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G20 UPDATE E-NEWSLETTER

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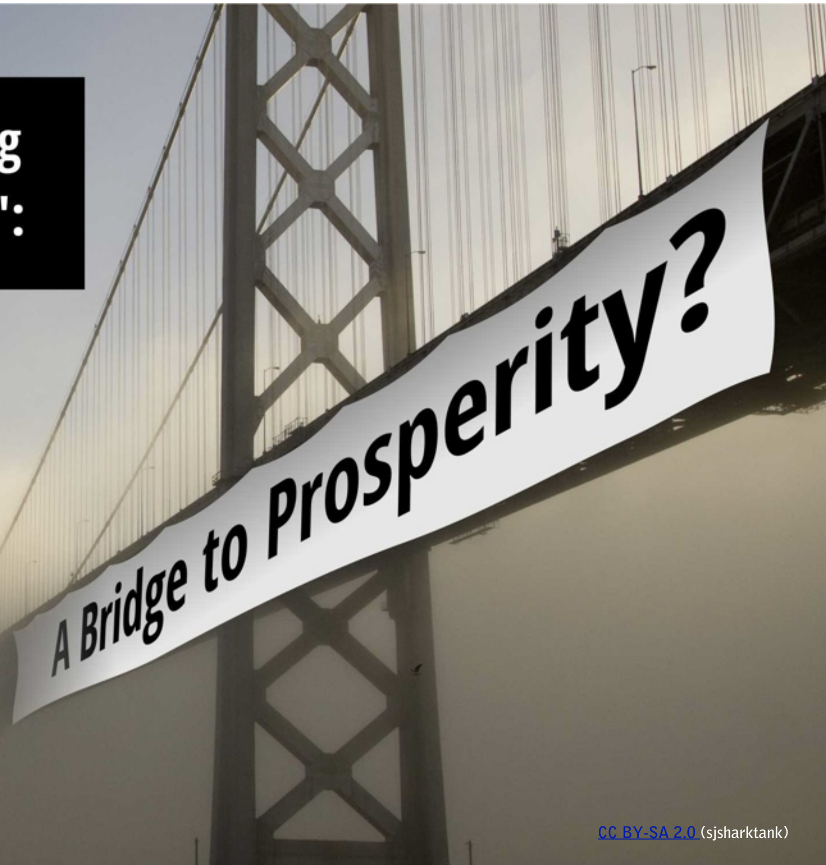
The G20's Initiative on "Financing for Investment in Infrastructure":



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Civil Society

In **"Russian Civil Society under Attack: Implications for the C20,"** Jens Siegert head of the Heinrich Böll Foundation-Moscow, describes the relationship between the Russian government and civil society as well as how the Civil 20 should be viewed in light of the current attack on NGOs.

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Infrastructure Investment

In **"The G20's 'Financing for Investment' Initiative: What's Missing?"** Shoujun Cui, Research Director, Center for International Energy Strategy Studies, Renmin University, China, describes the implications of this initiative for the energy sector.

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The topic of investment in an age of austerity is examined by Sergey Drobyshevsky, Managing Director of Russia's G20 Expert Council and Head of a Research Division, Gaidar Institute for Economic Policy (Moscow) and Sergei Guriev, Rector, Professor of Economics, and President of the Center for Economic and Financial Research, New Economic School, (Moscow).

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The G8 and the G20

In **"2013: A Convergence of G8 and G20 Agendas?"** Joanna Rea, Policy and Government Relations Manager, BOND (UK), describes the evolution of the G8, its relationship to the G20, and the key role of Russia.

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Must Read

"The Russian Presidency of the G20 in 2013" by the Russian Government;

"Toward the St. Petersburg G20 Summit" by the Center on Global Interests and **"The World Needs A Multilateral Investment Agreement,"** by Anders Aslund, Peterson Institute.

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Introduction

Two Faces of the Russian G20 Presidency: Troubles at Home; Initiatives Abroad

Nancy Alexander, Heinrich Böll Foundation - North America

This issue of the "G20 Update" includes articles on three questions:

- What is the nature of the upsurge of investigations of, and attacks on, Russian civil society and how should this situation inform engagement by global civil society in the Civil 20 (C20) and its activities, including the C20 Summit in June 2013? The C20, which is led by Russian civil society organizations, is the vehicle through which global civil society communicates its policy agenda to the G20.
- Why has the G20 launched a new initiative on "financing for investment," especially in infrastructure? What is the nature of this initiative?
- How do the policy agendas of the G8 and G20 converge? This year, the G8 Summit takes place on June 17-18 in Northern Ireland – less than three months before the G20 Summit on September 5-6 in St. Petersburg.

In **"Russian Civil Society under Attack: Implications for the C20," Jens Siegert, head of the Heinrich Böll Foundation-Moscow**, describes how the relationship between the Russian government and civil society has deteriorated over time. Recently-passed laws, such as the "NGO Law on Foreign Agents," jeopardize the activities of Russian NGOs with certain types of relationships with foreigners. Siegert describes the irony of how, on the one hand, the government is investigating, arresting, or fining certain domestic NGOs with such relationships and, on the other hand, the Russian-led Civil 20 is showcasing cooperation between domestic and foreign NGOs. He suggests that, from one perspective, the C20 can be viewed as a Potemkin village – a democratic facade - set up for the purpose of confusing observers and CSOs from abroad. Therefore, Siegert advises that international NGOs should weigh the possibilities for meaningful participation in the C20 process against the risk of complicity with the government's crack-down on independent NGOs in Russia.

In his brief commentary entitled **"Investment in the age of austerity," Sergei Guriev**, Rector, Professor of Economics, and President of the Center for Economic and Financial Research, New Economic School, Moscow, emphasizes that, in this age of austerity, governments must implement reforms and create incentives for private investment which can, in turn, stimulate growth.

New to the G20?

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

INTRODUCTION TO THE G20

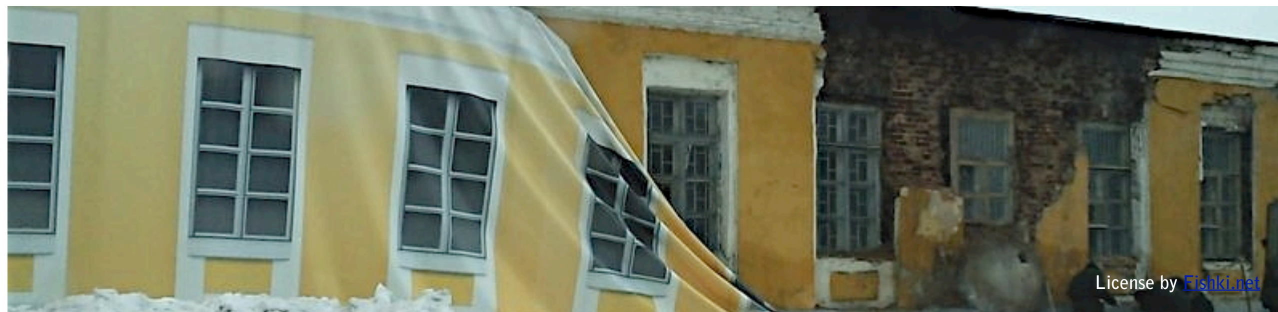
In his article, **"The G20's 'Financing for Investment' Initiative: What's Missing?," Shoujun Cui**, Research Director, Center for International Energy Strategy Studies, Renmin University of China, describes the ambitious work program of the new G20 'Financing for Investment' study group, chaired by Germany and Indonesia. It is tasked with identifying sources of long-term finance, primarily for large-scale public-private partnerships (PPPs) in infrastructure. To date, Cui states that the initiative has failed to articulate ways in which social and environmental considerations and safeguards affect the feasibility of infrastructure options and their potential for stimulating economic growth. He uses the example of the Bujagali Dam to illustrate the need for better infrastructure planning.

In **"The G20's Initiative on `Financing for Investment' in Infrastructure,"** Sergey Drobyshevsky, Managing Director of Russia's G20 Expert Council and Head of the Macroeconomics and Finance Research Division at the Gaidar Institute for Economic Policy (Moscow) describes the impact of the global financial crisis on investment as well as why we face a huge gap between the demand for and supply of infrastructure financing. Indeed, in 2012, the volume of finance for infrastructure projects was at its lowest level in history. The reasons for this include the diminished appetite for risk on the part of investors, including corporations and financial institutions as well as institutional investors, such as pension funds, which also suffer from a sharp reduction of the supply of capital. In Europe, the banks have not resumed their pre-crisis levels of long-term financing and, throughout the developed world, expenditure cuts put major capital expenditures for infrastructure out of reach.

In **"2013: A Convergence of G8 and G20 Agendas?" Joanna Rea**, Policy and Government Relations Manager of BOND (UK), describes the renaisance of the G8 and the delicate relationship between the G8 and G20. The headline priorities of UK Prime Minister David Cameron for the June Summit are neatly presented as the '3Ts' – tax, trade and transparency -- all in support of the global economy. These priorities overlap with the three priorities of Russia's President Vladimir Putin for the September Summit: "growth through jobs and investment", "growth through trust and transparency" and "growth through effective regulation."

Russian Civil Society under Attack: Implications for the C20

By Jens Siegert, head of the Moscow-based office of the Heinrich Böll Foundation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Russia's constitution guarantees the right of its citizens to freedom of association. This guarantee may be the main difference between the political system of today and that of the Soviet Union. This right applies not only to political parties, but also to civil society organizations (CSOs), of which there are already several hundred thousand in the country.

Even before the end of the Soviet Union, civil society activists played a role in mediating between the state and the society. A certain alliance linking some of the old (Soviet) political elites and the new democrats took shape in the very early days of the independent (or "new") Russia. That alliance was unstable and ultimately shattered during the 1993 constitutional crisis (which led to a small but bloody civil war in the autumn of that year), the first Chechen War, and the circumstances surrounding the 1996 presidential elections, when President Yeltsin was only able to win the election against a communist candidate with the support of an orchestrated campaign of a group of the richest men in Russia, who were later called the "Oligarchs". As a result of those three events, the temporary—and unequal—partners went their different ways.

This rupture demonstrates the fact that the new democrats, or CSOs, would not tolerate a large gap between ethical imperatives and political compromises. Certainly, among CSOs, the gap must be significantly narrower than in the sphere of politics. The influence of CSOs is based not on the holding of high offices but, instead, on a good reputation in society and trust among the citizenry.

Putin's first presidency. Following Vladimir Putin's election to the presidency, the Kremlin began to subjugate all parts of the Russian political sphere, including civil society. Previously, actions in those spheres had not been fully independent, but at least they were controlled by different centers of power.

In the autumn of 2001, the Kremlin called for creation of the "Civil Forum", which represented the first serious attempt to integrate independent CSOs into the system of what was called "managed democracy". For the most part, that attempt failed and peace, of a sort, prevailed between the Kremlin and a group of independent CSOs until the autumn of 2003. Two political events occurred at the end of that relatively peaceful period: the arrest of Mikhail Khodorkovsky, the then-owner of the Yukos oil company and the richest man in Russia, who had begun to challenge President Putin's power, and the "Orange Revolution" in the Ukraine.

In the eyes of the Kremlin, CSOs, supported by Western donors, played a decisive role in the regime change in the Ukraine in the winter of 2004-2005. That view, combined with the fear that something similar could happen in Russia, led the Russian authorities to set up what they called a "Public Chamber", completely under their control, and adopt a new law on CSOs in early 2006. That law replaced all prior regulations on CSOs and tightened controls over them. Perhaps even more importantly, it sent a signal to the society and governmental authorities on all levels: CSOs were under suspicion and seen as a potential threat to state security.

During the first Russian Presidency of the elite G8 club in 2006, the Kremlin was encouraged by independent CSOs to make the involvement of CSOs a trademark, even surpassing the openness of the more democratic members of the G7.

The state attempted to use the "Public Chamber" to legitimize "elected representatives of the civil society" and, at the same time, de-legitimize the independent CSOs that were not members of the "Public Chamber". But, the attempt to de-legitimize CSOs did not succeed. Although most CSOs did not enjoy the support of a broader public, they exhibited an impressive resilience and remained steadfast.
So, the state decided to continue its cooperation with independent CSOs, including in the sphere of international cooperation. During the first Russian Presidency of the elite G8 club in 2006, the Kremlin was encouraged by independent CSOs to make the involvement of CSOs a trademark, even surpassing the openness of the more democratic members of the G7. (This process is described in the lead article of the January 2013 "G20 Update" by Ella Pamfilova, at that time the head of

the presidential "Council for Civil Society and Human Rights", a body organized mainly to open a communication channel between the Kremlin and independent CSOs.) .

At the same time, the tightening of state control over the sphere of politics and particularly over the party system, thrust Russian CSOs into the role of a surrogate political opposition. In some cases, they were forced to play a double role, acting as both a political opposition and as a "channel of communication" between the political elite and the society. But, after the mass protest during the winter of 2011-2012, the roles of civil society as surrogate political opposition and as "channel of communication" broke down.

Medvedev's presidency. In February 2009, President Dmitry Medvedev, who took office in May 2008, issued the revised list of members appointed to the "Council for Civil Society and Human Rights". The appointments were perceived as one of a series of "liberal signals" from the newly-elected president. Since then, more than half of these members have been open critics of the Kremlin, which triggered some minor changes in the law on non-governmental organizations, making life a tiny bit easier for CSOs. But no further changes followed.
Polls have shown that involvement in CSOs is viewed with mistrust in today's Russia. Although we see new forms of civil engagement, people prefer to get actively involved only in areas touching upon their daily lives. Until December 2011, only a few protest movements have drawn attention from outside the regions in which they originated. In some cases, those movements succeeded in forcing the state to make compromises by finding a middle ground between its decisions and protestors' demands.

While the political opposition has been weak and those in power have strictly limited the possibilities for political engagement, CSOs have exhibited three modes of behavior with respect to the authorities. A first group cooperated with state structures. A second group consists of those CSOs who have been ready to engage in limited cooperation in order to find solutions to certain practical problems and to preserve a channel of communication with the center of power. The third group of CSOs has been close to the so-called "extra-systemic opposition" (in contrast to the "systemic opposition", consisting of political parties represented in the parliament) and seeks contact with state structures only when absolutely necessary.

...the mass falsifications of the December 4, 2011 parliamentary elections brought more people to the street than have been seen since the 1990s.

The situation fundamentally changed when, at Putin's behest, Medvedev announced Putin's return to the Kremlin at a United Russia's party convention in September 2011. Later, the mass falsifications of the December 4, 2011 parliamentary elections brought more people to the street than have been seen since the 1990s.

All this time, Putin kept issuing warnings about "foreign involvement" through CSOs in Russian domestic policies. In spite of the fact that CSOs were not the driving force behind the mass protest in winter 2011-2012, they have remained the focus of the Kremlin's effort to counter this "insurgency". As organizations, CSOs did not play a decisive role in the protest. Nevertheless, some well-known CSO figures helped organize the protest. In many regions where the protests were rather weak in comparison with Moscow and St. Petersburg, many former politicians from the marginalized "extra-systemic opposition" are also CSO leaders.

Putin's current presidency. After the presidential elections in March 2012 and the inauguration of Putin as president on May 7th, the Kremlin's counter strike began. It is directed at two main targets: active protesters, more than 25 of whom were arrested after a big anti-Putin demonstration on May 6, 2012. The police have provoked violent clashes with demonstrators, as independent investigations later showed. Some of those arrested have been sentenced and will be imprisoned for many years. Others await trial in preliminary detention or home arrest. At press time, the most recent arrest was at the end of April 2013. The prosecutor's office has begun investigations of more than 100 other persons. The Kremlin seems to be preparing for a big "show trial".

CSOs are, once again, the other target. The main tool being used against them is the so-called "NGO Law on Foreign Agents". Other laws further limit the freedom to assemble and protest; endanger those making almost any contact with foreigners, since such contact could be construed as treasonous by law enforcement institutions; or allow a newly established government agency to block websites when their content is construed as promoting "extremism" and "ethnic" or "social hatred". The main problem with all these laws is that, as with most Russian laws, they allow too much room for interpretation by the Prosecutor's Office and, then, the courts normally agree with the decision, or the verdict, of this Office.

After the presidential elections in March 2012 and the inauguration of Putin as president on May 7th, the Kremlin's counter strike began.

The "NGO Law on Foreign Agents", which came into effect on November 21, 2012, states that, when an NGO gets funding from abroad and engages in "political actions," it must register as a "foreign agent" with the Ministry of Justice. In Russian historical memory, the word "agent" has only one meaning – namely, a "spy" or an "enemy." Most NGOs (and especially those involved in human rights work) refuse to comply.

In January 2013, Minister of Justice Alexander Konovalov said publicly that his Ministry could not enforce

the "NGO Foreign Agents Law" because it could not define the term "political actions". At a meeting with the FSB (the internal Secret Service) in late February, President Putin lamented that it was unacceptable that "we have laws that are not enforced". The General Prosecutor's Office got the message and began mass "inspections" of NGOs in March.

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By the end of April, after only two months, more than 600 CSOs have been inspected by officials from the Prosecutor's Office, who are usually accompanied by civil servants from the Ministries of Justice and Tax Inspection, the Public Health Service and other government agencies and sometimes by firemen. Dozens of CSOs, among them Transparency International-Russia and the Memorial Human Rights Center – as well as one organization that serves children with cystic fibrosis and another that cares for storks and cranes in Siberia -- have received "warnings" by the Ministry of Justice or the Prosecutor's Office, because they did not register as "foreign agents".

The argument always follows the same logic: Certain organizations are involved in lobbying (on human rights, corruption or on behalf of needy people); therefore, they try to influence the government's decisions. (TI-Russia, for example, demands not only better anti-corruption laws, but also law enforcement in this field; the Memorial Human Rights Center hosts an internet platform called "OVD-Info", which monitors violation of rights by law enforcement agencies in relation to the recent protest movement). According to the Prosecutor's Office or the Ministry of Justice, such activities qualify as "political action" (in the case of the OVD-Info because "there are no such violation of rights").

According to sources inside the presidential administration, many more CSOs may be warned; perhaps even all organizations with foreign funding. After such a "warning", if an NGO refuses to register, it might be fined as much as 500,000 rubles (about US$17,000 or 12,500 Euro) and the Ministry of Justice could suspend the organization's activities and ask a court to close it down. The election watchers from the Golos Association have already been convicted for not registering as "foreign agents" and ordered by a court to pay a fine of 300,000 rubles with the Director of Golos being fined for an addition 100,000 rubles.

Transparency International-Russia and other CSOs such as Memorial refuse to register as "foreign agents," because they consider the law "unconstitutional" and "unethical"...

Transparency International-Russia and other CSOs such as Memorial refuse to register as "foreign agents," because they consider the law "unconstitutional" and "unethical", as Memorial said in a statement (RU/DE) last September. Those CSOs will challenge the demands of the Prosecutor's Office and the Ministry of Justice in court. Given previous experience, the possibility of getting a court order (by the Highest Court or the Constitutional Court) that revokes the requirement to register as "foreign agents" is small to non-existent. The Kremlin may want to eradicate all independent NGOs, as it did with political parties earlier.

The Civil 20 (C20) in the Russian Context. Under these circumstances, the efforts to set up a Civil 20 (C20) to demonstrate how Russian leaders endorse the involvement of CSOs in decision-making at the national and international levels looks pretty strange. From the outset, the C20 process fundamentally differs from the 2006 Civil G8 process. At that time, the initiative came from the CSO community and many of those CSOs are now being harassed as "foreign agents".

The Kremlin appointed a CSO operator to design and manage the C20 before the CSO community took any initiative (although one has to acknowledge that Russian CSOs have weak experience in international policy processes).

Then, the Russian C20 process broadened the definition of what constitutes a CSO to include think tanks, and even business organizations. Thus, the C20 process includes strange bedfellows, as three of the seven CSO Working Groups are co-chaired by businessmen – some of whom have a different worldview than most non-profit CSOs. There is no known precedent for introducing business representatives into the leadership of civil society processes that relate to global Summits. Indeed, some participants feel as though, by so doing, Russia has "thrown sand" into the gears of civil society's advocacy work. They make the point that, to treat non-profits and for-profits equally, Russia should have at least insisted that the Business 20 have non-profit leaders as co-chairs and participants in more of its Working Groups.

Under these circumstances, the efforts to set up a Civil 20 (C20) to demonstrate how Russian leaders endorse the involvement of CSOs in decision-making at the national and international levels looks pretty strange.

As a result we see now a picture in which many CSOs in the advocacy sphere avoid participating in C20 and Working Group processes in which, as non-profits, they must fight to be heard over the voices of business (and think tanks). More fundamentally, some Russian CSOs are at risk of being shut down by the government. Meanwhile, the Kremlin tries to show the world a prospering civil society, engaged in decision-making. It's a typical

Potemkin village – a democratic facade - set up for the purpose of confusing observers and CSOs from abroad.
Almost no one in the Russian CSO community (even political observers) expected such a massive and overall attack on independent CSOs. Hence, CSOs are only now coming to grips with the situation. But, historic experience shows that there is no alternative to at least some cooperation with the state. (See the declaration of the Memorial Society.)

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In this context, we hear questions about whether the international CSO community should continue to participate in the Kremlin's C20 process. Yet, there is no quick and easy answer. CSO actors should ask themselves two questions. First: Will it be possible to have an impact on G20 decision making? Or, if they participate, will their voice at least be heard (by the public and by those in power)? Second: Would the participation be helpful to independent Russian CSOs? Could the C20 be a platform to voice protest against the harassment of Russian CSOs? If 'yes' is the answer to one or, preferably, both of these questions, further participation could and should be considered.

MUST READ

"The Russian Presidency of the G20 in 2013" (in long and short form), Government of Russia

These papers describe the G20's policy priorities, which reveal two shifts:

First, the G20's "Financing for Investment" Study Group, chaired by Germany and Indonesia, has launched an ambitious agenda to improve the investment climate and identify new sources for long-term investment, particularly for public-private partnerships (PPPs) in infrastructure. Indeed, at the March 2013 G20 Sherpa meeting, the Russian Sherpa stated:

> "We are considering the possibility of modifying mandates of national and international development banks, with the goal of focusing the institutions for development on promoting investment, primarily in infrastructure, and supporting public-private partnerships (PPPs) in this area."

To assist the Study Group, the World Bank (with six other agencies) wrote a report on "Long-Term Financing of Growth and Development" (February 2013); only one of the twelve annexes addresses the environmental dimensions of the proposed infrastructure initiative. In 2011, the G20's High-Level Panel on Infrastructure identified "exemplary" mega-projects (e.g., the Inga Dam, East Africa and West Africa electricity grids) – also without consideration of their environmental or social dimensions[1].

The February Communique of the G20 Finance Ministers and Central Bankers announced a long list of measures that should be taken to promote "financing for investment," including the proposal that resources of multilateral development banks should be channeled through national development banks.

A blog post by Nancy Alexander describes how, taken to extremes, the infrastructure initiative could displace spending for the MDGs, health care, education and other domestic priorities.

[1] See Infrastructure documents here.

Second, the September 2013 St. Petersburg G20 Summit is expected to issue a "St. Petersburg Development Action Plan" and, according to these documents, the Action Plan may focus on capacity-building in four areas:

1. food security with a focus on increasing agricultural production and addressing malnutrition;
2. infrastructure with a focus on cross-border mega-projects in energy, water, transport and telecom;
3. financial inclusion with a focus on financial literacy and access to financial services for women, migrants and youth; and
4. human resource development, especially developing skill sets that suit market needs.

In addition, the document states that the G20 will a) support the UN's creation of a post-2015 agenda and b) deliver the G20 Accountability Report on Development and a St. Petersburg Development Action Plan.

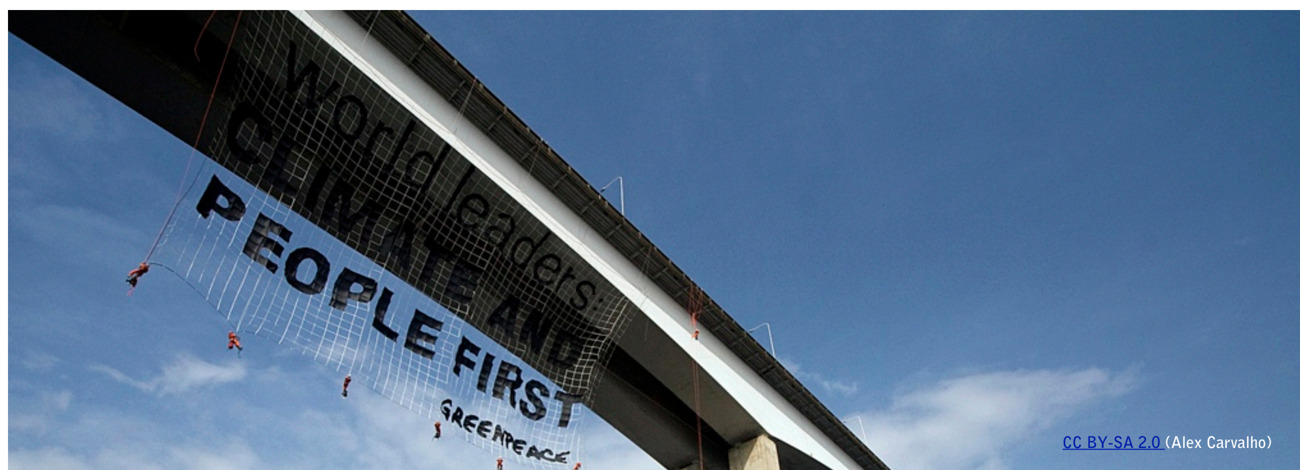
Work on the four main pillars – particularly infrastructure and food security – will depend on the actions of the new G20 "Financing for Investment" Framework.

Since the 2010 G20 Multi-Year Development Action Plan had nine pillars, one might wonder what happened to the others. Three of these pillars – trade, private investment/job creation, and domestic resource mobilization -- are highlighted in the G20's "Growth Framework" and Financing for Investment Initiative. The other two – resilient growth and knowledge-sharing seem to have diminished in importance.

The Russian Presidency is inviting 5 member countries to the Summit: Spain; Ethiopia (Chair of the AU); Senegal (Chair of NEPAD); Kazakhstan (Member of EurAsEC Customs Union and the Commonwealth of Independent States (CIS); Brunei Darussalam (Chair of ASEAN); and Singapore (Chair of the Global Governance Group (3G).

The G20's 'Financing for Investment' Initiative: What's Missing?

By Shoujun Cui, Research Director, Center for International Energy Strategy Studies, Renmin University of China



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Since taking over the chair of the G20 on 1 December 2012, Russia has been very active and ambitious in working with other international actors to develop new ideas and mechanisms aimed at stimulating economic growth and reforming the global governance architecture. It goes without saying that the G20 presidency provides a good opportunity for Russia to increase its international influence and achieve its long-term national economic goals.

G20's 'financing for investment' initiative

Instead of introducing new items to the agenda for the G20 Summit scheduled for September 4-5, 2013, Russia decided to maintain the G20's support for reinvigorating economic growth and job creation while expanding investment opportunities. While the basic G20 agenda is largely unchanged, the priorities changed. Now, the new catchphrase---'financing for investment' is in the spotlight. A new study group, which is chaired by Germany and Indonesia, has an ambitious work program on 'financing for investment.'

The work program is aimed at generating long-term finance primarily for large-scale, cross-border public-private partnerships (PPPs) in infrastructure.

A new study group, which is chaired by Germany and Indonesia, has an ambitious work program on 'financing for investment.' The work program is aimed at generating long-term finance primarily for large-scale, cross-border public-private partnerships (PPPs) in infrastructure.

What is missing in the Russian-led 'financing for investment' initiative? The answer lies in the failure of the initiative to articulate how the feasibility and implementation of infrastructure operations should take into account social and environmental considerations and safeguards, while fulfilling the goals of stimulating economic growth. Civil society organizations and academics are increasingly concerned about the relative absence of such considerations.

It is widely believed that infrastructure development leads to economic growth and forms a basis for job creation as well. In an era of austerity, the idea of concentrating on huge infrastructure financing is commendable, but it remains to be seen how the social and environmental implications of large-scale infrastructure projects are being assessed. If the G20 ignores these implications, whether intentionally or unintentionally, the final outcome of 'financing for investment' initiatives may be unsustainable. In a worst-case scenario, the original aim of economic resilience will be undermined. This is an area that should not be neglected.

...infrastructure projects in the energy sector usually require larger investment and a longer construction cycle; they also entail enormous social and environmental impacts.

The Demand for Energy Infrastructure Investment

A close look at infrastructure financing in the energy sector can improve our understanding of these issues. Access to energy is crucial to economic development and human well-being. According to a global survey of the International Energy Agency (IEA), over 1.3 billion people lack access to electricity and 2.7 billion people lack clean cooking facilities. More than 95% of these people are either in sub-Saharan Africa or developing Asia and 84%

are in rural areas. In most cases, the lack of access to modern energy tends to go hand-in-hand with a lack of provision of clean water, sanitation and healthcare. Therefore, financing for infrastructure in the energy sector can not only meet the need for economic recovery, but can also enhance the quality of life in less developed countries.
To fill the wide gap between energy supply and demand, the IEA estimated that investment in energy infrastructure from multilateral development banks and bilateral official development aid (ODA) should average around US$18 billion per year from 2010 to 2030. There is no doubt that such a scaling up of financing would have significant economic, social and environmental implications.

In comparison with other sectors, infrastructure projects in the energy sector usually require larger investment and a longer construction cycle; they also entail enormous social and environmental impacts. Put simply, four distinct features of infrastructure projects in the energy sector can be identified as follows:

1. Long maturity term. Large-scale energy infrastructure normally demands a long period of preparation and construction before reaching maturity. For example, a hydroelectric power project may take 5 years to construct and could have a life of more than 50 years.

2. Large-scale investment. For example, a kilometer of an oil/gas pipeline or a megawatt of power could cost as much as $1 million, so each project could cost hundreds of millions U.S. dollars.

3. High risks. Since large sums are typically invested for long periods of time, underlying risks are correspondingly high. These arise from a variety of factors, including demand uncertainty, environmental surprises, technological obstacles and, most important, political, governance and policy-related uncertainties.

The Bujagali project could be a costly mistake if river flows prove insufficient to support its turbines – a situation that could result from climate change.

4. Low real returns. The scale of these investments and the cascading effect of higher pricing could have serious negative impacts on the rest of the economy, resulting in annual returns that, in real terms, are often very low. However, while real returns could be near zero, they are unlikely to be negative for extended periods of time.

The Bujagali Dam: A Case of Poor Planning

As a mature, reliable technology that can supply electricity at competitive costs, hydropower is one feasible solution for developing countries to provide access to electricity for their citizens. The global potential for hydropower generation is estimated at 14,500TWh, more than four-times of the current production, and most of the potential is in Africa and Asia, where 92% and 80% of reserves respectively are untapped.

A hydropower dam can act as a catalyst for economic and social development by providing energy and water at the same time. Large hydropower projects can help meet multiple needs, such as the alleviation of energy shortage, support for agricultural irrigation and enhancement of tourism potentials.

However, if not designed carefully, they may have adverse environmental impacts on the ecology of the dam-affected area, such as wildlife and habitat loss, rare species protection, and soil erosion. Moreover, global warming and its impact on water tables, river flows and ecology affect a dam's potential. Finally, as dam building will submerge agricultural lands and lands intended for human settlement in water, the social impacts of involuntary population resettlement could be negative as well.

Statistics show that small-scale dams can cause greater damage than large-scale dams, because they are subject to higher levels of inefficiency and evaporation. As a result, developing countries are more inclined to construct big ones. In countries such as South Africa and India, governments actually ban the construction of

Investment in the age of austerity

by Sergei Guriev, Rector, Professor of Economics, and President of the Center for Economic and Financial Research, New Economic School, Moscow

Russia made investment the top item on the agenda of its G20 presidency. Given the slowdown of growth in all G20 countries (including a recession in many), it is clear that more investment is needed. The problem is that many G20 governments can no longer afford paying for this investment – their sovereign debts are so high that they need to engage in austerity policies. How can we increase investment in the age of austerity? The key is of course to create conditions and incentives for private sector investment – through better governance, the fight against corruption, transparency and more effective regulation. The private sector does have the cash, but prefers not to invest since it is afraid of uncertainty – not only macroeconomic uncertainty – but also uncertainty related to regulation, taxation and in some cases expropriation of investments. If governments resolve these uncertainties, the global economy will see more investment and, therefore, more growth.

large numbers of small dams in some areas. Nevertheless, just as every coin has two sides, questions arise as to whether large-scale dam projects can bring about even worse social and environmental impacts, if they are badly designed or financed.

A recent problem case is the Bujagali hydropower project of Uganda, which is a 250- megawatt dam, located near the Bujagali Falls on the Nile River, just downstream from two other large dams, namely Kiira and Nalubaale. Construction of the project was completed in July 2012 and operations commenced following its official inauguration in October 2012.

> **...the contractor's cost for Bujagali increased from an initial US$460 million to US $860 million, plus another US $74.7 million for transmission lines. A megawatt at Bujagali costs US$3.6 million – three times the US$1.2 million cost of a megawatt at the Three Gorges dam in China.**

As Uganda faces the rapid growth of demand for electricity, power shortages become the single largest impediment to economic growth. Construction was initially scheduled to begin in January 2003, but was delayed due to protests by environmentalists and local residents. Despite the problems and uncertainties, construction was finally launched in June 2007, with investments from 12 different sources including the World Bank, the European Investment Bank and the African Development Bank. The project was established through a public-private partnership between the Ugandan government and U.S. Blackstone affiliates.

Civil society is concerned about the dam's impact on the health of Lake Victoria, which supports millions of peoples' lives and extensive biodiversity. The lake has suffered a dramatic drop in its water level partially because of the two smaller dams upstream from Bujagali. If the Bujagali dam operates at its potential, it could further reduce water levels in Africa's largest lake. As a result, energy shortages will cause economic disruption since nearly all of Uganda's electricity comes from dams. The Bujagali project could be a costly mistake if river flows prove insufficient to support its turbines – a situation that could result from climate change.

It should be noted that the contractor's cost for Bujagali increased from an initial US$460 million to US$860 million, plus another US$74.7 million for transmission lines. A megawatt at Bujagali costs US$3.6 million – three times the US$1.2 million cost of a megawatt at the Three Gorges dam in China. In the same period, the cost of building a dam in Sudan and Ethiopia was US$1.3 million and US$1.1 million per megawatt, respectively. Corruption and mismanagement might be the reason for excessive construction costs at Bujagali. In addition, since Bujagali is a public private partnership project, the pressure to repay the loan is very high, resulting in a soaring electricity price.

Presently, the Bujagali electricity tariff for the end user is 24 US cents/ kwh, over 5 times the cost of the electricity being consumed from the Kiira and Nalubaale dams. Given that the per capita GDP of Uganda was only US$589 in 2012, according to the IMF, this tariff rate means that utility bills can exceed 10% of a family's income. Therefore, Ugandan electricity users have to worry, since decent living cannot be guaranteed without enough remaining income for needs such as housing, clothing, school fees, and transport. Although Uganda needs more energy, it does not need another economically disastrous dam.

So far, the priority of the G20 under Russia's presidency is to improve the investment environment, which is quite justifiable given the current global economic landscape. However, sustainable large-scale infrastructure development requires regulatory mechanisms to mitigate the risks that arise from social and environmental impacts. In addition, technical assistance from civil society organizations (CSOs) will be essential, since they can utilize their unique flexibility, special expertise, and often their proximity to the infrastructure to promote dialogue, engagement, and support among multi-stakeholders.

> **...the case of the Bujagali dam exemplifies the importance of taking social and environmental factors into account when determining the economic feasibility of a project.**

Finally, the case of the Bujagali dam exemplifies the importance of taking social and environmental factors into account when determining the economic feasibility of a project. If the environmental and social considerations are not addressed properly, it cannot be assumed that infrastructure investment will lead to sustainable economic growth.

Resource Material on the G20's Initiative on 'Financing for Investment' in Infrastructure

Reports on Infrastructure Investment

- "Infrastructure: A G20 Agenda, The French Treasury's description of the 2011 G20 French Summit mandate on infrastructure (Powerpoint).
- Report of the G20 High-Level Panel on Infrastructure, October 2011.
- Infrastructure Action Plan, Report to the G20 by the MDB Working Group on Infrastructure, October 2011.
- "Transformation through Infrastructure: World Bank Infrastructure Strategy Update, Fiscal Years 2012-2015, including the supplement, "Supporting Infrastructure in Developing Countries," Submission to the G20 by the MDB Working Group on Infrastructure. http://www.boell.org/downloads/Supplemental_Note_Infrastructure.pdf
- "Infrastructure Development: Meeting the Challenge" by Amar Bhattacharya, Mattia Romani and Nicholas Stern (London School of Economics, Group of 24, et al.).
- Business 20: "Investments and Infrastructure" (Powerpoint).

Reports on Long-term Financing

- "Long-Term Investment Financing for Growth and Development: Umbrella Paper," World Bank, OECD, IMF, UNCTAD, UN-DESA, FSB, February 2013. (See pp. 31-33 for elements of proposed G20 work program.)
- "Investment and its Financing: A Macro Perspective," Annex to the G20 Surveillance Note, Meetings of G20 Finance Ministers and Central Bank Governors, February 15-16, 2013, IMF. http://www.imf.org/external/np/g20/pdf/2013/022113annx.pdf
- "Financial regulatory factors affecting the availability of long-term investment finance," Report to the G20 Finance Ministers and Central Bank Governors, Financial Stability Board, February 8, 2013.
- G20 directs OECD work on long-term financing
- Views compiled by the U.S. Chamber of Commerce for the G20 on long-term financing by G30, World Bank, FSB, and European Commission
- Role of the Private Sector in Development "Aid and the Private Sector: Catalyzing Poverty Reduction and Development?" Reality of Aid 2012 Report, 2012.
- "Are we asking the right questions? Public-Private Partnerships in International Development," A CAFOD Discussion Paper, April 2013.
- "Private profit for public good? Can investing in private companies deliver for the poor? By Jeroen Kwakkenbos, EURODAD, 2012.

MUST READ

"Toward the St. Petersburg G20 Summit: Russia's turn to steer the Group of Twenty"

by Mark Medish and Daniel Lucich, the Center on Global Interests (CGI), Washington, D.C. (Spring 2013)

According to this "interim report," Russia faces an enviable and unprecedented opportunity to steer multinational policies in visionary directions because it is presiding over four successive Summits: Asia-Pacific Economic Cooperation (APEC) in 2012, G20 in 2013, G8 in 2014, and BRICs in 2015. Yet, critics fear that, given its isolationist tendencies, Russia may stunt the G20 momentum or derail proceedings by focusing on a lopsided and Russia-centric agenda.
The Russian G20 program is aimed at global growth and jobs creation based on three pillars: quality jobs and investment, trust and transparency, and effective regulation. However, as Russia's business-heavy agenda is bolstered by a team of mostly economic and business experts, it is doubtful that progress will be made with other "global public goods" issues, such as climate, food security, and human rights.

The big issues facing the St. Petersburg G20 Summit are:

IMF Quota Reform. Currently, a country's IMF voting power is based on a quota determined by its GDP – a system which gives too much power to the United States and Europe relative to other shareholders. It is essential to reform this process to be more inclusive of under-represented countries. Unfortunately, the ongoing budget impasse in the U.S. is currently blocking ratification of one quota change – even while negotiations begin on a more fundamental change. As a result, the deadline for this issue might be pushed into Australia's G20 presidency in 2014.

Sovereign Debt. Member countries of the G20 have different approaches to tackling sovereign debt. Much of Europe tends to embrace austerity measures while the U.S. has relied on Keynesian fiscal stimuli. A one-size model does not fit all when it comes to debt management; navigating these differences will prove challenging for the Russian G20 presidency.

Global Reserve Management. Currently, the U.S. dollar is the dominant reserve currency; many desire to radically re-work the financial system by introducing regional financial centers. However, it is doubtful the current system could support such an upheaval. According to CGI, this shift will depend largely on market-driven processes.

Financing for Infrastructure. Russia has pushed for the G20 to improve access to long-term financing for large-scale infrastructure projects. However, further investigation may reveal that this is not a global issue, but rather a domestic issue for Russia to handle on its own, perhaps by restructuring its pension, insurance, and other social saving systems. One way the country could fund these projects is by **cracking down on offshore bank accounts**, which annually rob the country of billions in taxes.

CGI offers ten recommendations for the Russian Presidency, including focusing on climate change and food security, regional banking coordination, and concluding negotiations on the WTO Trade Facilitation Agreement.

The G20 presidency offers Russia a large degree of power in setting the global agenda, but the opportunity might be squandered if the country cannot set a clear, multilateral and cross-cutting program for growth and reform.

2013: A Convergence of G8 and G20 Agendas?

By Joanna Rea, Policy and Government Relations Manager, BOND, UK

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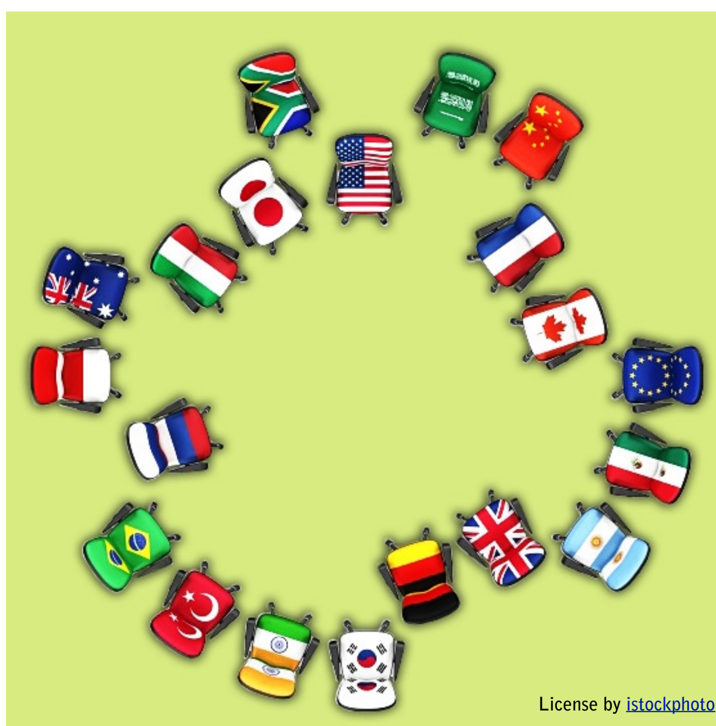
In an open letter to other G8 leaders in January, the UK Prime Minister David Cameron outlined his plans for the UK Summit in 2013. His headline priorities are neatly presented as the '3Ts' – tax, trade and transparency -- all in support of the global economy. Meanwhile, Russia has articulated its three priorities for its Presidency of the G20 in 2013 as "growth through jobs and investment", "growth through trust and transparency" and "growth through effective regulation".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On the surface, these top-line agendas look similar, raising questions about the possible convergence of work on the G8 and G20. Naturally, the fact that all G8 countries are also members of the G20 would suggest some alignment in the priorities of both groups, but it also raises questions about the need for both groups to continue to exist. Is the G8 still relevant in a G20 world? What added value can the G8 bring to a changed geopolitical landscape that needs buy-in from more than its eight member countries in order to make real progress on global issues? And, in the immediate term, how can the G8 deliver concrete outcomes at its June 2013 Summit that are not rejected by the wider G20 group at its September 2013 Summit?

> **...can the G8 deliver concrete outcomes at its June 2013 Summit that are not rejected by the wider G20 group at its September 2013 Summit?**

G8 Renaisance.
In recent years, the G8 has undergone somewhat of a renaisance. The 2011 French Summit (in Deauville) was probably the last one accompanied by fanfare since, in 2012, the US changed the format and tone of the Summit to resemble the G8's original, informal nature where Leaders engaged in 'fireside chats'. The UK is expected to continue this trend in 2013.

> **Another important shift is the move away from large financial pledges on thematic issues (such as heath, aid, debt relief, and food)...**

Movement away from Pledges.
Another important shift is the move away from large financial pledges on thematic issues (such as health, aid, debt relief, and food) to a more introspective approach that focuses on G8 countries getting 'their own houses in order'. It is here that the G8 could genuinely add value, and complement rather than duplicate broader international processes, such as the G20.

Established Track Record.
The G8 is also well-established (this will be the 39th summit) with a proven track record of reaching consensus, making clear decisions and agreeing on both collective and individual commitments. While the group has fallen short in its delivery of some commitments, there are important lessons to be learned about how to secure concrete targets and outcomes, something the G20 has struggled to achieve in a consistent way.

Accountability.
The G8 also has the potential to set new standards on accountability. The UK government has committed to publish, ahead of the June summit, a comprehensive accountability report that tracks over sixty G8 development-related commitments in nine sectors. Alongside a qualitative analysis of the commitment, the report is also expected to adopt a new scorecard approach that goes beyond simple

metrics to score the G8 against the delivery of agreed commitments. In addition, if this year's G8 recognises the need for accountability -- not only to itself but to all the non-G8 countries that are affected by its decisions -- it would set an important precedent for the G20.

G8-G20 Relations.
Even if the G8 successfully agrees to strong commitments on issues such as tax and transparency in June, it will be difficult to convince the other members of the G20 to adopt what will be perceived as initiatives that have been preordained by an exclusive and less representative group. The UK, as well as other G8 countries, must be mindful of this dynamic and strike a delicate balance that keeps a focus on concrete and credible outcomes while, at the same time, leaving space and flexibility for other countries to meaningfully contribute and potentially agree to deliver complementary initiatives. The G8's focus on 'getting its own house in order' is also a useful approach that does not undermine the opportunity for (slightly) broader and more representative groups to reach agreement on collective commitments.

Special Issues for the G8.
The UK has also decided to use the convening power of its G8 presidency to make progress on other important issues. For example, the UK will host a high level event on hunger and nutrition a week before the main leaders' summit, and the foreign ministers' track has launched a comprehensive initiative to prevent sexual violence in conflict situations. The leaders' summit will also include the standing agenda item to discuss foreign policy 'issues of the day'.

The UK's G8 Presidency: Key Dates

Event	Date & Location
G8 'nutrition for growth event'	8 June, London
G8 3Ts event	15 June, London
G8 Summit	17-18 June, Lough Erne, Enniskillen, Northern Ireland

Russia's Key Role.
Russia has a pivotal role to play in addressing all of these challenges. Not only is it a member of both the G8 and G20, and the host of the 2013 G20 presidency, it will also assume the Presidency of the G8 next year. Russia could be the bridge between the two groups in 2013 and beyond.

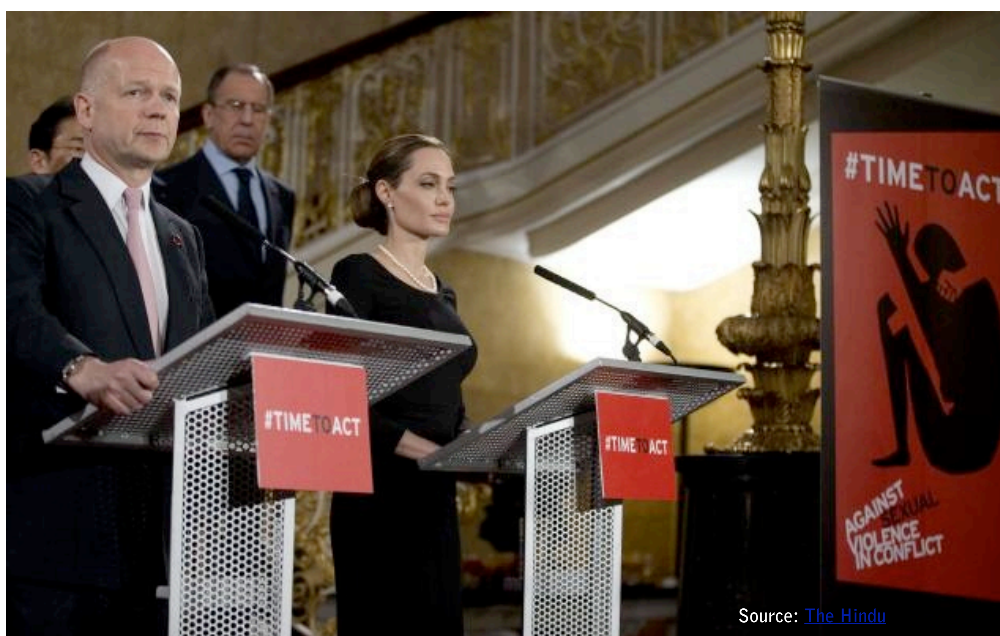
Russia could be the bridge between the two groups in 2013 and beyond.

Official website of the UK G8: https://www.gov.uk/government/topical-events/g8-2013

Official twitter: **@G8**

KEY QUOTE: "...Lough Erne 2013 will return the G8 to its roots. The original leaders' fireside chat which inspired today's G8 gatherings took place at the Chateau de Rambouillet in 1975......Nearly forty years on, we will go back to those first principles. There will be no lengthy communiqué. No mile-long motorcades. And no armies of officials telling each other what each of their leaders thinks -- or should think. Instead we will build on the approach taken by President Obama at Camp David this year: one table and one conversation with G8 leaders holding each other to account....."

Fuente: http://www.huffingtonpost.com/david-cameron/g8-summit-2013-lough-erne_b_2167429.html



British Foreign Secretary William Hague and US actor Angelina Jolie, in her role as UN envoy, talks during a news conference regarding sexual violence against women in conflict, during the G8 Foreign Ministers meeting in London, on April, 11, 2013.

The G20's Initiative on "Financing for Investment" in Infrastructure

By Sergey Drobyshevsky, Managing Director of Russia's G20 Expert Council and Director of the Center for Macroeconomics and Finance at the Gaidar Institute for Economic Policy, Moscow

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Russia has identified the issue of "investment financing" – particularly for growth and job creation – as an overarching priority of its G20 Presidency this year. The goal of this initiative is to help overcome the global recession and set economies on a path of sustainable economic growth.

The worldwide economic crisis of 2008-2009, which was one of the most severe since the Great Depression, struck a devastating blow to both ends of the investment process. On the one hand, several factors are preventing companies from increasing production capacities and making new investments, such as reduced levels of aggregate demand, domination of negative expectations, and continued uncertainty regarding economic recovery. On the other hand, shrinking balance sheets in the financial sector (deleveraging) and budget consolidation have limited the volume of resources available for investment financing.

At the onset of the global financial crisis, there was a sharp contrast between the investment dynamics in the developed versus developing countries. In developed economies, investments declined by 15% before slowly beginning to recover, but investment as a share of GDP is 10% lower than during the pre-crisis period. In developing countries, the opposite occurred: investments during the crisis were on the rise, but this increase was variable across nations. In the end, a positive figure for total investment growth was achieved due to China's contribution. Furthermore, a significant share of the post-crisis investment, including investment in infrastructure, was the result of anti-crisis stimulus programs (which are currently being cut).

While in 2008 the reduction in international long-term debt capital flows (syndicated loans and bonds) impacted nearly all countries; their recovery in 2009 depended to a large extent on a country's access to international bond markets. In 2009, debt capital flows into the developing country members of the G20 increased by 18%, but they declined by 13% for middle-income countries.

In addition, the crisis seriously affected foreign direct investment (FDI) *from* OECD countries: FDI flows declined by 46% during 2008-2009. FDI flows *into* OECD countries demonstrated a comparable decline.

> **Although the issuance of corporate bonds by companies in infrastructure sectors has reached record levels, most of the funds raised were used to refinance existing debt.**

Thus, the world investment climate, especially relative to long-term investment, can be characterized by the following major features:

1. **Private sector.** Private companies and firms have little interest in new investment projects. This is the case for firms in both developed economies (where the prospects of a recovery in demand are dismal) as well as for developing economies. The latter remain dependent on the growth in developed countries; experience has taught them that domestic market demand alone does not suffice.

   Although the issuance of corporate bonds by companies in infrastructure sectors has reached record levels, most of the funds raised were used to refinance existing debt.

2. **Financial sector.** Contraction in the financial sector, which was also a result of more stringent requirements of bank regulators, diminished the lending activities of banks. With the overall rise in levels of risk and uncertainty, banks prefer to invest their available resources in highly liquid assets rather than in lending to the non-financial sector. (Banks can no longer choose "foolproof" assets, given the debt burdens of a number of countries that recently boasted the highest sovereign ratings). The active public issuance of debt securities has supported this process.

   During the crisis, the volume of cross-border bank lending and foreign currency lending by

European banks contracted for more than two years. Then, since 2009, the growth rate of long-term lending has been lower than that of short-term lending. As a result, banks from other countries, non-banking financial institutions, as well as capital markets began to replace European banks in the provision of long-term infrastructure financing. However, it is still unclear if they are capable of fully offsetting the roles of European banks, especially in small business financing and project financing.

Since the problems in the European banking sector are likely to continue in the medium-term, there is a significant gap between the demand for and supply of infrastructure resources. As evidence of this, in 2012, the volume of finance for infrastructure projects under implementation was at its lowest level in history.

3. **Institutional investors.** *Supply of capital.* Traditionally, these investors provide long-term resources, but they have experienced a sharp reduction in the supply of capital because, on one hand, they have suffered losses (due to the drop in prices of financial instruments during the crisis) and, on the other hand, the influx of new resources has also diminished as a result of cuts in the deductions and contributions from both employers and private persons.

   Cautious investment strategies. The economic crisis is also affecting the investment strategies of institutional investors, resulting in a more cautious placement of funds. Increased volatility and reduced return in the stock markets of U.S. and Europe have immediately reduced investors' appetite for risk and increased their demand for government securities with high degree of reliability.

   Other obstacles. Moreover, institutional investors' role in long-term financing is limited because of the absence of appropriate investment mechanisms; risk management and investment management challenges; questions of transparency; poor statistics; and the lack of "benchmarks" for assets with low liquidity.

...in 2012, the volume of finance for infrastructure projects under implementation was at its lowest level in history.

   Creditworthiness of borrowers. A necessary condition for the participation of many institutional investors in infrastructure projects is an "investment grade" rating of the borrower. Therefore, measures allowing potential borrowers to get such credit ratings (for example, government guarantees, mobilization of resources from international financial institutions) may lead to increased investment in infrastructure.

Currently, high volumes of unallocated resources have accumulated primarily in countries which export raw materials and developing economies.

4. **The geographic distribution of capital resources** has changed drastically. In the 1990s-2000s, investment finance was concentrated in economically developed countries and developing countries acted as recipients of capital. Currently, high volumes of unallocated resources have accumulated primarily in countries which export raw materials and developing economies. These savings come in various forms: sovereign wealth funds, savings by largest companies of these countries (frequently state-owned), international reserves of central banks, resources of development institutions, and state budgets.

5. **Budget resources in developed economies** are not reliable sources of long-term investment: budget consolidation requires major cuts in new spending and opportunities of new borrowing are limited. In the majority of developing countries, budget and quasi-budget resources are available, but their use for financing of domestic investment projects (e.g., infrastructure) is restrained by the low efficiency of budget investments and institutional limits on investments inside the country.

6. **Loose monetary policy and all-time low interest rates** do not increase the availability of financial resources for the economy. The situation is reminiscent of Keynes' "liquidity trap" phenomenon. However, the present situation is more complicated: banks are not simply unprepared to lend; instead, they are actively using liquidity coming from the financial authorities to improve their balance sheets, which were severely damaged by the crisis. Low interest rates play an important role for borrowers; however, governments have assumed the role of borrowers, and monetary authorities are only helping reduce the cost of servicing public debt.

7. **Government Debt.** It should be noted that government debt, even in developing countries and countries in transition and issued in local currencies, is one of the most attractive assets. The influx of foreign capital to these countries has helped develop local currency bond markets. At the same time, the volumes of corporate debt placed in the local markets are negligible.

Impacts of Reform

Financial Reform. The Financial Stability Board (FSB) has studied the potential impact on long-term financing of regulatory measures agreed at the international level in the FSB member-states. The main channel by which the measures affect long-term financing is the provision of more stable, reliable and efficient financial systems.

At this time, there is little evidence to support the proposition that global financial reforms have helped overcome the lack of long-term investment resources to any significant degree. Moreover, effects of such reforms will differ by jurisdiction.

...banks are not simply unprepared to lend; instead, they are actively using liquidity coming from the financial authorities to improve their balance sheets, which were severely damaged by the crisis.

It should be noted that, even though the reforms do not directly affect long-term financing, they still affect incentives of various financial institutions which participate in long-term investment market. In particular, in accordance with the agreed upon measures, banks will have to increase their levels of capital adequacy and reduce risk levels arising from transformation of the assets with different maturity. As a result, the price of long-term loans can increase and/or their supply can diminish. This means that the demand for resources from other suppliers of long-term financial resources will grow. Taking all that into account, their regulation must ensure efficiency in their functioning without negatively affecting financial stability. In the long-term, promotion of national savings and the capacity of domestic financial markets is going to ensure a greater volume of less volatile long-term financing, particularly in developing countries and countries in transition.

Non-Financial Reforms. Also, there are a number of non-financial factors that can undermine stimuli to implement long-term private investments. These factors include systems of taxation, encouraging debt financing to the detriment of capital stock, FDI restrictions, excessive state intervention, as well as inadequate protection of the rights of foreign investors.

Outlook for the Future

Despite high social returns, infrastructure projects often end up being unprofitable. To increase private companies' interest in such projects, it is necessary to bridge the difference between expenses and profits for private companies through the use of public resources as well as through the application of legislative and institutional measures. At the same time, authorities should avoid taking on excessive fiscal risks related to implementation of ambitious investment projects.

...authorities should avoid taking on excessive fiscal risks related to implementation of ambitious investment projects.

Nowadays traditional sources of infrastructure financing are limited. Historically considerable volume of infrastructure financing was invested by banks; major banks of developed countries financed projects in developing countries and countries in transition.

The willingness of private investors to finance infrastructure projects depends on the existence of well-functioning public-private partnership (PPP) schemes, the availability of resources for the development and implementation of projects; transparency and efficiency of the projects; an effective judicial system; capital repatriation rules; legislation; the existence of a credit culture in public infrastructure; and the quality institutions, including coordination among various authorities.

...the pre-crisis experience of Russia, China, and Brazil confirms that, in developing countries, new infrastructure projects frequently result in large volumes of infrastructure operations which have few benefits for economic development.

In conclusion, I would like to mention one more fundamental contradiction when considering infrastructure investments. Even though developing countries have the greatest need for infrastructure investments, it may be more prudent to implement such investments in the countries of Europe, the U.S. and Japan -- especially to stimulate the economy during crises or during an "investment pause". (Of course, such investment would not currently come through fiscal spending, but through attraction of the private capital, issuance of special infrastructure bonds by the project companies, etc.) In these countries, infrastructure investments may help set the stage for a new wave of sustainable economic growth. At the same time, the pre-crisis experience of Russia, China, and Brazil confirms that, in developing countries, new infrastructure projects frequently result in large volumes of infrastructure operations which have few benefits for economic development.

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MUST READ

"The World Needs A Multilateral Investment Agreement,"

by Anders Aslund, Peterson Institute for International Economics, Policy Brief 13-01, January 2013.

From 1970-1998, efforts to negotiate a Multilateral Investment Agreement (MIA) were defeated by the Government of France and social movements. This brief argues that, during the recent decade, the need for an MIA has increased and objections to it may have faded. Therefore, it suggests that, at its St. Petersburg Summit, the G20 should endorse the start of negotiations on a plurilateral MIA.

Aslund suggests that four preconditions for an MIA now exist: 1) the volume of foreign direct investment (FDI) has increased significantly (from about $27 billion in 1982 to $2.2 trillion in 2007); 2) FDI flows in both directions between developed and developing countries; 3) the number of bilateral investment treaties (BITs) has grown substantially, warranting an international standardized set of rules for FDI; 4) the WTO has emerged as the natural home for an MIA; and 5) expanding FDI by state corporations and sovereign wealth funds (SWFs) calls for standardized regulation.

The author traces the colonial roots of some FDI and efforts, for instance by UNCTAD, to promote a "code of conduct" for multinational corporations (MNCs) and, by Goldberg and Kindleberger, to supervise MNCs which were perceived as posing a threat to states in areas such as tax evasion, antitrust, balance of payments controls, export controls and securities regulation. These efforts were defeated by those, such as Bergsten, who feared that governments would take protectionist measures (e.g., tax incentives, domestic production requirements, export requirements), which could lead to investment wars similar to the trade wars of the 1930s.

The Uruguay Round of trade negotiations (1986-1994) concluded three investment-related agreements: Trade-Related Investment Measures (TRIMS); the General Agreement on Trade in Services (GATS); and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Then, from 1995-98, the OECD attempted to negotiate a draft MIA, but failed. In the wake of these attempts, social mobilizations against MNC-led globalization (and the WTO, the IMF, World Bank, and G7) culminated in 1999 in Seattle.

Now, Aslund claims that circumstances are ripe for an MIA because FDI has skyrocketed as a quote from Gary Hufbauer states, "In the three decades since 1980, nominal world GDP has expanded three times; merchandise trade has expanded six times; while the stock of FDI has expanded twenty times."

Aslund would retain three of the original chapters of the original MIA relating to: 1) treatment of investors and investments (e.g., national treatment and most favored nation (MFN) status; 2) investment protection and compensation for expropriation; and 3) dispute settlement, including state-state and investor-state procedures. He would add provisions covering: 4) corporate social responsibility (CSR); and 5) state corporations and sovereign wealth funds.

Adding CSR provisions to an investment agreement is an interesting idea; corporations should be legally responsible for their impacts. However, an MIA would expand the rights of multinational corporations in unacceptable ways that CSR provisions could not undo. Many investment provisions challenge the state's role in protecting the environment and the rights of citizens and, at the same time, deny developing countries the ability to employ the kinds of selective protectionism that industrialized countries used to advance their development.

Impressum

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