L20[1] Submission to the G20 Investment and Infrastructure Working Group

4 June 2014, Singapore

Overview

1. L20 welcomes the opportunity to share views with the G20 Investment and Infrastructure Working Group on 4 June 2014 in Singapore. With over USD80tr in assets under management, institutional investors – including pension funds, insurance companies, endowments and sovereign wealth funds – have a key role to play in meeting future infrastructure challenges within the G20 economies and beyond. Currently, only around 1% of their portfolio is invested in infrastructure-related assets and of this, most is equity investment in advanced economies by a few leading institutions in a few countries (notably Australia and Canada). Relatively little of this is in 'greenfield' investments. At the same time, much of the banking sector has reduced lending capacity and public finances managed by governments are under strain.

2. Given the importance of infrastructure in providing for a modern, efficient and productive economy that can deliver an adequate and sustainable standard of living for all citizens, built around good jobs, decent wages and social protection, it is imperative that governments continue to explore ways to facilitate institutional investor long term investment strategies, including infrastructure.

3. The G20 has a leadership role in mobilising investors for infrastructure. At the St Petersburg Summit in November 2013, the G20 endorsed High Level Principles on Long-term Investment by Institutional Investors[2]. It is time for these G20 Principles to be effectively implemented. The G20 should help institutional investors deliver patient, productive and engaged capital in a responsible way, while at the same time shifting away from short-termist and speculative trading behaviour. There are a number of pre-conditions for this to happen:

- Making infrastructure financing work for job creation and decent work;
- Ensuring rule of law for all, not just for foreign investors;
- Ensuring proper government planning and infrastructure markets;
- Addressing regulatory and market barriers to infrastructure finance;
- Ensuring fair and transparent risk sharing arrangement between public and private parties;

[1] The Labour 20 (L20) represents the voice of workers through their trade unions to the G20. It is convened by the International Trade Union Confederation (www.ituc-csi.org) and the Trade Union Advisory Committee to the OECD (www.tuac.org) working in tandem with current host the Australian Council of Trade Unions (www.actu.org.au) as well as with Global Union Federations, including the International Transport Federation (www.itf.org) regarding infrastructure financing. For more information http://www.ituc-csi.org/l20-australia-2014?lang=en .

[2] http://www.oecd.org/daf/fin/principles-long-term-investment-financing-institutional-investors.htm

- Promoting leadership by collectively organised retirement plans;
- Mainstreaming responsible business conduct; and
- Ensuring accountability and transparency of asset managers and bankers.

Making infrastructure financing work for job creation and decent work

4. Job creation and decent work should be essential objectives of the G20 initiative for mobilising finance for infrastructure. Meeting in St Petersburg in September 2013 the G20 committed to (i) promoting labour market adaptability and efficiency and ensuring adequate labour protection, (ii) invest in people's skills, quality education and life-long learning, (iii) labour market infrastructure and effective labour activation policies, and (iv) improving job quality, including through working conditions, wage bargaining frameworks, national wage-setting systems, and access to social protection.

5. These commitments should form the basis of the G20 agenda on infrastructure. It must be accompanied by more assertive commitments to (i) living wages and minimum wage floors, (ii) strong labour laws based on the ILO core labour standards and (iii) social protection floor that effectively protects working families and the poor. The agenda should be implemented in a way that helps support the ILO Decent Work agenda, including through adherence to the ILO Decent Work Country Programme[3].

Ensuring rule of law for all, not just for foreign investors

6. Upholding rule of law is a prerequisite for ensuring domestic and foreign investors and stakeholders can effectively contribute to infrastructure financing. However, rule of law should not be understood for the sole benefit of protecting investors' and creditors' rights. Rule of law should benefit all, citizens' and workers' rights included. Accordingly the implementation of the Principles and the G20 infrastructure agenda should have at its core the effective observance of rule of law for all, including observance of UN Human Rights norms, and an efficient and independent judiciary system.

Ensuring proper government planning and infrastructure markets

7. Establishing an infrastructure market and ensuring proper government planning are essential to enable infrastructure projects to be prioritised against a set of national interest criteria. These can take the form of freight plans, energy plans, water plans, communications plans, urban plans etc. Without appropriate planning it is difficult to prioritise essential infrastructure and for governments to then identify the risk profile, which often requires community buy in having had the opportunity to consider government plans.

8. With regard to the establishment of an infrastructure market, there are two key elements for which the G20 should take action and commit to:

- Government capacity to identify and prioritise a pipeline of infrastructure projects that are suitable (or could be made suitable) for institutional investor financing participation. In Australia, a national body, Infrastructure Australia, has played this role.

[3] http://www.ilo.org/public/english/bureau/program/dwcp/

- The creation of a transparent market offer mechanism for priority projects, as central to the development of an infrastructure market. The market offer process needs to be tailor-made to attract pension fund investment contributions and ensure transaction costs (bid costs and commissions/fees) are minimised.

Addressing regulatory and market barriers to infrastructure finance

9. The G20 and members of the Financial Stability Board should be concerned about regulatory barriers to institutional investors' exposure to infrastructure. In some countries, investors can be deterred from investing in illiquid assets because of inadequate prudential and funding rules and/or strict quantitative restrictions.

10. Investors also need to have access to financial products – fixed income, equity, alternatives and derivatives – that are specifically designed to meet the long term risk and liabilities of infrastructure. Leveraging private money with public financial support through risk mitigation tools – government guarantees on infrastructure and 'green' bonds, first equity losses in joint investment funds, tax and financial incentives – might be warranted in this regard.

11. Ensuring investors' security of investment in infrastructure is essential. This is particularly true for pension funds as schemes in many OECD countries have reached maturity in a context of rapid population ageing. To both mitigate risk and reduce the budget outlay from governments there should be a place for appropriately priced government guarantees for pension funds to increase exposure to infrastructure. This would help ensure both modest returns for retirement incomes and build broad investment pools for infrastructure in both developing and developed countries or indeed cross border projects.

Ensuring fair and transparent risk sharing arrangements between public and private parties

12. However public support for private financing – through government guarantees and financial incentives – does not come free in the long term. It needs to be priced appropriately and managed transparently. The need for "leveraging" private finance should not be mixed with, or transformed into, some unconditional subsidisation of bankers and of asset managers, and/or situations in which profits and gains are privatised, while deficits and losses are socialised.

13. Fair and transparent risk-sharing arrangements should prevail whenever public money is used to support private projects as is the case of Public-Private Partnership. To achieve that, the G20 could usefully draw on the OECD Principles for Public Governance of Public-Private Partnerships[4]. If implemented and observed fully, these Principles can indeed provide for a robust governance environment for fair and transparent risk-sharing between public and private investors while giving a voice to stakeholders, including workers, local communities, and consumers.

14. Priority should also be given to ensure that financial markets' perception of investment risks in developing countries is not negatively biased. There is some evidence, however, of a market bias against risk rating of developing countries, as shown in report commissioned by the G20 in 2012[5].

---

[4] http://www.oecd.org/gov/budgeting/PPP-Recommendation.pdf

[5] Nearly 77% of the 35 Least Income countries (mainly in Africa) and 55% of the 56 Medium Income Countries are still not graded by any rating agency. While 75% of the 52 Upper Income Countries are graded, just 37% are rated "investment graded". Source: "Misperception of Risk and Return in Low Income Countries - Innovative Finance

Promoting leadership by collectively organised retirement plans

15. Not all forms of institutional investor can equally contribute to long term investment and infrastructure financing. Governance and fund design matter. Evidence shows that the leaders in financing infrastructure are most often large pension schemes that are based on sector-wide collective agreements – as opposed to company-controlled individual schemes. In the case of clean energy investment, pension funds leaders include the Australian Superannuation Funds, the Danish PensionDenmark and ATP, the US CalPERS and CalSTRS, the Dutch ABP and PGGM, and the Swedish APs.

16. In order to build large pools of capital and hence reach economies of scale and increase efficiency, the G20 should help promote sector-wide pension schemes based on negotiations between social partners – trade union and employer groups – and their capacity to engage collaborative initiatives in complex infrastructure financing schemes. Partnerships and synergies work best when the governance of infrastructure entities involves large or majority shareholdings by pension funds and when the existing workforce have expectations about the corporate behaviour of the pension fund owners. Within the labour movement, the Global Unions Committee on Workers' Capital (CWC) is currently developing awareness and education tools for member-nominated pension trustees to address the specific challenges associated with infrastructure investment[6].

Mainstreaming responsible business conduct

17. There can be no long term investment without responsible business conduct. The G20 should actively support the use of comprehensive and robust investor risk management policies including environmental, social, human rights and tax due diligence. To that end, the G20 could usefully draw on the experience of the UN Principles for Responsible Investment and on the recent OECD work on the application of the OECD Guidelines for Multinational Enterprises to the financial sector [7] – both instruments being referred to in the G20 Principles. Since infrastructure financing may involve excessively complex cross-jurisdictional investment schemes, specific attention should be paid to the identification and prevention of risks related to corruption and tax avoidance.

Ensuring accountability and transparency of asset managers and bankers

18. The lengthening of the "investment chain" between institutional investors (as asset owners) and investee companies makes it more difficult to achieve transparency and accountability through the effective exercise of investor rights. Asset managers, investment banks and other intermediaries participating in infrastructure financing are held to account by their clients, asset owners, and regulators. The G20 should also help facilitate remuneration schemes that promote long term perspective, the prevention of conflicts of interest, and the alignment of asset managers and advisers' duties with the long term interest of the ultimate owners of the funds.

Serving Infrastructure Development: a Win-Win Deal", Roland Berger Strategy Consultants, G20, Los Cabos, June 2012.

[6] www.workerscapital.org

[7] http://www.oecd.org/daf/inv/mne/oecdguidelinesformultinationalenterprises.htm

Source

OECD Task Force on Institutional Investors and Long Term Financing: TUAC Submission, March 2014 http://www.tuac.org/en/public/e-docs/00/00/0E/42/document_doc.phtml

TUAC Contribution to the OECD public consultation on draft G20 Principles on Long Term Investment by Institutional Investors, May 2013 http://www.tuac.org/en/public/e-docs/00/00/0C/C9/document_doc.phtml

TUAC Submission to the OECD on Long-Term Investment Financing by Institutional Investors, April 2013 http://www.tuac.org/en/public/e-docs/00/00/0C/C1/document_doc.phtml

Climate Change Risks and Opportunities for Investors, CWC, May 2013 http://www.workerscapital.org/images/uploads/CWC_climate_change.pdf

What role for pension funds in financing climate change policies? Joint TUAC - ITUC issues paper, November 2012 http://www.ituc-csi.org/what-role-for-pension-funds-in,12358?lang=en