified in recent OECD advice to countries on how to achieve policy coherence for sustainable development (*Framework for Policy Coherence for Sustainable Development* (PCSD) (2015)). In addition, the authors also chose four sub-thematic areas within the OECD's infrastructure work (investment policies and strategies; long-term investment; public procurement; and public-private partnerships (PPPs)) and analysed them separately.

The analysis that follows results from a careful review of the Core Documents and others specifically named in the report. The authors recognize that a vast array of documents related to infrastructure exists within the universe of the OECD's library of work, and that findings and conclusions of this report may have differed if another set of core documents were identified following a different logic and filtering process.

Research Questions and Summary of Findings

Question 1: *Has the OECD adequately aligned its infrastructure investment and development work with sustainable development? Did it anticipate the adoption of the SDGs in order to prepare its Members and other G20 countries to meet their commitments to sustainable development?*

The Core Documents treat sustainable development unevenly. Most of those addressed to the G20 lack any significant sustainable development content or advice on how to prepare for the SDGs, particularly Goal 9 concerning resilient infrastructure. While the SDGs only came into effect in 2015, they were preceded by three years of preparation and 15 years of collective experience of implementing the Millennium Development Goals (the MDGs). The OECD has a parallel track of work on sustainable development and the SDGs, which does not seem to have informed the OECD's infrastructure submissions to the G20. The OECD also has an established programme of work on "green infrastructure", but this is treated as a niche sector separate and apart from "regular" infrastructure. This gap in the OECD's outputs to the G20 does not encourage the G20's nascent efforts to integrate the SDG targets with investment, growth and infrastructure tracks of work.

The rotating presidency of the G20 results in short-term agendas that constantly shift and adjust from year to year. The OECD staff members who commented on this research stressed the "specific constraints within which the OECD is operating when contributing to the G20 (country-driven process, complex political environment, very specific terms of reference set by members for our contributions, etc.)". As for the IIWG, it is comprised of central bank governors and ministry of finance officials. Reportedly, the IIWG refuses any offer for sustainable development advice in relation to infrastructure in an effort to avoid duplication with other working groups. This seems to result in a narrow work programme, based on traditional (and outdated) approaches to promotion of infrastructure investment. However, there is no way for those outside the relationship to know exactly how it works.

These constraints, if true, undoubtedly render engagement with the IIWG and the G20 finance ministers and central bank governors on sustainable development particularly challenging. Nonetheless, it should also be noted that the OECD enjoys intimate ties with the G20. It publishes numerous reports for the G20 that are often co-branded with the G20, many of which are prominently packaged and disseminated for public consumption. Furthermore, the very G20 countries have endorsed multiple international commitments on sustainable development and are now bound to implement their commitments. By not providing at least a menu of policy options for countries to embrace sustainable strategies for infrastructure investment and development, the OECD risks disregarding the sustainable development responsibilities and goals of its 34 Member countries and of those who are members of the G20 but not OECD Member countries; in fact it risks not serving the interests of the multilateral community.

Question 2: *Does the OECD enable its Members and other G20 countries to forge their own paths on infrastructure development, informed by best available advice? Is this advice driven by a vision of infrastructure that advances the SDGs?*

No coherent OECD vision of sustainability in infrastructure can be detected within the Core Documents. Across the board, a common denominator points to a traditional approach that focuses on economic infrastructure, such as mass urban transport systems, sustainable housing, roads, water, energy, plus water and sewage and waste management, considered key to economic development and deserving of massive investment flows. Social infrastructure (hospitals, schools, and prisons), infrastructure for disaster risk management, as well as new infrastructure, such as the Internet, do not play a key role in OECD's advice to the G20 on infrastructure. This is also the case with OECD's work on green growth and infrastructure, as mentioned above. This limited vision could affect the OECD's effectiveness in supporting universal aspirations and those of individual countries for diverse infrastructure investments that support economic growth and sustainability in a holistic manner.

Question 3: *How does the OECD define an 'enabling environment' for infrastructure investment and development? Do environmental and social indicators appear alongside economic indicators?*

The OECD's work is geared toward facilitating infrastructure investment. Sustainable development perspectives are either missing or come across as an afterthought in existing indicators and checklists for infrastructure investment, produced for the G20 and particularly the IIWG and the G20 finance ministers and central bank governors. The desirable enabling environment for investment as presented in the Core Documents favours investors, and lacks considerations for users, stakeholders, and citizens. The OECD indicators also miss the opportunity to incorporate environmental, social and governance (ESG) factors as enablers of responsible investment in infrastructure.

Question 4: *How does the OECD address sustainable development in relation to the G20's infrastructure investment and development strategies? How are issues concerning responsible business conduct and ESG considerations (as embodied in the OECD Guidelines for Multinational Enterprises, and the Principles for Corporate Governance) explained in the context of the infrastructure theme?*

The OECD's track record is mixed when it comes to integrating responsible business conduct and ESG considerations in infrastructure investment and development policies. These issues are addressed well in earlier OECD work (not directed to the G20), especially publications focused on the private sector and public-private partnerships (PPPs). In contrast, such content is almost entirely missing from the more recent reports concerning public sector governance of infrastructure, including those Core Documents submitted to the IIWG and the G20 finance ministers and central bank governors. As a result, the OECD misses the opportunity to fully integrate ESG considerations in traditional macroeconomic concepts and tools. This sends a message to the G20 central banks and finance ministries that policies to encourage sustainable development and responsible business conduct are of little or no relevance to improved public governance of infrastructure.

Question 5: *Is OECD advice to G20 member countries informed by external and stakeholder initiatives, research, evaluations and lessons learned on infrastructure and sustainable development?*

Since the OECD's memberships excludes eight G20 countries, it is especially important that the organisation's products draw from a wide array of sources, engage in systematic monitoring, evaluation, and learning from past policy advice on infrastructure investment and development (including in non-Member countries). But there is little evidence of such practices in the Core Documents, which rely excessively upon the World Bank and its own institutional points of view, and do not give due weight to third party research findings. The result is that the OECD's analysis and policy advice to governments risks operating in a partial vacuum, informed almost entirely by its own internal research and largely closed to external views and evidence, including innovative ideas and constructive critiques of traditional approaches to infrastructure.

Summary of Thematic Area Findings

i. Investment Policy and Strategy

2015, the year that the G20 was led by the G20 Troika – Turkey, China, and Australia - marked the beginning of the OECD's large scale work on G20 Investment Strategies, which involves an ambitious survey of G20 countries' own prioritization of investment strategies. The OECD admits that there is scope for improvement when it comes to strategies around responsible business conduct and green dimensions. The next round of interactions with the G20 presents an opportunity for the OECD to actively disseminate policy advice on these issues found in other existing bodies of OECD work, such as the two chapters on infrastructure and responsible business conduct found in the updated 2015 OECD flagship publication, the *Policy Framework for Investment*.

ii. Long-Term Investment

Over recent years, the OECD has invested heavily in the exploration of how to promote new sources of long-term investment in infrastructure. Somewhere in the process, investment volume seems to have become a goal in and of itself, rather than a means to a sustainable outcome in infrastructure investments. The current lack of attention to responsible investment in this area is a significant shortcoming. As the OECD continues to forge ahead in this area, embedding responsible investment and the environmental, social, and human rights dimensions of investment in its policy advice, consistent with its Guidelines for Multinational Enterprises, will be a welcome development.

iii. Public Procurement

In view of multiple country achievements in promoting sustainable procurement, the OECD's current approach to public procurement, which distinguishes between the primary policy objective (value for money) and a secondary policy objective (sustainability considerations) appears out of date. On the other hand, the value of OECD work in public procurement may be in its peer review process where countries exchange implementation information.

vi. Private-Public Partnerships (PPPs)

Although the OECD's drive for expanding the use of the PPP modality has not abated, it does seem sensitised to criticisms about PPPs, such as risk sharing (e.g., states' contingent liabilities, wholesale risk transfers to the private sector). It is also aware of the general

lack of capacity, management, and oversight in such arrangements, including in its Member countries which are, by definition, more advanced than other countries. As a result, the OECD's focus turned from the private sector aspects of infrastructure to public governance in this area, which is a welcome development. However, in the process, the OECD seems to have paid little attention to public sector responsibilities to regulate and provide guidance on ESG in infrastructure investment and development, as evident from the recent OECD submission to the G20 in this area. This is one of the areas requiring greater focus in the near future.

Conclusions and Recommendations

OECD policy advice on infrastructure investment and development set out in the Core Documents, which define the scope of this report, lacks coherence for sustainable development from multiple perspectives, such as coherence with global goals and countries' aspirations, coherence with economic, social and environmental policies, coherence with the OECD's own position on sustainable development, and coherence with initiatives and actions of external actors. The overall thrust of its infrastructure policy advice to the G20 is insufficient to provide the G20 countries with a reliable roadmap to achieve sustainable development goals through infrastructure.

While this research did not focus on the actual interactions between the OECD and the G20, it can be assumed that the policy coherence deficit described above is attributable to both sides of the supply and demand relationship. The powerful finance track does not wish to be burdened by sustainability aspects of infrastructure investment, so it relegates these aspects to the "Sherpa track". The OECD's silos serve the unidimensional wishes of the G20 finance ministers and central bank governors, and the G20 reciprocates with closer ties to the OECD.

This observation is especially concerning, given the fact that the G20 countries have the power to replicate and lock in good or bad models of infrastructure investment in powerful ways for decades. For example, the G20 emphasis on mega-projects means that there are enormous "ripple effects" of the models undertaken on public budgets and governance, society, and the natural environment. G20 precedents could encourage uptake by other countries following the footsteps of the G20.

The research findings discussed in this report also raise basic questions with respect to the OECD's internal workings and culture, and the overall reach, efficiency and effectiveness of its infrastructure-related output, especially in view of what must be significant expenditures involved in engaging with the G20.

Taking these conclusions and questions into consideration, this report suggests that the OECD re-examine its work program and structure to draw out its existing positions on sustainable development and the SDGs (as well as the positions of institutions with broader or universal membership). This could assist the G20 and other bodies in achieving the multiple levels of policy coherence discussed above.

The OECD should review its existing approaches and tools to offer different modalities of engagement with the G20. The OECD's value added may include its ability to convene and survey policy makers, organise peer reviews on specific thematic areas, and promote an interactive platform among policy makers, experts, and stakeholders. Its Multi-Dimensional Country Reviews may be a tool to effectively engage the G20, as well as the OECD

Development Centre, which has not significantly participated in advising the G20. With a Governing Board of 50 countries that include 24 non-OECD Member countries, it could provide a fresh perspective in relation to OECD policy advice.

With the China-led G20 Summit in September 2016, and the German G20 Presidency commencing thereafter, there will be multiple opportunities for the OECD to put its expanded capabilities to better use. These capabilities will complement the competences of other G20 resource organisations with universal membership to encourage the integration of sustainable development dimensions in such activities.

While the foregoing recommendations address the OECD Secretariat, they should also inform the decisions of OECD Member countries, who prioritise, set programmes of work, and allocate resources for various OECD units. At the same time, the OECD should continue to engage actively with Key Partner and non-Member countries (including countries which are members of the G20, but not the OECD).

For those engaged in the activities of the G20, this report advocates that the G20 member countries demand “state of the art”, integrated, and multidisciplinary policy advice from the OECD, including advice on infrastructure investment and development that places sustainable development at its core. Changes in the OECD must be reciprocated by the IIFWG and the G20 finance ministers and central bank governors asking for coherence in OECD’s policy advice.

As for civil society and academia, advocacy efforts should continue to aim at more coherent infrastructure policy advice from the OECD in line with the organisation’s own recommendations to countries on policy coherence for sustainable development.

Objective of this Report

In February 2014, the Group of Twenty (G20) launched the Investment and Infrastructure Working Group (IIWG) under the finance track of the Australian G20 presidency. Since then, the infrastructure issue began to dominate the attention of the G20. The G20 is an informal group of finance ministers and central bank governors from 19 member countries and the European Union. It views high levels of infrastructure investment as a crucial means to restore global economic growth, job creation and development.

In the 2014 Australian Summit communiqué, the G20 Leaders prioritized work to "facilitate long-term financing from institutional investors" to scale up infrastructure investment "from billions to trillions" of dollars.¹ For the 2015 G20 Summit in Turkey, the G20 produced country-specific investment strategies, with each country specifying its strategy around infrastructure investment (among other types of investments). Under the upcoming G20 Summit led by the Chinese presidency, the priorities include investment, infrastructure, trade, and the new UN Sustainable Development Goals (the SDGs).

Comprised of 34 of the most developed countries in the world, the Organisation for Economic Co-operation and Development (OECD) is an international organization dedicated to promoting policies that will improve the economic and social well-being of people around the world.² Its publications frequently state that the OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalization.³ While these objectives are common with other international organisations with universal memberships, the OECD membership is by no means universal.

The OECD is an active partner with the G20 nations in a common effort to strengthen the global economy. It is one of the more visible and prolific of the international organisations acting as resources for the G20, often co-branding its reports with the G20. Other resource organisations that serve the G20 include the World Bank Group, the International Monetary Fund, the International Labour Organization and the Financial Stability Board.

Noe van Hulst, Ambassador of the Netherlands to the OECD, wrote that "the OECD Secretariat has evolved into what is increasingly referred to as the "quasi-Secretariat" of G20".⁴ While this is not the official OECD position, van Hulst argues that this is a natural development in view of the OECD's competences in data collection, benchmarking, and evidence-based economic analyses in areas that are closely aligned with the broadening G20 agenda.⁵ Considering this intimate relationship with the G20, and the generous OECD expenditures involved in supporting the G20, this report asks whether the OECD policy advice to the G20 in the thematic area of infrastructure investment and development supports the sustainable development aspirations of the G20 nations, and their readiness to implement the SDGs.

To respond to this question, this report provides an analysis of existing OECD documents and recommendations aimed at strengthening the OECD's engagement with the G20 in the area of infrastructure and sustainable development, in addition to offering suggestions for other actors advising or researching the activities of the G20.

¹ Australia G20, "Investment and Infrastructure" (2014)
http://www.g20australia.org/g20_priorities/g20_2014_agenda/investment_and_infrastructure.

² See at: <http://www.oecd.org/about/>

³ For example, see OECD, "Mapping Channels to Mobilise Institutional Investment in Sustainable Energy," p.145 (2015)
<http://www.oecd.org/environment/cc/mapping-channels-to-mobilise-institutional-investment-in-sustainable-energy-9789264224582-en.htm>

⁴ See at: <http://oecdinsights.org/2015/11/17/the-rise-of-the-g20-and-oecd-role/>

⁵ Ibid.

Global Context

2015 saw the role of economic and social infrastructure in sustainable development thrust to the forefront of three extraordinary sets of commitments made by nations. Infrastructure featured prominently in the Addis Ababa Action Agenda,⁶ coming out of the July 2015 International Conference on Financing for Development. Countries agreed to establish a Global Infrastructure Forum to identify and address infrastructure gaps, highlight opportunities for investment and cooperation, and work to ensure that projects are environmentally, socially and economically sustainable. It also affirmed the rights of citizens to basic social services, and state obligations to establish national sustainable development strategies and spending targets to pay for these essential services.

This achievement was followed by the September 2015 United Nations Sustainable Development Summit adopting the SDGs, which, among other things, explicitly called for “resilient infrastructure” in Goal 9. Finally, the Paris Climate Conference concluded in December 2015 with an Accord which placed much hope in infrastructure as part of efforts to achieve greenhouse gas reduction and climate change adaptation strategies. Many states submitted their Intended Nationally Determined Contributions (INDCs), some of which have infrastructure components. The ongoing preparatory work toward this year’s G20 Summit, to be hosted by China in September 2016, is taking place against the backdrop of these three significant global milestones that all point to the crucial role that infrastructure will play in our immediate and medium to long-term future.

Ensuring financing for these infrastructure projects will be an arduous task. The estimated financing needs for infrastructure development are in the range of US\$4 to 5 trillion annually, with a shortfall of US\$50 trillion projected by 2030.⁷ The OECD’s own *Mapping Channels to Mobilise Institutional Investment in Sustainable Energy* states that the next 20 years will need to see some USD 53 trillion in cumulative capital expenditure on energy supply and in energy efficiency to get the world onto a 2°C emissions path.⁸

On 1 December 2015, President Xi Jinping announced China’s agenda for the forthcoming G20 Summit. He declared that the G20 has reached a “turning point”, at which it must progress from managing “mainly short term risks” to addressing the symptoms of “anemic global growth.”⁹ Building on the Turkish G20’s “Inclusive growth” agenda,¹⁰ Xi Jinping promised to work towards an “Innovative, Invigorated, Interconnected and Inclusive” global economy, in which the “benefits of economic growth will be equitably shared by people of all countries. To this end, he asked to further consolidate ongoing work streams, and integrate them with the SDG agenda.¹¹

Box 1: G20 Presidencies		
Year	Presidency	Priorities
2017	Germany	?

⁶ See: UN, “Addis Ababa Action Agenda,” (2015) <<http://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html>>.

⁷ IISD, “Ideas and Solutions to Address the USD 50 Trillion Infrastructure Deficit, A CONTRIBUTION TO THE 2015 G-20 SUMMIT, ANTALYA, TURKEY” (2015) <https://www.iisd.org/sites/default/files/publications/G-20-ideas-solutions-infrastructure-deficit.pdf>

⁸ Preface, see at: <http://www.oecd.org/environment/cc/mapping-channels-to-mobilise-institutional-investment-in-sustainable-energy-9789264224582-en.htm>

⁹ Xi Jinping, “Keynote” p.3 *et seq.* (2015) <<http://www.g20.org/English/China2016/G202016/201512/P020151210392071823168.pdf>>

¹⁰ According to the OECD, this concept was intended to capture “the ethical, social, political and importantly, economic well-being of a society” – OECD, “G20 Status Report” p.4 (2015) <<http://www.oecd.org/g20/OECD-Contributions-to-G20.pdf>>.

¹¹ *Supra* 9, p.13.

2016	China	Innovative, Invigorated, Interconnected and Inclusive Global Economy.
2015	Turkey	Inclusiveness, Implementation, and Investment for Growth.
2014	Australia	Global growth and job opportunities. Creation of the Global Infrastructure Hub.

China will further develop the work of G20’s Global Infrastructure Initiative, which was launched in 2014 under Australia’s presidency to grow the global pipeline of quality, bankable infrastructure projects.¹² Traditionally, the G20 has seen infrastructure investment as a crucial means to restore global economic growth. China has promised to continue to promote private investment for infrastructure by exploring diversified and innovative financing approaches, developing market-oriented financial instruments, including equity instruments, Public Private Partnerships (PPPs), capital markets, and attracting institutional investors.

The OECD’s work in infrastructure spans almost two decades. Its advice targets policy makers of OECD Member countries and is embedded in numerous documents of various types. Some are high-level recommendations, frameworks and principles backed by the clout of the entire OECD Council, while others are research or working papers, and implementation tools, such as checklists and indicators. Some are in collaboration with other organisations, such as the World Bank Group. The OECD submissions to the G20 range from informal sharing of draft papers to more formal ones endorsed jointly by the OECD and G20 Leaders.¹³

Considering these interactions with the G20, the OECD is in a privileged position to influence the thinking and action of G20 countries. OECD inputs can play a key role in developing the G20’s enhanced SDG-inspired agenda. The G20’s performance in aligning its course with the SDG agenda will in turn profoundly impact country implementation of endorsements and commitments made under the three 2015 global milestones described below.

Box 2: G20/OECD	
OECD	G20
<p>Mission The OECD, comprised of 34 Member countries and five key partners (Brazil, China, India, Indonesia and South Africa), seeks to promote policies that will improve the economic and social well-being of people around the world.</p>	<p>Mission The G20 is a forum of 19 countries plus the European Union, representing both developed and emerging economies whose size or strategic importance gives them a particularly crucial role in the global economy. Its role is to co-ordinate policies at the international level and to make globalization a smoother, more harmonious and sustainable process.</p>
<p>Established in 1961</p>	<p>Established in 1999 at the Finance Ministry level with G20 Leaders Summits occurring since 2008</p>

¹² The Global Infrastructure Initiative was adopted under the Finance track of the Australian G20 presidency, building on work by previous G20 Presidencies. For more detail see: Australia G20, Policy Note “Increasing investment in infrastructure” (2014) <http://www.g20australia.org/sites/default/files/g20_resources/library/Infrastructure_investment_policy_note.pdf>.

¹³ Such as the OECD/G20 Principles for Corporate Governance (2015), <<http://www.oecd.org/corporate/principles-corporate-governance.htm>>.

<p>What does it do? OECD's work is based on continued monitoring of events in Member and non-Member countries, and includes regular projections of short and medium-term economic developments. The OECD Secretariat collects and analyses data, after which committees discuss policies based on this information, the OECD Council makes decisions, and then governments implement recommendations.</p>	<p>What does it do? The G20 declared itself as “the premier global forum for our international economic cooperation”. While effectively coordinating a global stimulus in 2008-2010, it has become a global forum to discuss international financial and monetary policies, the reform of international financial institutions and world economic development, among other things.</p>
<p>Share of global... Trade: 60 % World Population: 18 %</p>	<p>Share of global... Trade: 80 % World Population: 66 %</p>
<p>The OECD is an active partner of the G20. Its main contributions to the G20 can be found at: http://www.oecd.org/g20/OECD-Contributions-to-G20.pdf.</p>	

OECD and Sustainable Development

The evolving global sustainable development agenda

From the 1990’s onward, the idea of sustainable development gradually became embedded in the way intergovernmental organizations, national governments, and business enterprises work; it also inspired advocacy of civil society organizations and labor groups, and analysis by influential think tanks. Significant events and initiatives that shaped the concept of sustainable development over the last two decades include the original Rio Summit (1992), the Millennium Development Goals (2000), the Johannesburg or Rio+10 Summit (2002), the Monterrey Consensus on Financing for Development (2002), and the Rio+20 Summit (2012). 2015 saw three key milestone events in sustainable development mentioned above. By now, stakeholders can reasonably expect the OECD to also be conversant in the environmental, social and governance (ESG) dimensions of sustainability (see Box 4) in its operations. This means, among other things, taking broader perspectives of all stakeholders, such as business, local governments, taxpayers, users, communities, women, the poor, and the vulnerable, and reflecting their concerns with respect to both positive and negative impacts of infrastructure projects on the environment and society.

OECD’s evolving sustainable development work

The OECD outputs and programs dealing with sustainable development all stress the paramount importance of policy coherence across different work streams to achieve sustainable development.

Ahead of the SDGs, the OECD initiated an “ambitious policy programme” called the *New Approaches to Economic Challenges* (NAEC), first published in 2012, and “synthesized” in 2015. This large scale work attempts to integrate economic and non-economic considerations in a policy setting. The OECD describes its motivation as follows:

Policy analysis prior to the crisis was often framed in terms of increasing output through supply-side reforms, and improving market efficiency. Growth was often considered too narrowly as an end, rather than a means to improve societal well-being. Moreover, the prioritisation of efficiency over other criteria and a silo approach in policy making tended to underplay issues such as inequality and environmental harm, which were often treated as possible secondary effects to be addressed at a later stage. NAEC makes a strong call to have an integrated approach that considers all these elements at the outset of policy analysis, avoiding compartmentalised approaches. It brings concepts such as fairness and redistribution

back to the centre of the policy debate, and considers the impacts of different policy options on well-being.”¹⁴

In 2012, the same year in which NAEC was initiated, the OECD *Strategy on Development* also observed the need to consider “well-being among the population; equity of income and opportunities, as a catalyser for attaining most of the other development goals; inclusive green growth as an essential component of sustainable development; security (conflict and fragility), governance and accountability, justice, social capital, voice and participation and empowerment.”¹⁵

The OECD addressed the SDGs specifically in two new documents published in 2015 and early 2016 – *Framework for Policy Coherence for Sustainable Development (PCSD), a Self-Assessment Tool to Design, Implement and Track Progress on Mutually Supportive Policies for Sustainable Development* (2015),¹⁶ and *Towards an OECD Strategic Response to the Sustainable Development Goals* (January 2016).¹⁷ Policy coherence ranks high again on this agenda. The OECD highlights the importance of policy coherence for the achievement of the SDGs by making it the first of four action points within its strategic response:

“Action Area 1: Apply an SDG lens to the OECD’s programs of work, and to existing OECD strategies. . . . An effort to mainstream the SDGs across the OECD’s work will also see existing thematic strategies (e.g. innovation strategy, skills strategy, green growth strategy...) being revisited to make them ‘SDG-aware’, ensuring that they support the achievement of the SDGs where relevant.”¹⁸

As for its role in supporting the work of the G20, the OECD recognizes the G20 can ‘[foster] a broader approach to policy coherence for development.’ In its 2014 progress report on the implementation of its Strategy on Development, the OECD stated that ‘the work of G20. . . can add value by facilitating policy coordination across different G20 work streams given their overall impact on developing countries.’¹⁹

Review of OECD Outputs on Infrastructure and Sustainable Development

To respond to the question of whether the OECD’s infrastructure policy advice to the G20 is coherent with sustainable development and the SDGs, this report sought answers in 14 key OECD documents on infrastructure investment and development (the Core Documents); four documents on sustainable

¹⁴ OECD, “Final NAEC Synthesis Report,” para 6 (2015) <<http://www.oecd.org/mcm/documents/Final-NAEC-Synthesis-Report-CMIN2015-2.pdf>>.

¹⁵ OECD, “Strategy on Development,” para 18 (2012), <<http://www.oecd.org/pcd/OECD%20Development%20Strategy.pdf>>.

¹⁶ OECD, “Framework for Policy Coherence for Sustainable Development (PCSD), a Self-Assessment Tool to Design, Implement and Track Progress on Mutually Supportive Policies for Sustainable Development” (2015) <<https://www.oecd.org/pcd/TOOLKIT%20FRAMEWORK%20FOR%20PCSD.pdf>>.

¹⁷ OECD, “Towards an OECD Strategic Response to the Sustainable Development Goals” (2016) <<https://www.oecd.org/dac/Consultation-draft--Outline-OECD-strategic-response-to-the-SDGs.pdf>>.

¹⁸ OECD, “Consultation Draft - Towards an OECD Strategic Response to the Sustainable Development Goals,” para. 19 (Feb 2016) <<https://www.oecd.org/dac/Consultation-draft--Outline-OECD-strategic-response-to-the-SDGs.pdf>>.

¹⁹ OECD, “Looking Ahead to Global Development Beyond 2015: Lessons Learnt from the Initial Implementation Phase of the OECD Strategy on Development” para.23 (2014) <<http://www.oecd.org/mcm/C-MIN%282014%2913-ENG.pdf>>.

development or the SDGs; and others specifically named (see Box 3).²⁰ These documents were chosen from a large pool of OECD documents using several filters, including thematic coverage, document type, intended audience, and publication year.

The authors recognize that a vast array of documents concerning infrastructure exists within the universe of the OECD's library of work, and that findings and conclusions of this report may have differed if another set of core documents were identified following a different logic and filtering process.²¹

The authors initially used the key Chinese G20 agenda items (unlocking additional investments in infrastructure, in particular by long-term investors; developing infrastructure; and aligning ongoing work streams with the SDG-agenda) to sort documents. These agenda items correspond to the following thematic areas of the OECD's work streams:

- (i) investment, particularly long-term investment;
- (ii) modalities of infrastructure development; and
- (iii) policy coherence, sustainable development, SDGs.

To give more granularity, the 'investment' theme was divided into two sub-themes to match the G20 work agenda: 'investment policies and strategies', and 'long-term investments.' Under the 'modalities of infrastructure development' the authors chose 'procurement' and 'PPPs' since they are important modalities of infrastructure with specific risks. While procurement does not appear in China's G20 agenda, it was included to draw attention to the importance of public procurement to infrastructure development. After applying these thematic filters, the authors further narrowed down the number of the OECD documents so that, for each thematic area, a hierarchy of content can be shown (to the extent possible), from a high-level overview, or normative or prescriptive content, to practical guidance. (Box 3 is organized in accordance with this perceived hierarchy of documents.) In the selection process, preference was given to documents released over the last five years. Some of the Core Documents are explicitly intended for the G20, while others represent ongoing work under the infrastructure programme of work.

For a summary of each Core Document reviewed, and the authors' evaluation of each, see Annex 1.

²⁰ Many additional OECD documents were reviewed. These include the OECD MNE Guidelines, the G20/OECD Principles for Corporate Governance, a range of documents around integrity and anti-corruption in infrastructure projects, as well as sector-specific documents on infrastructure (such as water, telecommunications, energy, etc).

²¹ For example, the authors are aware that OECD published work that explains how economic and sustainability considerations can be integrated, such as internalizing externalities. But this did not form part of the Core Documents, as it exists outside the body of infrastructure work (it was part of the programme of work of the Environmental Directorate); moreover, the authors did not find such work cross-referenced in the Core Documents. Had such work been included in the Core Documents, the findings and conclusions of the report could have been different.

Box 3 OECD Documents Reviewed

Investment		Category Sub- Category Frame- works	Modalities of Infrastructure Development	
Investment Policies and Strategies	Long Term Investors		Public Procurement	PPPs
Policy Framework for Investment (2015)		Principles	OECD Report to G20 Finance Ministers and Central Bank Governors: Towards a Framework for the Governance of Public Infrastructure (2015)	
	G20/OECD High-level Principles on Long-Term Investment Financing by Institutional Investors (2013)		Recommendation on Public Procurement (2015)	OECD Principles for the Public Governance of Public-Private Partnerships (2012)
		Reports		OECD Principles for Private Sector Participation in Infrastructure (2007)
G20/OECD Report on G20 Investment Strategies Vols1-2 (2015)	Report on Effective Approaches to Support Implementation of the G20/OECD High-level Principles on Long term Investment Financing by Institutional Investors (2014)			Going Green: Best Practices for Sustainable Procurement (2015)
Fostering Investment in Infrastructure (2015)	Private financing and government support to promote long-term investments in infrastructure (2014)			
OECD/WB Stock Taking of Selected Policy Indicators On The Enabling Environment for Infrastructure Investment (2015)	G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors (2014)	Checklists/ Indicators		WBG/OECD Project checklist for public-private partnerships (2015)

Sustainable Development
OECD Strategic Response to the SDGs (February 2016)
Framework for Policy Coherence for Sustainable Development (2015)
New Approaches to Economic Challenges (2012; synthesized in 2015)
OECD Strategy on Development (2012)

Having selected the Core Documents, the authors posed five research questions, adapted from the five levels of policy coherence identified in recent OECD advice to countries on how to achieve policy coherence for sustainable development (*Framework for Policy Coherence for Sustainable Development: A Self-Assessment Tool to Design, Implement and Track Progress on Mutually Supportive Policies for Sustainable Development (PCSD) (2015)*).²² Following this OECD definition

²² OECD, “Framework for Policy Coherence for Sustainable Development” figure 4, p.22, <<https://www.oecd.org/pcd/TOOLKIT%20FRAMEWORK%20FOR%20PCSD.pdf>>. Figure 4. Five complementary levels of coherence for implementing the Post-2015 Agenda: 1. Coherence between global goals and national contexts; 2. Coherence among international agenda and processes; 3. Coherence between economic, social and environmental policies; 4. Coherence between different sources of finance; and 5. Coherence between diverse actions of multiple actors and stakeholders.

of policy coherence, the authors modified the original five levels of coherence and identified the following five possible levels of coherence, which are relevant for this research:

- Coherence with global sustainable development goals embodied in key international agendas and processes
- Coherence with countries' own aspirations on sustainable development
- Coherence between economic, social and environmental policies
- Coherence with the OECD's own position on sustainable development
- Coherence with initiatives and actions of multiple external actors and stakeholders

The five levels are conceptually useful in breaking down the concept of coherence. However, a comprehensive review of all five levels against the selected OECD documents would have been outside the scope of this paper; for example, a review of all global and country commitments against the OECD documents would not have been possible. With this limitation in mind, the five levels above were translated into the following research questions:

1. Has the OECD adequately aligned its infrastructure investment and development work with sustainable development? Did it anticipate the adoption of the SDGs in order to prepare its Members and other G20 countries to meet their commitments to sustainable development?
2. Does the OECD enable its Members and other G20 countries to forge their own paths on infrastructure development, informed by best available advice? Is this advice driven by a vision of infrastructure that advances the SDGs?
3. How does the OECD define an 'enabling environment' for infrastructure investment and development? Do environmental and social indicators appear alongside economic indicators?
4. How does the OECD address sustainable development in relation to infrastructure investment and development? How are responsible business conduct and ESG considerations (as embodied in the *OECD Guidelines for Multinational Enterprises*, and the *Principles for Corporate Governance*) explained in the context of the infrastructure theme?
5. Is OECD advice to G20 member countries informed by external and stakeholder initiatives, research, evaluations and lessons learned on infrastructure and sustainable development?

The Core Documents were qualitatively analysed using these five research questions. In addition, the four sub-thematic areas (listed above) were reviewed separately.

Findings

Findings on Research Questions

OECD's evolving infrastructure advice

The Core Documents reviewed in this research indicate that, initially, the OECD directed substantial resources to long-term financing and PPPs, particularly the private sector role in PPPs.²³ The retreat of banks from infrastructure projects following the 2008 global financial crisis triggered a frantic search for new sources of long-term financing. This likely prompted the OECD to invest considerable resources to promoting long-term financing as well as encouraging private sector participation in infrastructure projects to ease the near-term burden on public finances and government generally.

OECD outputs over recent years suggest it is becoming more mindful of the public governance aspects of infrastructure, such as different modalities to develop infrastructure, factors for decision-making, fiscal management of infrastructure, regulation and active management of PPPs, transparency and accountability, integrity, and anti-corruption. The OECD is also providing concrete implementation tools, such as checklists and indicators, either on its own or in collaboration with the World Bank and others.²⁴ As a result, an earlier emphasis on the private sector as active investors and responsible partners in PPPs appears to be overtaken by later advice that advocates for more active public sector management and oversight in infrastructure development.

With this general trajectory of OECD work in mind, the following sections summarise responses to the five research questions about different aspects of policy coherence.

Question 1

Has the OECD adequately aligned its infrastructure investment and development work with sustainable development? Did it anticipate the adoption of the SDGs in order to prepare its Members and other G20 countries to meet their commitments to sustainable development?

Building on two decades of global commitments and achievements on sustainable development, the SDGs ushered in a new era that recognizes infrastructure as an explicit component of sustainable development. SDG 9 calls for “quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure. . . with a focus on affordable and equitable access for all.”²⁵

The Core Documents treat sustainable development unevenly. Most of the Core Documents addressed to the G20 – particularly the G20 finance ministers and central bank governors -- lack any significant sustainable development content. Conversely, none of the four OECD documents and programs on sustainable development reviewed addresses infrastructure in any level of detail. (See Box 3.) The OECD does not address or anticipate the SDGs, especially Goal 9, anywhere in the Core Documents, including those recently submitted to the Turkish G20, which took place two months after the SDGs were adopted. The OECD has an established programme of work on green infrastructure²⁶, but none

²³ As stated by OECD in its 2015 Report to G20 Finance Ministers and Central Bank Governors: *Towards a Framework for the Governance of Public Infrastructure*: “Up to now, much of the debate on infrastructure has focused directly on the financing challenges – how to raise funding for infrastructure projects, by using national levers and accessing international markets – whereas the broader public governance dimension has been neglected” p.1, sec.2 <<https://www.oecd.org/gov/budgeting/Towards-a-Framework-for-the-Governance-of-Infrastructure.pdf>>.

²⁴ See for example the WBG/OECD Project checklist for public-private partnerships (2015) <http://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/documents/global_checklist_ppp_g20_investmentinfrastructure_en_2014.pdf> or the G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors (2014) <<https://www.oecd.org/daf/fin/private-pensions/G20-OECD%20Checklist%20on%20Long-term%20Investment%20Financing%20Strategies.pdf>>.

²⁵ UN, “Sustainable Development Knowledge Platform – Goal 9” (2015) <https://sustainabledevelopment.un.org/?menu=1300>

²⁶ For example, “Mapping Channels to Mobilise Institutional Investment in Sustainable Energy” (2015) <http://www.oecd.org/environment/cc/mapping-channels-to-mobilise-institutional-investment-in-sustainable-energy-9789264224582-en.htm>;

“Policy Guidance for Investment in Clean Energy Infrastructure” (2015) <http://dx.doi.org/10.1787/9789264212664-en>;

“Institutional Investors and Green Investments: Selected Case Studies” (2013) <http://dx.doi.org/10.1787/5k3xr8k6jb0n-en>;

“The Role of Banks, Equity Markets and Institutional Investors in Long-term Financing for Growth and Development” (2013) <http://www.oecd.org/daf/fin/private-pensions/G20reportLTFinancingForGrowthRussianPresidency2013.pdf>; and

of this work is reproduced or cross-referenced in the Core Documents, which treat green infrastructure as a niche sector. This serious partitioning of the OECD outputs does not encourage the G20's nascent efforts to integrate sustainable development with the investment, growth and infrastructure tracks of work.

Naturally, the newest OECD efforts on the SDGs (*OECD Strategic Response to the SDGs* (2016) and *Framework for Policy Coherence for Sustainable Development* (2015)) cannot be expected to have influenced any of the Core Documents, as many were released in conjunction with the most recent G20 Summit in Ankara in November 2015. The forthcoming G20 Summit in China will be the first Summit to address the SDGs. On the other hand, the 2000 Millennium Development Goals are well established, NAEC was initiated four years ago, the lead time for the SDGs was at least three years, and the OECD has been developing a Framework Strategy on Development since 2012.²⁷ Why did the OECD produce so many documents on infrastructure, many for the G20, which seemingly are disconnected from sustainable development, without anticipating the global interest in SDGs implementation, and in the absence of a solid direction on the OECD's overall strategy?

The tight seal that separates the OECD's sustainable development work from its infrastructure activities is most likely a reflection of institutional silos within the organization. The Policy Coherence for Development (PCD) Unit in the Office of the OECD Secretary-General leads development work, separately from the infrastructure program staffed by financial sector specialists. These two substantive areas have remained quite separate, in the same way working groups are arranged within the G20: the G20 keeps the development track (of Sherpas) strictly apart from that of infrastructure investment (dominated by finance ministries and central banks).

Reportedly, the G20 finance ministers and central bank governors on the IIWG refuse to integrate sustainable development goals into their purview. Instead, the G20 appears to relegate sustainable development issues to the less influential Sherpa track. The OECD staff members who commented on this research stressed the "specific constraints within which the OECD is operating when contributing to the G20 (country-driven process, complex political environment, very specific terms of reference set by members for our contributions, etc.)".²⁸ This seems to result in a narrow work programme, based on traditional (and outdated) approaches to promotion of infrastructure investment. However, there is no way for those outside the relationship to know exactly how it works.

These constraints, if true, undoubtedly render engagement with the G20 finance ministers and central bank governors on sustainable development particularly challenging. The rotating presidency of the G20 with short-term agendas that constantly shift and adjust from year to year also complicates the lives of those who work with the G20. Nonetheless, it should also be noted that the OECD enjoys intimate ties with the G20. It publishes numerous reports for the G20 that are often co-branded with the G20, many of which are prominently packaged and disseminated for public consumption.²⁹

"G20/OECD Policy Note on Pension Fund Financing for Green Infrastructure and Initiatives" (2012), <http://www.oecd.org/daf/fin/private-pensions/S3%20G20%20OECD%20Pension%20funds%20for%20green%20infrastructure%20-%20June%202012.pdf>

Note that none of the foregoing submissions was directed to the IIWG (the fourth document was submitted as a contribution to the work of G20's Study Group on Financing for Investment, the predecessor to the IIWG).

²⁷ See details on OECD's website, at "The OECD Strategy on Development" <<http://www.oecd.org/development/oecd-strategy-on-development.htm>>.

²⁸ Email to one of the authors dated May 18, 2016.

²⁹ For example, "OECD Contributions to the G20, G20 Status Report" (2015), <www.oecd.org/g20>.

Importantly, the G20 countries have endorsed multiple international commitments on sustainable development and are now bound to implement their commitments. By not providing at least a menu of policy options for countries to embrace sustainable strategies for infrastructure investment and development, the OECD risks disregarding the sustainable development responsibilities and goals of its 34 Member countries and of those who are members of the G20 but not OECD Member countries; in fact it risks not serving the interests of the multilateral community.

At present it is unclear how the OECD will go about applying NAEC to the infrastructure sector, and whether it can play the role of bridging the G20's growth, investment and infrastructure track with its SDGs track. One OECD official interviewed for this report expressed hope that there will be cross-fertilisation between NAEC and advice to the G20. For such cross-fertilisation to occur, the G20, and more specifically, the IIWG, will have to demand it. Have Chinese officials not asked for such measures by requesting to streamline established work tracks with emphasis on the SDGs? Would such requests be taken seriously by the OECD and the IIWG?

Question 2

Does the OECD enable its Members and other G20 countries to forge their own paths on infrastructure development, informed by best available advice? Is this advice driven by a vision of infrastructure that advances the SDGs?

The OECD should be well aware that countries generally have a genuine interest in achieving an integration of economic and sustainability objectives through viable investments to promote access to all manners of infrastructure, for the benefit of citizens and businesses. To this end, OECD policy advice should be grounded in a solid vision of the role of infrastructure in sustainable development.

The *Policy Framework for Investment* (PFI) stands out for its balanced vision of infrastructure:

“Reliable and sustainable infrastructure enhances economic activity and contributes to poverty reduction by raising labour productivity, lowering production and transaction costs, as well as reducing social and environmental costs. In order to maximise the contribution of infrastructure to development goals, countries need to build comprehensive infrastructure strategies, support the involvement of low income population and other user groups throughout the planning and implementation phases, emphasise the crucial role of maintenance and sustainability in delivering results. . . .”³⁰

What types of infrastructure respond to this balanced vision? Surprisingly, the OECD does not seem to subscribe to the idea of sustainable infrastructure.³¹ Within the Core Documents, the OECD's comfort zone is the realm of economic infrastructure, defined as mass urban transport systems, sustainable housing, roads, water, energy, plus water and sewage and waste management.³² These may have been favoured due to the relative frequency of private sector participation in these areas.³³ A mention of the “sustainable” energy sector³⁴ without a similar qualifier relative to other types of

³⁰ See at: <<https://www.oecd.org/investment/investment-policy/Policy-Framework-for-Investment-2015-CMIN2015-5.pdf>> p.91.

³¹ See for example, the definition of “sustainable infrastructure” proposed in supra 7, p.31.

³² For example, this formulation is used repeatedly in the G20/OECD Report on G20 Investment Strategies (2015) <<https://www.oecd.org/g20/topics/financing-for-investment/G20-OECD-Draft-Report-on-Investment-Strategies.pdf>>.

³³ UNDESA, “Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?” (2016) <<https://sustainabledevelopment.un.org/content/documents/2288desaworkingpaper148.pdf>>.

³⁴ OECD, “Stock-Taking of Selected Policy Indicators on the Enabling Environment for Infrastructure Investment” p.11 (2015) <http://www.oecd.org/dev/Stocktaking-Infrastructure-Policy-Indicators-Paper.pdf>

infrastructure underscores the absence of sustainability factors from the OECD's main focus. Green infrastructure is treated in one publication as a separate niche sector.³⁵ The few mentions of infrastructure for disaster risk management come across as an afterthought.³⁶ Apart from passing remarks, the Core Documents examined for this report do not address "social" infrastructure, such as schools, hospitals, and prisons, which are less suited to PPPs.³⁷ Although OECD policy advice on the information communication technology (ICT) sector³⁸ exists, it does not seem to sit well with the traditional OECD infrastructure economic analysis. The overall picture is an incomplete one that does not match with a vision of infrastructure now desired by governments, businesses and citizens. The only consistent message across all the Core Documents is that long-term investments are needed to ensure good infrastructure development. Furthermore, this approach favours the investor over the interests of other stakeholders, as will be discussed under Research Question 3.

Countries in their implementation of national infrastructure development strategies and plans should be guided by the best available advice from around the world. To avoid a one-size-fits all approach, and advice from predominantly Western experience, countries should be offered a menu of policy options for all types of infrastructure, a diverse set of case studies, and a range of tools for policy makers' toolboxes, in addition to traditional macroeconomic tools (See Box 6). All of these interventions should be grounded in a vision of infrastructure that is coherent with the SDGs.

The latest *Toward an OECD Strategic Response to the SDGs* states:

"A new methodology is being piloted for members to benefit from the OECD experience as an integrated policy innovation lab, where evidence-based analysis is combined with strategic policy thinking. The methodology recognises that there is no "one-size-fits-all" approach to national long term and strategic planning but common principles include: nurturing a whole-of-government and inclusive policy making approach; capacity building in strategic planning methods; and, the use of a mix of foresight methods with economic and wellbeing analysis."³⁹

It remains to be seen whether the change predicted by this new work will positively enhance the OECD's effectiveness to engage with countries' own sustainable development aspirations through infrastructure.

Question 3

How does the OECD define an 'enabling environment' for infrastructure investment and development? Do environmental and social indicators appear alongside economic indicators?

Any OECD analysis of an enabling environment presents an opportunity to tie in economic, environmental and social considerations to encourage a mix of policy measures that would attract infrastructure investment that contributes to sustainable development. But OECD documents on indicators (*Stock-taking of Selected Policy Indicators in the Enabling Environment for Infrastructure Investment* (2015)⁴⁰) and checklists (*Project Checklist for Public-Private Partnerships* (2015)⁴¹), both

³⁵ Ibid.

³⁶ Infrastructure for disaster risk management is mentioned as an area in need of improvement, in the G20 submission on Investment Strategy (2015) <<https://www.oecd.org/g20/topics/financing-for-investment/G20-OECD-Draft-Report-on-Investment-Strategies.pdf>>.

³⁷ Supra 33.

³⁸ SDG No.9 explicitly mentions the importance of the ICT sector, targeting universal and affordable access to the Internet by 2020.

³⁹ See at: <https://www.oecd.org/dac/Consultation-draft--Outline-OECD-strategic-response-to-the-SDGs.pdf>, Annex, Para 20.

⁴⁰ See at: <http://www.oecd.org/dev/Stocktaking-Infrastructure-Policy-Indicators-Paper.pdf>.

prepared for the G20, focus primarily on increasing the volume of investment in infrastructure. The sustainable development perspective is either missing or comes across as an afterthought. The indicators miss the opportunity to incorporate environmental, social and governance factors as enablers of responsible investment in infrastructure.

Instead of setting forth a holistic set of themes for an enabling environment for infrastructure investment, the OECD concluded: “Four key themes likely to affect levels of private investment in infrastructure are identified: (i) investment policy openness and predictability; (ii) infrastructure markets; (iii) financial framework; and (iv) public governance.”⁴²

In order to arrive at possible indicators that elaborate these four key themes, the OECD reviewed numerous external policy indices. Of those reviewed, only the World Bank’s Country Policy and Institutional Assessment (CPIA)⁴³ contains an important social indicators cluster: “policies for social inclusion and equity”. This cluster covers policies on gender equality, equity of public resource use, building human resources, social protection and labour, and policies and institutions for environmental sustainability.⁴⁴ Notwithstanding this specific indicator, OECD analysis focused on the rest of the CPIA criteria, particularly the “Structural Policies” cluster as relevant for the financial and business regulatory environment. Many of the indicators under this cluster echo the World Bank’s flawed Doing Business Report⁴⁵, which ranks countries based on removal of regulatory burden on investors without properly assessing the societal benefits of effective regulation.

Consistent with OECD attention to minimising investor burdens, the theme of “investment policy openness and predictability” and the discussion of indicators tends to focus on conditions that favour the investor,⁴⁶ broadly consistent with the findings from the Investment Policy section of the OECD *Policy Framework for Investment*. There are no discussions reflecting ongoing debates that question the desirability of an almost exclusively investor-centric approaches that could jeopardize or harm the citizens of the country in which an investment is made.^{47 48}

The OECD does produce analyses of the enabling environment for clean energy⁴⁹ but this sits under a stream of work separate from economic infrastructure and is not the focus of this report. Findings on

⁴¹ See at: <https://www.oecd.org/g20/topics/development/WBG-OECD-Checklist-for-PPP-Projects.pdf>.

⁴² Supra 40, p.9.

⁴³ According to the World Bank, CPIA “assesses the quality of a country’s present policy and institutional framework. “Quality” refers to how conducive that framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance.” World Bank, “Country Policy and Institutional Assessments” p.1 (2010), <http://www.worldbank.org/ida/IRAI/2010/CPIA-criteria-2010.pdf>.

⁴⁴ World Bank, “CPIA policies for social inclusion/equity cluster average” <http://data.worldbank.org/indicator/IQ.CPA.SOCI.XQ>.

⁴⁵ World Bank, “Doing Business”, <http://www.doingbusiness.org/>.

⁴⁶ OECD/WB, “Stock Taking of Selected Policy Indicators On The Enabling Environment for Infrastructure Investment” p.10 *et seq.* (2015) <http://www.oecd.org/dev/Stocktaking-Infrastructure-Policy-Indicators-Paper.pdf>. Examples include: the importance of the government’s signal to investors to maintain the credibility and consistency of the country’s regulatory framework. In the process, OECD calls for the overall quality of the institutional and legal environment (including as pertains to contract enforcement, contract renegotiation provisions and rule of law), and availability of investor protection and dispute settlement, among others.

⁴⁷ For example: Shrybman and Sinclair, “A Standard Contract for PPPs the World Over: Recommended PPP Contractual Provisions Submitted to the G20” (2016) <https://us.boell.org/2016/04/11/standard-contract-ppps-world-over-recommended-ppp-contractual-provisions-submitted-g20>; Bernasconi-Osterwalder, “Rethinking Investment-Related Dispute Settlement” (2015), <https://www.iisd.org/itn/2015/05/21/rethinking-investment-related-dispute-settlement/>; also see supra 33.

⁴⁸ Simultaneously with the UNGPs (see Box 5), the Principles for Responsible Contracts, Integrating the Management of Human Rights Risks into State-Investor Contract were also submitted to the UN. The Principles contain ten principles to help integrate the management of human rights risks into contract negotiation on investment projects between host state and business investors. See at: <http://www.ohchr.org/Documents/Issues/Business/A.HRC.17.31.Add.3.pdf>

⁴⁹ Such as: OECD, “Overcoming Barriers to International Investment in Clean Energy” (2015), <http://www.oecd.org/fr/publications/overcoming-barriers-to-international-investment-in-clean-energy-9789264227064-en.htm>.

regulatory obstacles to green infrastructure are specific only to this area; it appears that the OECD sees little merit in considering economic and green infrastructure in an integrated manner. Much of the green and climate infrastructure work resides in the OECD Environmental Directory.

Box 4 ESG Definition

According to the UN Principles for Responsible Investment (UNPRI), examples of environmental, social and governance (ESG) factors are numerous and ever-shifting. They include:

- Environmental:
 - climate change
 - greenhouse gas (GHG) emissions
 - resource depletion, including water
 - waste and pollution
 - deforestation
- Social:
 - Working conditions, including slavery and child labour
 - Local communities, including indigenous communities
 - Conflict
 - Health and safety
 - Employee relations and diversity
- Governance:
 - Executive pay
 - Bribery and corruption
 - Political lobbying and donations
 - Board diversity and structure
 - Tax strategy

See more at: <https://www.unpri.org/about/what-is-responsible-investment>
and UNEP FI and WBCSD: Translating environmental, social and governance factors into business value at:
<http://www.unepfi.org/fileadmin/documents/translatingESG.pdf>

Box ends

It is also curious that there are no mentions of ESG factors in the indicator mix as enablers of responsible foreign direct investment (FDI). Policy indicators for an enabling environment for infrastructure should highlight government capacity for ESG risk management as well as responsible business conduct, as part of a broader mix of policy considerations. Responsible investment can benefit both the home state that is exporting capital and the recipient state. Home states with good policy and regulatory frameworks for responsible business conduct can often urge receiving states to favour its investors over investors from other countries with no established practice of responsible investment. Such a narrative is common with trade missions and investment summits of certain countries.⁵⁰ Receiving states on the other hand can carefully screen foreign investors to ensure that

⁵⁰ As seen at the 2014 US-Africa Summit.

their practices are compatible with their policy and legal frameworks for responsible business conduct. These states may privilege investors with a proven track record of responsible investing.

Promoting policy and legal frameworks predicated on ESG factors could prevent countries from engaging in a “race to the bottom,” in which those that display the least degree of concern for responsible investment will potentially attract the most FDI. OECD policies should encourage states to display consistent concern for the ESG factors and responsible business conduct so that they will be attractive destinations to responsible investors in infrastructure.

Question 4

How does the OECD address sustainable development in relation to the G20's infrastructure investment and development strategies? How are issues concerning responsible business conduct and environmental, social and governance (ESG) considerations (as embodied in the OECD Guidelines for Multinational Enterprises, and the Principles for Corporate Governance) explained in the context of the infrastructure theme?

The OECD's track record is mixed when it comes to the areas probed through the above research questions. A few OECD publications promise sustainable development through infrastructure projects. The Preamble to the *OECD Principles for Private Sector Participation in Infrastructure*, circa 2007 (not directed at the G20) declares:

“The objective of the OECD Principles. . . is to assist governments that seek private sector involvement in infrastructure development, in attracting investment and mobilising private sector resources for the benefit of society and achieving sustainable development.”⁵¹

Throughout the document, the need to integrate environmental and social considerations in economic analyses is highlighted (see Box 5). The above Principles also mention the responsibility to respect human rights of individuals affected by business activities, in a manner consistent with the host government's international obligations and commitments (predating the UN Guiding Principles).⁵²

Box 5: The UN Guiding Principles on Business and Human Rights

The UN Guiding Principles on Business and Human Rights are a set of principles for States and companies to prevent, address and remedy negative human rights impacts caused by or associated with business operations.

The UN Guiding Principles are grounded in recognition of:

- a. States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms
- b. The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights
- c. The need for rights and obligations to be matched to appropriate and effective remedies when breached

The UN Guiding Principles were unanimously endorsed by the UN Human Rights Council in 2011.

⁵¹ Preamble, p. 10.

⁵² Principle 9, p.19 and principle 24, p.29 <<http://www.oecd.org/daf/inv/investment-policy/38309896.pdf>>.

Box 6: Integrating Environmental and Social Sustainability Dimensions in Value for Money / Cost Benefit Analysis

The *OECD Principles for Private Sector Participation in Infrastructure* (2007) aim to assist governments in achieving sustainable development, among other things. They even go so far as to mention that: “The choice between public and private provision of infrastructure services should be guided by an objective assessment of what best serves the public interest – that is, supports the common well-being. Factors to be taken into account include the current levels of service delivery and the condition of assets, affordability to households and companies, coverage of networks, operational efficiency, long-term maintenance of assets as well as social and environmental sustainability.” (Preamble, p.10) These statements confirm that achieving value for money in infrastructure should take a broad range of costs into account, as well as benefits to society.

A decision on what modality of infrastructure development to pursue should benefit from analyses and tools of multiple disciplines, beyond macroeconomics. This decision should be informed by sectoral assessment, regional impact assessment, cumulative impact assessment, or strategic assessment, all of which are macro-level tools applied at a regional or national level to inform the national decision making process. They can help decision makers identify the broad range of environmental and social costs and benefits of various development options.

Environmental and social costs of infrastructure development are well known. They include costs which are often not identified in the process of project identification and preparation, such as the costs to those evicted from land allocated for project use, or costs of a foreseeable water pollution or shortage for communities. An environmental and social impact assessment (ESIA) should record the potential impacts of proposed project actions, and suggest mitigation measures. These measures need to be costed out and incorporated into the project budget, so that mitigation actions and financial responsibility rest clearly with the implementing agency, the winning bidder or concessionaire, as the case may be. If these steps are missed, the cost to mitigate problems that surface later, including project delays and closures from demonstrations and unrests, could be passed on to users via rate hikes or the government to absorb, and in either case, citizens and taxpayers act as the ultimate backstop. These negative outcomes go against the notion of good management and oversight of infrastructure, as well as value for money.

There is a question of when to use macro-level as opposed to project-specific analyses and tools. When a public agency is still evaluating modalities of infrastructure development, the granular project information, such as the specific project location and affected communities, may not yet be available. This means a detailed ESIA as an input to the initial cost benefit analysis may not be practical. However, the series of macro-level assessment tools listed above, complemented by rapid assessments where necessary, can be used to identify the broad range of costs upfront, to be followed by a more detailed assessment once the modality is identified and a concrete project moves forward.

When a private sector option, say a PPP, is chosen, environmental and social risks of the PPP should not be allocated mechanically to the private sector and forgotten. Each of the public and private sector actors has distinct responsibilities for addressing these risks. OECD’s public governance advice must take the more balanced approach already demonstrated in its guidance to the private sector, as described at the top of this Box. And G20 policy makers should not be left with the impression that environmental and social costs of infrastructure development are not part of the value for money proposition or cost benefit analysis.

One of the OECD’s flagship documents is the *Policy Framework for Investment* (PFI), a catalogue of twelve relevant policy areas for investment that is updated periodically, most recently in 2015 (not directed at the G20). This latest version of the PFI contains two chapters on infrastructure and

responsible business conduct, both of which provide well-rounded policy advice.⁵³ The infrastructure chapter skillfully adapts the concept of responsible business conduct to infrastructure, by presenting more balanced perspectives of the public and private sector responsibilities, as well as stakeholders and communities, and treats concepts such as value for money, affordability, cost-benefits analysis, risk allocation and management not just from an economic or fiscal management point of view.

In contrast, the narrowing of the scope of the work presented to the G20, in general, and the G20 finance ministers and central bank governors in particular, is puzzling. These are OECD contributions on the topics of long-term investment (2013),⁵⁴ the Governance of Public Infrastructure,⁵⁵ and the investment strategies submitted to the G20 (2015),⁵⁶ all of which contained the least amount of content on sustainable development, as well as responsible business conduct considerations.

The OECD's treatment of the governance of public infrastructure theme signals a deliberate change in the direction of its work:

“Up to now, much of the debate on infrastructure has focused directly on the financing challenges – how to raise funding for infrastructure projects, by using national levers and assessing international markets – whereas the broader public governance dimension has been neglected. . . the quality of public governance correlates with public investment and growth outcomes. . . While new forms of risk sharing can increase overall efficiency and effectiveness, transferring risk to the private sector comes at a price. . . The answer will, in its broadest sense, focus on good governance in terms of good planning, budgeting, project assessment and evaluation (throughout the project cycle), transparency, accountability and regulation.”⁵⁷

Having signaled such a change of direction, the OECD generally shifted its attention from the private sector to the public sector's role in infrastructure. In the process, however, the OECD Report to G20 Finance Ministers and Central Bank Governors: *Towards a Framework for the Governance of Public Infrastructure* takes an unexpected turn. It departs from the balanced mix of ESG considerations observed in the PFI and the OECD *Principles for the Public Governance of Public-Private Partnerships* (2012). There is no emphasis on policy coherence toward sustainable development. Instead, the reader learns about the virtues of public governance concepts with a strong focus on the “G” or governance side of sustainability, which are important concepts, but with only superficial hints of the role that “E and S” or environmental and social sustainability plays in the process.

The overall signal from the OECD is that the G20 finance ministers and central bank governors need not encourage sustainable development and responsible business conduct in order to achieve the goal of better public governance of infrastructure.

Question 5

Is OECD advice to G20 member countries informed by external and stakeholder initiatives, research, evaluations and lessons learned on infrastructure and sustainable development?

⁵³ The authors do not hold the rest of the PFI in same regard as the two chapters mentioned here.

⁵⁴ G20/OECD. “High-level Principles on Long-Term Investment Financing by Institutional Investors” (2013) <<http://www.oecd.org/finance/private-pensions/G20-OECD-Principles-LTI-Financing.pdf>>.

⁵⁵ OECD, “Towards a Framework on Governance of Public Infrastructure” (2015) <<https://www.oecd.org/gov/budgeting/Towards-a-Framework-for-the-Governance-of-Infrastructure.pdf>>.

⁵⁶ OECD, “G20/OECD Report on G20 Investment Strategies” (2015), http://g20.org.tr/wp-content/uploads/2015/12/G20-Investment-Strategies-and-G20-OECD-Report-on-G20-Investment-Strategies_Volume-I.pdf, and http://g20.org.tr/wp-content/uploads/2015/12/G20-Investment-Strategies-and-G20-OECD-Report-on-G20-Investment-Strategies_Volume-II.pdf.

⁵⁷ Supra 55, p.1.

The OECD produces a sizable number of materials on infrastructure, directed at policy makers. But does it know whether its advice is effective and relevant for policy makers in a range of country circumstances and levels of development? Does the OECD have systems in place to learn internal lessons from its policy guidance?

How does the OECD keep track of policy makers taking up and implementing its policy recommendations? Policy uptake and implementation information appears to be gathered mainly through OECD country engagement and peer reviews but these interactions appear opportunistic and anecdotal rather than systematic.

The OECD websites do not include accessible written evidence of systematic monitoring, evaluation, and lessons learned from past policy advice on infrastructure. Of all the Core Documents reviewed, only one – *Fostering Investment in Infrastructure* - purports to be informed by lessons from past efforts. As a document that is meant to bridge empirical data and specific indicators on the enabling environment, this publication presented an opportunity to thoroughly research internal and external lessons learned. Surprisingly, it fails to do so. Instead, it weaves in a few country experiences and anecdotes, which form the basis of “key policy takeaways”.

Furthermore, staff authors of the OECD rely excessively upon the World Bank and its own institutional points of view, and do not give due weight to third party research findings. The result is that the OECD's analysis and policy advice to governments risks operating in a partial vacuum, informed almost entirely by its own internal research and largely closed to external views and evidence, including innovative ideas and constructive critiques of traditional approaches to infrastructure. If the OECD is not completely open to external viewpoints, how does it ensure its policy advice is innovative, cutting edge, and ahead of its peers?

Box 7: Other sources of data on infrastructure

While data on infrastructure is scarce, there are important independent sources of information that can hardly be ignored when dealing with the question of infrastructure.

Bent Flyvbjerg, professor at the University of Oxford, leads a research program that has produced strong-evidence based assessments of infrastructure mega-projects. Having studied 70 years of data, Flyvbjerg concludes that there is an “iron law of megaprojects”: they are almost invariably “over budget, over time, over and over again.” They are also, he adds, subject to the “survival of the unfittest,” with the worst projects getting built, instead of the best. OECD references Flyvbjerg’s research once, in *Towards a Framework for the Governance of Public Infrastructure (2015) (p.23)*, without drawing any observations. In fact, the OECD neither takes an explicit position on mega-projects nor examines properly the risks raised by Flyvbjerg's evidence-based work. In light of the G20’s explicit push for large infrastructure projects, this lack of constructive debate on the matter is an issue of concern.

It is true that data on infrastructure projects is scarce outside of the OECD too. Even though notable external country and institutional evaluations exist,⁵⁸ more data is needed on broad aspects of public service delivery. According to the World Bank’s Independent Evaluations Group, there is not a single PPP project with available data for all the public service delivery dimensions, “for instance, access, pro-poor aspects, and quality of service delivery.”⁵⁹ Consequently, “governments cannot assess how

⁵⁸ For example, the report of the Evaluation Department of the Government of the Netherlands (2013), and World Bank Group Support to Public-Private Partnerships: Lessons from Experience in Client Countries, fy02–12 (2014), both quoted in the DESA Working Paper entitled “Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?” (2016) http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf, supra 33.

⁵⁹ Ibid.

far PPPs benefited the poor”.⁶⁰ Another important issue is the lack of long-term evaluation. The World Bank Group’s evaluation on PPPs assessed the long-term performance of only 1.6 per cent of PPPs that the WBG supported.⁶¹ This poor state of data availability underscores the role the OECD could play in data gathering, particularly data on the social and environmental dimensions of infrastructure, as well as creating appropriate policy indices, as already noted above.

Findings on Thematic Areas

a. Investment

When the *Policy Framework for Investment* (PFI) was updated in 2015, OECD Ministers encouraged countries to use it as a reference for development cooperation, and particularly as a path towards the SDGs.⁶² Considering the chapters of the PFI on quality of the infrastructure and responsible business conduct, in particular, the OECD missed an opportunity to also recommend these two chapters for the G20’s path to the SDGs.

i. Investment Policies and Strategies

In connection with the Turkish G20 Summit, and under the mandate of the G20 finance ministers and central bank governors, the IIWG conducted a voluntary survey of existing investment strategy priorities of G20 countries. This mandate was tied to the G20 growth track. The survey results were analysed and reported by the OECD in a two-volume report called the *G20 Investment Strategies* (2015), which was agreed by the G20 Leaders at the Turkish Summit.⁶³ The report looked at “more than 300 measures” identified by 20 responding countries and the European Union, categorized into “facilitators” and “safeguards”, broadly in the areas of investment ecosystem, infrastructure, and SMEs. The “safeguards” include a reference to “responsible business conduct” though there is virtually no discussion on the topic, other than China understanding the term to mean improvement in property rights system. “Sustainable and clean energy – promoting ‘green’ investment” are designated as both a facilitator and a safeguard, and mentioned by several countries but with little further guidance or analysis. An earlier 52-page draft of the report dedicated only one small section on the topic of green investment.⁶⁴

Within this massive 400 page document, the OECD managed to insert one page’s worth of reflection entitled “Scope for Improvement”.⁶⁵ Among the twelve areas in need of improvement are “Ensuring fair practices, transparency and accountability, including through anti-corruption practices and responsible business conduct” and “Addressing further the necessity to promote green investment, including investment dealing with disaster risks.” There are no references to sustainable development or the SDGs in this list.

⁶⁰ Supra 33.

⁶¹ Ibid. This is mostly due to the fact that the Bank measures performance once financial resources are fully disbursed (when a project may not even be operational). If instead, the Bank measured performance of a project’s life cycle, it would discover among other things whether it contributed to the World Bank’s “dream” of lives free from poverty.

⁶² OECD, “Stock Taking of Selected Policy Indicators On The Enabling Environment for Infrastructure Investment” p.9 (2015) <http://www.oecd.org/dev/Stocktaking-Infrastructure-Policy-Indicators-Paper.pdf>.

⁶³ Supra 56.

The other two documents analysed under the investment policies and strategy sub-theme send a more discouraging signal. The shortcomings of “Fostering Investment in Infrastructure” have already been mentioned above. The other document entitled “Stock-Taking of Selected Policy Indicators for Infrastructure Investment” has also been referred to in the discussion on Research Question 3 above. The latter is largely focused on public governance and financial management aspects of infrastructure and investment.

⁶⁴ See at: <https://www.oecd.org/g20/topics/financing-for-investment/G20-OECD-Draft-Report-on-Investment-Strategies.pdf>, p.25.

⁶⁵ OECD, “G20/OECD Report on G20 Investment Strategies”, p.12.

This large-scale OECD work is a reflection of the G20 countries' own prioritization of issues they address in investment promotion. However, the OECD played a key facilitation role in the process, and should have had some flexibility to help shape the various dimensions of countries' investment strategies. The current result does not adequately help set the course for the G20 inquiry in integrating the investment, growth and infrastructure work plans with the SDGs.

Looking ahead, the OECD notes that next steps include additional data collection and analyses, as well as "member led identification and assessment of effective approaches, particularly where further progress is required."⁶⁶ These approaches sound promising, since these methods seem to work well for participating countries. Perhaps the OECD will also be able to offer key insights from the chapters of the PFI relating to infrastructure and responsible business conduct and to facilitate an active exchange of views among countries.

It should be added that the other two documents analysed for this study under the investment policies and strategy sub-theme send a more discouraging signal. The shortcomings of *Fostering Investment in Infrastructure* have already been mentioned above. The other document entitled *Stock-Taking of Selected Policy Indicators for Infrastructure Investment* has also been referred to in the discussion on Research Question 3 above. The latter is largely focused on public governance and financial management aspects of infrastructure and investment.

ii. Long-term Investment

For the past few years, the OECD has invested heavily in the long-term investment topic perhaps due to: (i) a general trend of diminishing public funding for infrastructure and corresponding increases by the private sector or through PPPs; (ii) banks moving away from financing infrastructure following the 2008 financial crisis; and (iii) the infrastructure shortage especially in emerging market and developing countries.

As a result, the OECD published many documents in this area, from principles to implementation documents, and this sub-theme enjoys the most logical and thorough treatment, including normative and implementation documents (see Box 3). Somewhere in the process, however, investment in infrastructure seems to have become a goal in and of itself, rather than a means to a sustainable outcome in infrastructure development.

As a general trend, attention to ESG dimensions is greater in the implementation documents than in the high level principles. While the *G20/OECD High-level Principles on Long-Term Investment Financing by Institutional Investors* (2013) barely mentions ESG, the *G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors* (2014) makes references to ESG throughout. However, the OECD does not explicitly promote responsible investment in the Core Documents. As a result, OECD policy guidance signals that due diligence with regard to environmental and social factors in long-term investment is voluntary and optional.⁶⁷

Indeed, the only infrastructure-specific document relating to long-term investment - *Private Financing and Government Support to Promote Long-Term Investments in Infrastructure* - contains no discussion on the need for responsible business conduct of financiers, or the need for ESG due

⁶⁶ "G20/OECD Report on G20 Investment Strategies, Highlights" (2015), <http://g20.org.tr/wp-content/uploads/2015/12/G20-Investment-Strategies-and-G20-OECD-Report-on-G20-Investment-Strategies-Highlights.pdf>, p.11.

⁶⁷ Caliari, "The G20's principles on institutional investment: A Trojan horse for finance-driven infrastructure?" (2015) <https://us.boell.org/2015/11/05/g20s-principles-institutional-investment-trojan-horse-finance-driven-infrastructure>; Hubbard, "The OECD approach to Long Term Investment" (2016) <https://medium.com/workers-voice-oecd/the-oecd-approach-to-long-term-investment-f33fe9f6357c#.rb1pzv9yc>.

diligence by investors. There is no recognition that the Equator Principles apply to over 70 percent of international project finance debt in emerging markets,⁶⁸ which is a small number in absolute terms, but still a notable fact in terms of responsible finance that supports the larger cross-border infrastructure projects. There is also no mention of the OECD's own *Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence*,⁶⁹ which harmonises the environmental and social due diligence of OECD Export Credit Agencies among themselves, and with internationally recognized standards, including the Equator Principles.

This paper already noted that *Toward a Framework for the Public Governance of Infrastructure* (2015) seems to imply that the OECD is moving away from its singular focus on the long-term investment theme in favour of public governance aspects. NAEC suggests the OECD is broadening its inquiry on long-term sources of financing that includes “young innovative firms” and “nonbank actors” (though this is not specifically in the context of infrastructure). Finally, the latest interest in this area seems to be directed at equity instruments. These developments taken together suggest OECD work in this thematic area is in flux. If OECD is indeed seeking a new direction of this work stream, as hinted in several places, this will be a welcome development.

The OECD is currently working on a guide for institutional investors under the Guidelines for Multinational Enterprises.⁷⁰ This process provides one opportunity for responsible institutional investors looking to become involved in infrastructure finance to understand the scope of ESG due diligence expected under the MNE Guidelines. Once finalized, this guidance should not remain inside the responsible business conduct silo, but must be allowed to cross-pollinate the work on long-term investment.

b. Modalities of Infrastructure Development

According to the OECD, there are five modalities of infrastructure development: (i) through direct provision (the government taking responsibility for all aspects of infrastructure delivery); (ii) traditional public procurement (a government body contracts with private partners to provide infrastructure-based goods and services); (iii) state-owned enterprises; (iv) public-private partnerships (that involve private investors financing and managing the construction, operation and maintenance of an infrastructure asset); and (v) privatisation with regulation.⁷¹ Of these modalities, this paper paid close attention to public procurement and public-private partnerships, due to the fact that these two modalities complement the other thematic area of investment, discussed immediately above. The private sector plays a prominent role in both of these modalities, which raises the challenge of both public and private sectors assuming respective roles and responsibilities in a seamless manner.

i. Public Procurement

Considering the volume of public procurement in OECD countries at around 12% of GDP,⁷² and infrastructure investment via PPPs occupying less than 10% of public investment in advanced economies and less than 25% of public investment in emerging markets,⁷³ public procurement is an

⁶⁸ See at: www.equator-principles.com.

⁶⁹ See at: <http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TAD/ECG%282016%293&doclanguage=en>.

⁷⁰ See at: <https://mneguidelines.oecd.org/rbc-financial-sector.htm>.

⁷¹ This categorization has been extracted from box 1.1 in *Towards a Framework for the Governance of Public Infrastructure* (2015).

⁷² OECD, “Public Procurement“ <<http://www.oecd.org/gov/ethics/public-procurement.htm>>. According the World Bank, the percentage is as high as 20% in some developing countries. See <<https://openknowledge.worldbank.org/handle/10986/16674>>

⁷³ IMF, World Economic Outlook (2014) <<https://www.imf.org/external/pubs/ft/weo/2014/02/pdf/text.pdf>>.

underappreciated but indispensable aspect of infrastructure projects. It is also a thematic area that presents a significant opportunity for governments to promote sustainable development through purchasing decisions. Most national sustainable procurement programs are in place in OECD Member countries, including the U.S., Canada, Australia, New Zealand, Japan, and the European Union, and from the emerging BRIC nations, Brazil, China and India have developed legal frameworks on sustainable procurement policies.⁷⁴ These approaches take the concept of value for money and extend it over a life-cycle of an asset to be acquired. In doing so, they build environmental and social sustainability and financial value in the process.

The OECD's emphasis on efficiency and economy, implying the cheapest bids, and the division between the primary policy objective (value for money) and secondary policy objectives (such as environmental sustainability) in the OECD's *Recommendation on Public Procurement* (2015) seem to make OECD procurement rules appear out of sync with ongoing sustainable procurement practices within OECD countries. Considering the state duty to protect human rights in relation to state business dealings under the UN Guiding Principles (see Box 7), the OECD rules are not coherent with the UNGPs and the MNE Guidelines. Some academics who specialise in public procurement do not consider OECD rules as an international standard. Some procurement practitioners dismiss OECD rules as harmless and out of date, but do see real value in the OECD peer review process on procurement.

<p>Box 8: The relevance of the UN Guiding Principles on Business and Human Rights (UNGPs) in Public Procurement</p>
<p>The following Principles of the UNGPs apply to public procurement.</p>
<p>5. States should exercise adequate oversight in order to meet their international human rights obligations when they contract with, or legislate for, business enterprises to provide services that may impact upon the enjoyment of human rights.</p>
<p>6. States should promote respect for human rights by business enterprises with which they conduct commercial transactions.</p>

The OECD does have a separate work stream on green procurement, though it produces high level policy documents that are not likely to provide any implementation guide to practitioners. There is no OECD guidance on procurement that favours certain social criteria (e.g., small or minority owned business, or eliminating child or slave labour in the procurement chain) as a counterpart to green or environmental procurement.

Transparency is a recurring theme in the topic of public governance. Open government and e-procurement are examples of initiatives supported by the OECD. In the process, however, the strong impression is that a key audience of transparent infrastructure information, either in a PPP process or in a public procurement scenario, is the private sector waiting to take advantage of bidding opportunities. While this is an important factor that encourages competitive bidding, OECD guidance loses sight of the fact that users of infrastructure and taxpayers are also entitled to an open and transparent infrastructure development process. The technical nature of information disclosed by governments primarily to create a transparent bidding process will not necessarily help citizens access information they need. It is possible that other relevant project information, such as proposed tariff rates and rate-setting mechanisms, the extent of contingent liabilities assumed by the state, the outcome of environmental and social impact assessments or public hearings, and accessibility information, is and should be made available separately. Regardless of the precise techniques used for

⁷⁴ IISD, State of Play in Sustainable Procurement (2007), <https://www.iisd.org/pdf/2007/state_procurement.pdf>.

disclosure, in principle, citizens are entitled to have access to the entire project information in a coherent manner.⁷⁵

ii. Public-Private Partnerships

The three OECD papers reviewed under this heading (*Principles for Private Sector Participation in Infrastructure* (2007), *Public Governance of Public-Private Partnerships* (2012); and *Project Checklist for Public-Private Partnerships* (2015)) relate to PPPs, and generally have good treatment of RBC and ESG factors throughout. The 2007 and 2012 documents (not addressed to the G20) in particular take a holistic approach to infrastructure, and are among the more comprehensive and thoughtful work on sustainable development of the Core Documents reviewed for this report. While this is one of the findings of this research, the authors recognize the inherent problems with PPPs as a modality for infrastructure delivery.⁷⁶

The OECD also does seem sensitised to criticisms about PPPs, such as states' contingent liabilities, wholesale risk transfers to the private sector, and general lack of management and oversight in such arrangements. As a result, it appears that earlier enthusiasm about PPPs and the opportunity to pass on infrastructure risks, including environmental and social risks, to the private sector had to be restrained. OECD focus turned from the private sector aspects of infrastructure to public governance in this area, which is a welcome development.

For instance, *OECD Principles for the Public Governance of Public Private Partnerships* (2012) rightly states that citizens should be involved in ways crucial to the success of a project:

“Popular understanding of Public-Private Partnerships requires active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality.”⁷⁷

However, in the process of shifting the focus to public governance, the OECD seems to have paid little attention to public sector responsibilities to regulate and provide guidance on environmental and social sustainability in infrastructure investment and development, as evident from the recent OECD submission to the G20 in this area. This is one of the areas requiring greater focus in the near future. After all, the public sector has an obligation to regulate and provide guidance in these areas (as made clear in Pillar One of the UN Guiding Principles on Business and Human Rights – see Box 5), corresponding with the private sector obligation to abide by regulations and also adopt good practices to respect the human rights of its stakeholders.

Conclusion

OECD policy advice on infrastructure investment and development set out in the Core Documents, which define the scope of this report, lacks coherence for sustainable development from multiple perspectives, such as coherence with global goals and countries' aspirations, coherence with economic, social and environmental policies, coherence with the OECD's own position on sustainable development and coherence with initiatives and actions of external

⁷⁵ The World Bank's Framework for PPP Disclosure proposes disclosure to benefit the procurement process, but does not necessarily advocate public disclosure for the benefit of stakeholders and citizens.. See at: <http://www.worldbank.org/en/topic/publicprivatepartnerships/brief/a-framework-for-disclosure-in-public-private-partnership-projects>.

See also Aizawa, “Five things that can promote transparency in Public-Private Partnerships” (2015) <https://us.boell.org/2015/11/12/five-things-can-promote-transparency-public-private-partnerships>.

⁷⁶ See, for example, supra 33.

⁷⁷ OECD Council Recommendation, para A. 1.

actors. The overall thrust of its infrastructure policy advice to the G20 is insufficient to provide the G20 countries with a reliable roadmap to achieve sustainable development goals through infrastructure.

Each of the four thematic areas researched (investment policy and strategy; long-term investment; public procurement; and PPPs) appear to lack a long-term holistic vision grounded in sustainable development. By failing to foster policy coherence, the OECD inadvertently fosters incoherence, and may discredit sustainable development and the SDGs embraced by the world community, including the G20. This state of affairs paints a picture of the OECD that is in contrast with its self-image as a unique forum where governments work together to address the economic, social and environmental challenges of globalization.

While this research did not focus on the actual interactions between the OECD and the G20, it can be assumed that the policy coherence deficit described above is attributable to both sides of the supply and demand relationship. Within the OECD - the supply side – the serious discrepancy between financial and sustainable development work could be attributed to the OECD’s silo culture or a theoretical approach to policy development, or possibly both. The organisation is seemingly resistant to strong leadership from the OECD Secretariat to foster a more ‘horizontal’ approach. The discrepancy between the finance and Sherpa tracks in the G20 context means that finance ministers and central bank governors signal ‘yes’ to economic growth and ‘no thanks’ to sustainable development. They then relegate the sustainable development tasks to the Sherpa track. This strange alignment of interests actually helps the OECD serve the G20 well, and the G20 in turn reciprocates by allowing the OECD enjoy closer ties to the G20.

This observation is especially concerning, given the fact that the G20 countries have the power to replicate and lock in good or bad models of infrastructure investment in powerful ways for decades. For example, the G20 emphasis on mega-projects (see Box 7) means that there are enormous “ripple effects” of the models undertaken on public budgets and governance, society, and the natural environment. G20 precedents could encourage uptake by other countries following the footsteps of the G20.

The foregoing conclusions raise questions on the immediate future: How should the OECD harness the sustainable development aspirations of its Members and other G20 countries and turn them into a meaningful body of work? Will the OECD’s newer efforts, such as NAEC, be capable of transforming its infrastructure work? If not, could the business-as-usual approach impact the OECD’s credibility vis-à-vis the G20 countries and beyond?

Recommendations

In an effort to provide constructive recommendations to the OECD Secretariat and its Members, as well as other OECD stakeholders on improving the quality of OECD infrastructure policy advice to the G20, this report makes the following recommendations.

1. Recommendations to the OECD

As a matter of priority, the OECD should re-examine its work program and structure to draw out its existing positions on sustainable development and the SDGs (as well as the positions of institutions with broader or universal membership) in order to assist the G20 and other bodies in achieving the multiple levels of policy coherence discussed above.

The OECD work program and structure on infrastructure should:

- Determine its priorities based on the five coherence factors mentioned above, in addition to input from OECD Members

- Experiment with different ways to do away with silos within the OECD and encourage a multidisciplinary approach to tackling infrastructure challenges; in particular:
 - Develop a clear overarching vision of “sustainable infrastructure” and ensure that this vision is integrated across its infrastructure advice based on the OECD’s own work on sustainable development and strategic response to the SDGs
 - Bridge the divide between green and “regular” infrastructure
- Use its capacity for data gathering to collect and share data and develop appropriate indices, in particular on the following topics:
 - Long-term impacts of Public-Private Partnerships
 - The public service dimensions of Public-Private Partnerships (access, pro-poor aspects, and quality of service delivery)
 - The carbon footprint of infrastructure
 - Social and human rights dimensions of infrastructure

The OECD should review its existing approaches and tools to offer different modalities of engagement with the G20. A part of the OECD’s value added may be in its ability to convene and survey policy makers, organise peer reviews on specific thematic areas, and promote an interactive platform among policy makers, experts, and stakeholders. The Multi-Dimensional Country Reviews⁷⁸ may play an effective role in engaging with the G20, and the OECD Development Centre,⁷⁹ with a Governing Board of 50 countries that include 24 non-OECD Member countries, could provide a fresh perspective in relation to OECD policy advice. There will be multiple opportunities in the immediate future, with the Chinese and German G20 presidencies, to put these capabilities to better use. These capabilities will complement the competences of other G20 resource organisations with universal membership to encourage the integration of sustainable development dimensions in such activities.

In addition, the OECD could explore additional ways to engage with the G20, such as:

- Encouraging integrated thinking between the growth, investment and infrastructure tracks and the SDGs track, building effective bridges and meaningful intersections with the SDG track
- Adapting the *New Approaches to Economic Challenges* to its infrastructure advice and make it available to all G20 countries
- Experimenting with ways to bridge the silos within the G20, and encourage a multidisciplinary approach to tackling the SDGs, while addressing growth
- Exploring support from OECD Members to assume a more proactive role with the G20

While the foregoing recommendations address the OECD Secretariat, they should also inform the OECD Member countries, which prioritise, set programmes of work, and allocate resources for various OECD units. At the same time, the OECD should continue to engage actively with Key Partner and non-Member countries (including countries which are members of the G20, but not the OECD), while deepening its collaboration with organisations with more universal memberships.

2. Recommendations on the G20

A growing group of stakeholders is trying to influence the G20 agenda. This group ranges from business (B20) to trade unions (L20), NGOs (C20), youth (Y20), think-tanks (T20) and since the Turkish presidency also women (W20).⁸⁰ The following are recommendations to those who work for or with the G20 or work on the issues tackled at the G20 Summits, to help improve the quality of policy advice on infrastructure received by the G20 countries:

⁷⁸ See at: <http://www.oecd.org/dev/mdcr.htm>

⁷⁹ See at: <http://www.oecd.org/dev/>

⁸⁰ Supra 4.

- Demand that the G20 countries receive the latest “state of the art” policy advice on sustainable infrastructure
- Form or encourage the G20 to form multidisciplinary working groups to address multidisciplinary topics in order to inform itself on sustainability challenges in infrastructure
- Demand that changes in the OECD be reciprocated by the IIWG and the G20 finance ministers and central bank governors asking for coherence in OECD’s policy advice.

3. Recommendations to Civil Society and Academia

For members of civil society and academia who either track the infrastructure sectors generally, or the trajectory of the G20’s discussion on infrastructure, or the OECD’s work, or, this report recommends:

- Advocating for the OECD to deliver quality infrastructure advice that is coherent with sustainable development generally, and more specifically the SDGs
- Engaging with the OECD to pass on infrastructure case studies and lessons learned
- Emphasizing the cost to future generations of the failure to take these steps

Annex 1 Core Documents – Summary and Ranking

Based on the research questions discussed in the report, the authors clustered the reviewed documents in three categories.

- Documents that provide advice with strong consideration to sustainable development and/or ESG dimensions are marked in **GREEN**.
- Documents that provide advice with some references to sustainable development and/or ESG dimensions without developing the concept in depth are marked in **YELLOW**.
- Documents that provide advice without due regard to sustainable development and/or ESG dimensions⁸¹ are marked in **RED**.

Investment		Modalities of Infrastructure Development	
Investment Policies and Strategies	Long Term Investors	Public Procurement	Private Sector Participation
Policy Framework for Investment (2015) “Guidance in twelve policy fields critically important for improving the quality of a country’s enabling environment for investment.”		OECD Report to G20 Finance Ministers and Central Bank Governors: Towards a Framework for the Governance of Public Infrastructure (2015) “A draft framework for the public governance and delivery of infrastructure. (...) a coherent tool that countries can apply to ensure that their infrastructure investment is effective, efficient, transparent, user centric and affordable.”	
	G20/OECD High-level Principles on Long-Term Investment Financing by Institutional Investors (2013) “Principles designed to assist OECD, G20 and any other interested countries to facilitate and promote long-term investment by institutional investors.”	Recommendation on Public Procurement (2015) “A 21st-century reference for modernising procurement systems,” addressing the entire procurement cycle while integrating public procurement with other elements of strategic governance such as budgeting, financial management and additional forms of services delivery.”	OECD Principles for the Public Governance of Public-Private Partnerships (2012) “Guidance to policy makers on how to ensure that public-private partnerships represent value for money for the public sector.”
G20/OECD Report on G20 Investment Strategies Vols1-2 (2015) “A voluntary survey to compile information and data on countries’ investment strategies.”	Private financing and government support to promote long-term investments in infrastructure (2014) “The report outlines the typical characteristics of infrastructure as an alternative asset class for private investors and focuses on the riskiness of infrastructure projects from a financial investor’s standpoint.”	Going Green: Best Practices for Sustainable Procurement (2016) “A a compendium of good practices on how to integrate environmental considerations in public procurement in a transparent and cost-effective manner.”	

⁸¹ This category covers documents that do not meet a minimal threshold in terms of sustainable development content or ESG considerations or that constitute a serious step back in terms of historical sequencing of documents.

<p>Fostering Investment in Infrastructure (2015)</p> <p>“The paper draws on 22 reviews undertaken in developing and emerging economies and identifies actionable policy options to enhance the enabling environment for infrastructure investment.”</p>	<p>Report on Effective Approaches to Support Implementation of the G20/OECD High-level Principles on Long term Investment Financing by Institutional Investors (2014)</p> <p>“Approaches for the implementation of the High-level Principles on Long-Term Investment Financing by Institutional Investors.”</p>
<p>OECD/WB Stock Taking of Selected Policy Indicators On The Enabling Environment for Infrastructure Investment (2015)</p> <p>“An analysis of existing policy indicators on the enabling environment for infrastructure investment in developing countries.”</p>	<p>G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors (2014)</p> <p>“An evaluation tool to help countries who would wish to self-assess their long-term investment strategy and policy framework.”</p>

	<p>WBG/OECD Project checklist for public-private partnerships (2015)</p> <p>“A high level assessment of a PPP project. It seeks to provide public policy makers and managers with a tool that can help them ensure that the key requirements in projects are fulfilled.”</p>