

ACCA (the Association of Chartered Certified Accountants) roundtable on

Bridging the infrastructure gap

10 July 2019

On 10 July 2019, ACCA (the Association of Chartered Certified Accountants) held a roundtable on **Bridging the infrastructure gap**. At this event, **Alex Metcalfe**, ACCA's Head of Public Sector Policy, presented ACCA-CPA Canada [report](#) **How accountants can bridge the global infrastructure gap: Improving outcomes across the entire project life cycle**.

- The study was completed in partnership with CPA Canada. Alex Metcalfe named four main methods used in the study: a survey that went out to ACCA's international membership (it received 3600 responses across 118 countries); roundtable discussions were held in seven different countries; economic analysis to quantify the global infrastructure gap and to understand the nature of the challenge; comprehensive literature review.
- Two different approaches were taken in order to quantify the infrastructure gap. The first of which is **infrastructure investment gap** – this is something much more commonly talked about in literature and is quantifiable notional target. This offers an aspirational target. The second approach – **infrastructure service gap** – is a more novel one. It was based on survey analysis and represents a subjective view. See more – page 15 of the [report](#).
- In order to understand the role of the accountant in trying to address the infrastructure gap, the study looked into the biggest barriers that accountants see in this space (page 44). Responses varied across different regions, however three dominant concerns came out of the survey: lack of political leadership; lack of finance and/or funding; planning and regulatory barriers.
- Survey respondents were asked what tools could improve infrastructure **project selection** (page 23). Removing political decision-making was named by finance professionals as a number one tool. Other important tools are putting mechanisms in place to reduce corruption and the need to apply standard assessment tools to evaluate projects during selection.
- As regards to **financing projects** (page 29), political imperative to build new infrastructure and stay within fiscal targets is an area where accountants have an important role to play. There are fairly diverse views and the level of comfort across regions with FDI being used to build and maintain infrastructure. An interesting takeaway for Europe is the divide between Western Europe (negative view on FDI) and Central and Eastern Europe (positive view on FDI).
- The part on **delivering projects** (page 39) mainly focussed on public-private partnerships (PPPs). Three main barriers were identified: poor monitoring and oversight of projects by government; confusion about where each side provide value in a PPP; uncoordinated commercial acumen in the public sector. There is a critical role for accountants to play in addressing the first barrier. Research shows that there are usually pretty good pre-contractual PPP arrangements, however once the contract is signed, post-contractual period is where the issues arise. One of the ways to deal with it is through addressing the moral hazard: there are different actors (owner, contractor, investor) within delivering infrastructure projects and they all have different priorities. This is an important area where accountants can step in and exercise the oversight role.
- The report provides a set of 20 recommendations. Some of the key recommendations: **Create a vision of future infrastructure provision** - establish expert-led bodies to forecast infrastructure requirements and recommend projects on

the basis of need; **Get incentives right in financing projects** - monitor the interaction of off balance sheet liabilities and government fiscal targets; **Tackle corruption and moral hazard** - professionalise the public sector finance function to empower public servants to challenge unethical behaviour.

- The roundtable discussions revolved around the level of infrastructure gap debates in public life across the EU, and the key missing points in the infrastructure debates across member states, the interaction of the role of expert-led bodies and the political process in selecting infrastructure projects, as well as the role of private finance in meeting the infrastructure investment gap. Participants also debated whether foreign direct investment should play a more prominent role in financing infrastructure. Experts were invited to reflect on whether sustainability is sufficiently considered in infrastructure policy across the EU, and in which area would they see accountants making the greatest difference in delivering infrastructure in their country.
- The roundtable confirmed that we need more effective collaboration between public and private sectors in order to help unlock public infrastructure investment. Insufficient skill to negotiate with the private sector, negative perception of private finance for public infrastructure and the lack of attractiveness of infrastructure investment, are some of the main challenges that limit the flow of private finance for public infrastructure. Participants agreed that finance professionals, such as accountants, can act as a critical interface between different actors, for example through effectively communicating and negotiating the terms of infrastructure finance deals.

Main highlights from the roundtable discussion:

- **What is the level of infrastructure gap discussions in public life across the EU? What are the missing areas of debate in infrastructure policy discussions across member states?**
 - The European Commission has a clear interest in understanding the infrastructure gap. The EU already has some instruments to address it, however there is not much funding available.
 - It is necessary to address the ultimate need to fund the infrastructure: there must be a distinction between financing infrastructure at day one and funding, which is how you ultimately pay for it. The funding only has a finite number of sources, including user charges or general taxation.
 - It would be useful to know infrastructure investment needs per habitant. Depending on different authors, it varies between 200-1000 dollars and methodology to come to these numbers is unclear.
 - Addressing the infrastructure gap is not only a matter of finance but also governance.
 - It is important to get the alignment and incentives right when it comes to the EU funding projects. There needs to be a vision, clear regulatory framework and political accountability in order to get the alignment of interests. There is interplay in how EU funds and trans-European projects can support what is happening in member states.
 - There are some concerns around infrastructure project failure and media backlash. It is key to not disregard successful projects because of past failures.
 - There is a need to introduce a language of convergence. We need to take social infrastructure into account. There are a lot of discussions around economic convergence but we shouldn't forget social convergence. The conditionality around how to use financial funds in the next financial framework is key, especially when we talk about specific public sectors such as healthcare or education.
 - What is often missing in infrastructure policy is maintenance of existing infrastructure. Long term maintenance should be integrated in infrastructure contracts. European Commission's DG GROW has produced a [paper](#) on the State of the transport infrastructure maintenance.

- Eurofound has produced [research paper](#) that has linked the perception of quality of public services to trust in institutions, including government.
- **Should expert-led bodies be selecting infrastructure projects, or should these decisions be made through the political process?**
 - Some experts stressed that involvement of both, expert-led bodies as well as political processes, are needed. Things must be done properly and consequences of decisions should be made clear. It is essential, although extremely difficult, to have a good independent report on infrastructure projects first. The assumption that politicians will read or understand the reports is unrealistic.
 - It is crucial to consider the role of users in this exercise and make sure their voices are being heard. There are three parties in the PPP: owner, contractor and investor. Staying in only this triangle doesn't allow solving issues effectively when a contractual problem occurs. Adding the user element completely changes the economic and financial equation. The user should be at the top of everything – others are just the tools to organise the process. Politicians often don't know the real value and needs of the user.
 - Timing is a big issue because many infrastructure projects have extremely long time horizons and politics is short. There needs to be role for expert-led bodies in terms of being able to provide long-term context.
 - The distinction needs to be made between strategic pan-European and local projects. If the decision is made by political authority on European strategic infrastructure, we risk that some infrastructure that is highly necessary for connectivity within the single market may become hostages of political power.
- **What should the role of private finance be in meeting the infrastructure investment gap? What are the key challenges governments face in securing private finance?**
 - It would be interesting to have more information on which infrastructure needs to be financed by the user and which by the tax payer; similarly to the job the IMF is doing in evaluating sustainability of finance. It should be clarified what is expected from the private and the public sector. It was noted that the UK think tank the Institute for Government has done some analysis in this area.
 - Private sector is not responsible for selecting the project or guaranteeing the project success. The available private finance is also way too small compared to the infrastructure investment needs. We cannot expect private finance to solve the infrastructure gap issue.
 - ACCA also covers the availability of institutional investors, such as pension funds, in the report. These investors are very much looking for long term stable investments with lower risk. Accountants could look into measuring risks.
 - The EIB is trying to look into the local dimension of infrastructure gap, together with mayors and municipalities. Municipalities with the worst infrastructure quality were not only the ones that have more difficulties in accessing finance but also the ones that have more technical issues in implementing complex projects. If we want to make infrastructure digital and sustainable, technical assistance is essential due to growing complexity.
- **Should foreign direct investment (FDI) play a more prominent role in financing infrastructure?**
 - FDI is often a sensitive issue – many are not against it but there is some sensitivity around the issue of competition or investment in strategic infrastructure. There is EU legislation on strategic infrastructure and it is important to see how this will play out in the future.
 - If we consider concessions, in case of involving the FDI, after few years users will be reluctant to pay for dividends which are going out of the country.

- As regards to gas infrastructure, the FDI depends on whether it is considered critical infrastructure or not – traditionally there is not much FDI involved.
 - Europe has many resources but huge fragmentation still exists between member states. This issue is being addressed by the CMU, the Banking Union and other measures. It is necessary to look at the FDI issue from the long term political ideological perspective together with the issue of how to channel the EU savings towards infrastructure.
- **Where do you see accountants making the greatest difference in delivering infrastructure in your country?**
 - Around 50% of infrastructure problems are connected to the budget. Another 25% of the problem has to do with preparation activities; a lot of it is related to systems, internal control, objectives, targets, indicators. It is crucial to get the fundamental aspects right before we go into innovations. Improved planning and budgeting is key to closing the infrastructure gap.
 - Evaluating costs for the future is complicated when dealing with projects in a traditional way. Addressing this could dramatically change results on country ineptness and the way project is procured. Well implemented projects bring GDP and this brings money back through the tax system. IPSAS board is looking into discount rates.
 - Accountants also have a role to play in addressing corruption problems, as it is a big issue in many European countries. Whistleblowing legislation and professionalisation is also very important.
 - As regards to decentralisation, energy and gas infrastructure has developed a lot over the past decades and many funding mechanisms are facilitating this trans-European infrastructure development. Historically gas was normally produced at the local level and then well interconnected broader markets with various import sources would be created. Now, slowly but surely, new types of renewable and decarbonised gas is being produced locally. This is a new dynamic that is being observed in the market and it might require focussing less on big infrastructure projects and going from transmission to distribution. This might be one of the challenges that accountants should look into.
 - **Is sustainability sufficiently considered in EU infrastructure policy? What could help to mainstream sustainability in infrastructure projects?**
 - Sustainability is being taken into consideration much more than in the past. Many tend to focus on climate, however sustainability has many more dimensions. We need to discuss how to mainstream sustainability and make sure everyone takes it into consideration. Bringing it to the market and the private sector is key. It is unclear whether more regulation is needed or voluntary approach is enough.
 - We should look at a system approach rather than a project specific approach. There needs to be a consideration around incorporating sustainability in new infrastructure and also in existing infrastructure.
 - Pricing on carbon is a way to address the issue but if we look at taxonomy exercise in this area, complexity appears. If we consider sustainability in infrastructure, we need to consider the infrastructure itself and what flows through it. The complicated issue is ensuring that sustainable solutions are the cheapest available solutions. There could be role for accountants to highlight the actual value of infrastructure compared to an alternative. When it comes to planification, very often different aspects are being looked at in silos.
 - Sustainability can be looked from economical but also from durability perspective. Economical sustainability clashes with current public procurement practice. It is important to move away from cost perspective to quality and value in order to ensure durability.

- Difference between sustainability and adequacy shouldn't be forgotten in this debate. When we talk about sustainability of pension systems, there are many diverging views. Some look at this issue from financial sustainability point of view, others consider adequacy for people benefiting from the system.