



L20 Submission to the G20 Investment and Infrastructure Working Group

25-26 May 2015, Singapore

1. The Labour 20 (L20)¹, representing the voice of trade unions to the G20, submits the following comments for consideration to the G20 Investment and Infrastructure Working Group meeting in Singapore, 25-26 May 2015. At the outset, the L20 calls upon the IIWG to improve transparency in its proceedings regarding the active participation of outreach groups. The meeting agenda includes a session with B20 representatives. The L20 has not been invited to attend. It is important that the IIWG engages with a wider group of stakeholders than just the B20. Infrastructure finance is indeed an issue that matters to all, not just investors and bankers. Based on the agenda of the meeting, and the key items for discussion, we would like to share the following comments.

Raising public investment in infrastructure

2. Seven years into the crisis, the global economy is failing to recover. The combination of low interest rates, weak growth and weak balance sheets in the banking sector mean that despite very low interest rates, credit is not flowing to the real economy, but rather into secondary markets and speculative investments. Thus we find ourselves in a paradox of low interest rates, low levels of investment, and high stock prices and shareholder returns. In the US alone, shareholder returns reached more than \$903bn in 2014, with \$350bn in dividends and \$553bn in buybacks². In advanced economies, corporate investment has overall declined by an average of 25% since the global financial crisis compared with pre-crisis forecasts³. The investment share has declined, whilst the profit share has increased.

3. A major expansion of public investment in infrastructure is necessary to kick-start private investment. A modelling exercise prepared by the L20 evaluated the impact of a policy mix of public investment and coordinated wage increases⁴. It showed that such a scenario could create up to 5.8 percentage points more growth in G20 countries in the next five years up until 2018. By financing productive investments, such a strategy also increases economies' longer-run sustainable growth potential.

¹ The L20 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 L20 host organisations, TÜRK-İŞ, HAK-İŞ and DISK. For more information, go to Labour20.org.

² April 12, 2015 US companies on course to return \$1tn to shareholders in 2015
<http://www.ft.com/intl/cms/s/0/2c1a34d8-dfa5-11e4-a06a-00144feab7de.html#axzz3ZvUH8mLF>

³ Uneven Growth: Short- and Long-Term Factors -- Chapter 4. Private Investment: What's the Holdup?, WORLD ECONOMIC OUTLOOK, IMF April 2015 <http://www.imf.org/external/pubs/ft/weo/2015/01/>

⁴ Onaran, O. (2014), "The case for a coordinated policy mix of wage-led recovery and public investment in G20", L20 Working Paper 2014, University of Greenwich, United Kingdom/ Paris, France.

Promoting collective pension schemes

4. While public investment is central in financing infrastructure, institutional investors, including pension funds, should also step in and diversify their portfolios. There is certainly room for improvement. According to the latest OECD survey of large pension funds, unlisted infrastructure (i.e. private infrastructure funds and direct investment) accounts for only 1% of total assets⁵. In raising that share, it is important to look at the governance arrangements that best fit the long term. Not all governance arrangements can equally contribute to long term investment and infrastructure financing. As shown in the annex, with the exception of public reserve funds, the largest pension funds with substantial exposure to infrastructure are based on sector-wide collective agreements (as indicated by the presence of member-nominated board representatives).

Accountable and responsible financial intermediaries

5. Financing infrastructure is about financing illiquid assets. Investors need to have access to financial services and products that are specifically designed to meet the long term risk and liabilities of infrastructure. To that end, financial intermediation needs to be facilitated. However, there can be no long-term investment without proper financial intermediaries that are held to account and act according to proper responsible business conduct principles. Asset managers, investment banks and other intermediaries participating in infrastructure financing should be held accountable by their clients, asset owners, as well as by regulators.

6. A crucial point in this regard is the alignment of financial intermediaries, asset managers and advisers' duties with the long-term interest of the ultimate owners of the funds. Responsible financial intermediation also implies the use of comprehensive and robust investor risk management policies including environmental, social and human rights, and tax due diligence. In order to support such policies, the IIWG could draw on the OECD/G20 High Level Principles (and its principle 3.4 on the integration of social and environmental criteria in investors' risk management) but also on other international instruments, including the UN Principles for Responsible Investment and on OECD guidance on the application of the OECD Guidelines for Multinational Enterprises to investors – both instruments are being referred to in the G20 Principles.

Legal and institutional framework

7. Sound legal and institutional settings, including rule of law implying an efficient and independent judiciary system, are a prerequisite to ensure that investors can effectively come together to contribute to infrastructure financing. Upholding the rule of law, however, has to work for all, not just for private investors. To facilitate long term investment, it is imperative not to limit protection to investors' and creditors' rights. The legal framework should be firmly based on the observance of UN Human Rights norms, the ILO core labour standards, as well as on a number of other agreements and principles that are relevant to infrastructure projects such as the United Nations Declaration on the Rights of Indigenous People, including the principle of free, prior and informed consent.

⁵ OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, 2014
http://www.oecd.org/daf/fin/private-pensions/2014_Large_Pension_Funds_Survey.pdf

PPP models to ensure fair and transparent risk sharing

8. Public support to private finance – including government guarantees on private securities, first equity losses in venture funds and PPPs – can have a role in promoting long-term investment strategies. G20 governments, however, should not fall into blind enthusiasm for “blending” or “leveraging” private finance with public money. Strict transparency rules and fair risk-sharing arrangements should prevail to prevent situations where gains are privatised, while losses are socialised. Serious concerns remain about PPP schemes financing infrastructure and services due to the complexity of the contractual arrangements (as compared to traditional public procurement), the unequal and uncertain distribution of risks between the government and private investors and due to the threats posed to public services.

Weblinks

- 09/02/2015| L20 Priority Recommendations to the G20 Finance Ministers, February 2015 http://www.tuac.org/en/public/e-docs/00/00/0F/DC/document_doc.phtml
- 23/07/2014| L20 Submission to the G20 Investment and Infrastructure Working Group, 4 June 2014, Singapore <http://www.ituc-csi.org/l20-submission-to-the-g20>
- 05/03/2014| OECD Task Force on Institutional Investors and Long Term Financing: TUAC Submission http://www.tuac.org/en/public/e-docs/00/00/0E/42/document_doc.phtml

Annex: Top 20 largest pension funds and national pension reserve funds

	Country	AUM \$bn 2012	Of which infrastructure (%)	Member nominated board representatives
Government Pension Investment Fund	Japan	1,292	0.002	
Government Pension Fund	Norway	712	n.a.	
ABP	Netherlands	373	1.5	X
National Pension	South Korea	368	n.a	
Federal Retirement Thrift	US	326	n.a	X
California Public Employees Retirement System	US	245	0.6	X
Local Government Officials (Chikyoren)	Japan	201	n.a	X
Central Provident Fund	Singapore	188	n.a	
Canada Pension	Canada	184	3.8	
National Social Security Fund	China	177	n.a	
PFZW	Netherlands	177	2.4	X
Employees Provident Fund	Malaysia	176	3%	
California State Teachers	US	156	0.7	X
New York State Common	US	150	n.a	X*
Florida State Board	US	134	n.a	X
New York City Retirement	US	132	0.015	X
Ontario Teachers	Canada	130	8.4	X
ATP	Denmark	129	2.3	X
Government Employees Pension Fund	South Africa	122	0.1	X
Pension Fund Association	Japan	120	0.1	

* advisory role

Source: pension fund websites & OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, 2014