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ONE VISION IN THREE PLANS:
BUILD BACK BETTER WORLD & THE G7 GLOBAL INFRASTRUCTURE INITIATIVES

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To bolster economic recovery from the Covid-19 pandemic and halve global emissions by 2030, the developing world will require record amounts of finance to build clean infrastructure this decade – over a trillion dollars annually. The G7 introduced the Build Back Better World (B3W) initiative last year to directly address this massive funding gap. Meanwhile, individual G7 members have since launched similar initiatives of their own, which risk duplicating efforts and can create coordination challenges. The implementation of this global infrastructure finance vision, however, hinges on all of these programs addressing the same key questions – on the supply of finance, project pipeline planning, coordinating mechanisms, and a supportive diplomatic framework – in order to be successful.

With climate change accelerating and the Covid pandemic still raging, 2022 must be a decisive year for progress. This policy paper is the first in a series to focus government and multilateral entities on animating Build Back Better World and the other G7 infrastructure initiatives to deliver transformational finance this decade. The purpose of this briefing is to provide a snapshot of announcements and developments to date and plot a forward path so these initiatives deliver on their promise, geopolitically and ecologically.

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Summary

In 2021, G7 partners announced several global infrastructure initiatives to boost developing countries' economic recovery from Covid-19 and align development finance with the Paris agreement's climate goals: the US-championed **Build Back Better World (B3W),** the EU's **Global Gateway**, and the UK's **Clean, Green Initiative (CGI)**. These are promising programs that could lead to a powerful new development paradigm but only with credible financial firepower, a functioning model of how to get money out the door, and a fast-start list of green infrastructure projects that will cut emissions.

At COP26 in Glasgow, President Biden, President von der Leyen, and Prime Minister Johnson met and issued a set of principles to guide all three initiatives. While a useful step forward, the few public announcements made so far concerning B3W, CGI, and the Global Gateway have largely failed to address:

- **Money**. Where will it come from and how much? Are these new commitments?
- **Modalities**. How will these initiatives work together? Where are they housed?
- **Pipeline**. How will funding be connected to projects? Country platforms? Packages?

To halve global emissions by 2030 and stabilize the climate, time is of the essence. This year, the G7 must address these questions and move expeditiously to shift trillions of dollars in public and private investment toward clean energy infrastructure in lower- and middle-income countries that will lower emissions trajectories. To kickstart the structuring process and move beyond the project-by-project approach, G7 countries need to collectively coordinate their plans.

Germany, as G7 president, and the US, seen to be driving B3W, must engage with and rally their peer nations to ensure these initiatives become real and result in a significant ramping up of investments. Having reached agreement on underlying principles, the G7 should now set out an organizational structure and a coherent public plan for funding and operationalizing their vision. The intersection of these initiatives needs to be intentional and well conceived, whether they coordinate to pool finance via country platforms or agree to focus efforts in different regions. The resulting strategy should be Paris aligned and compatible with a 1.5°C future. This is an immediate priority for 2022.

Context

B3W, CGI, and the Global Gateway all hold promise as potential vehicles to deliver a clean global energy transition. The idea is to leverage public funds to co-share risk and further mobilize trillions in private investment for green infrastructure projects around the world. A **recent report** by the International Energy Agency, World Bank, and World Economic Forum finds that by the end of the 2020s, clean energy investment in emerging and developing economies, which was less than $150 billion in 2020, needs to expand by more than seven times, to above $1 trillion annually, in order to put the world on track to reach net-zero emissions by 2050. This can only be achieved if these announced G7 initiatives are able to effectively mobilize further private investment at an unprecedented level. Another **report by E3G** outlines G7 policy options that convincingly demonstrate how leaders could unlock trillions in capital at the speed and scale needed for a safe climate and pandemic recovery.

By increasing access to finance, the G7 can assist developing countries in scaling up clean energy investments and building modern economies while allowing for sovereignty and sustainable debt levels, if well executed. Though not explicitly stated, these infrastructure initiatives were partially conceived as a geopolitical counter to China's influence via the Belt and Road Initiative. China is ultimately expected to fund over $1 trillion in overseas development spending on its BRI through 2027, dwarfing existing commitments from G7 countries.

To date, limited information about B3W, CGI, and Global Gateway has been made publicly available. They were hastily paraded across the stage at COP26 in a show of solidarity, but at present, planning and implementation appears nascent and disconnected diplomatically.

Principles

At COP26, U.S. President Biden, European Commission President von der Leyen, and UK Prime Minister Johnson built upon the G7 Leaders declaration from earlier in the year by agreeing five principles for infrastructure development. Intended to tackle the climate crisis, they set a shared baseline for initiatives: (1) infrastructure should be resilient and keep 1.5^{o}C alive, (2) stronger partnerships between host countries, donors, and the private sector, (3) high standards for infrastructure finance, construction, development, operation, and maintenance, (4) a new paradigm for climate finance to mobilize the trillions of dollars in capital, needing new mechanisms, and (5) centring climate-smart infrastructure as key to economic recovery and job creation.

Moreover, in December 2021, G7 Leaders agreed five general principles for partnership on infrastructure and investment, that should encompass all three initiatives regardless of how they are coordinated. Based on the statement, initiatives should espouse: a **Step-Change in Ambition** (infrastructure investment as a standing G7 priority), **Regional + Country-led Partnerships** (recipient ownership, with G7 engagement in G20 and multilateral fora), **Strong Values + Standards** (internationally recognized), **Scaled-up Finance** (catalytic use of public finance to leverage private finance), and a **Coherent System** (including by regional and country-owned platforms).

Timeline

It should be noted, however, that the G7 countries – Canada, France, Italy, Germany, Japan, the UK, and the US, plus the EU – have not publicly signed off on a time horizon for activating B3W. Along with the CGI and Global Gateway, these plans can only be said to be operational once projects are explicitly being funded. Securing agreement on the guiding principles was an important moment for coordinating objectives, but finance is not yet forthcoming despite the need for a more balanced pandemic recovery and a halving of global GHG emissions this decade.

Details

While information has been scant, a common refrain is that the G7 initiatives are just ramping up, each having been announced last year. B3W launched at the 2021 G7 Carbis Bay Leaders' summit in June 2021; Global Gateway was then announced in September, followed by a more robust December rollout; and CGI debuted at COP26 in November 2021. Here's what's known and unknown so far.

US / G7 Build Back Better World (B3W)

> **HEADLINE:** According to the official White House fact sheet, B3W aims to address a reported **$40+ trillion** investment need for infrastructure projects in developing countries, primarily by leveraging private investment via country or regional platforms.

> **FOCUS:** Four areas – climate, health and health security, digital tech, gender equity/equality. While China's BRI focuses solely on physical infrastructure, the B3W also includes human infrastructure such as vaccine distribution and expanding education for girls.

- **CHAMPION:** the US appears to be **steering the direction** of the B3W, which may partially explain why other initiatives have sprung up since its inception. Despite the emphasis on G7 partnership, the Biden administration has engaged in some bilateral diplomacy with countries early on, notably India, and has suggested taking a regional finance platform approach in Latin America. Indonesia is also rumoured to be a landing zone for B3W finance as leader of the G20 in 2022, but concrete agreements have yet to emerge.
  - The US also counts its Department of Energy's (DOE) recent announcement to **mobilize $10 billion by 2024** under its **Net-Zero World Initiative** for clean energy infrastructure investment as a contribution to the B3W. It would provide assistance for countries to develop technical, market, and investment roadmaps for a clean energy transition. Implementation partners will include the State Department, USAID, and the Development Finance Corporation (DFC).
- **CHALLENGES:** Where is the money going to come from to implement B3W? Would increases in US bilateral finance be envisioned, alongside the bulk of the investments coming from multilateral development banks and the private sector? Who is going to intermediate? It is one thing to coordinate across all the necessary US government agencies to make B3W a success (DFC, USAID, MCC, DOE, State, Treasury etc.); quite another level of intermediation is required between the US, UK, and Europe and with recipient countries. Time is not on our side.
- **FRAMING:** President Biden highlights "jobs, jobs, jobs, and economic development."

Public understanding of the B3W initiative is virtually non-existent, but an official launch in the US is expected soon. Despite the most recent **Leaders statement**, there are few funding commitments, and coordination among the G7 focuses on working with Multilateral Development Banks (MDBs) to enhance technical assistance and private sector leveraging capability. It is worth watching how competitive B3W will be in contrast with China's aggressive overseas finance strategy of using physical infrastructure as collateral and saddling low-income countries with unsustainable debt.

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EU Global Gateway

> **HEADLINE:** Goal of mobilizing **€300 billion ($340 billion)** in investments **between 2021 and 2027**, much of which will come from the private sector. The EU recently earmarked **€150 billion**, potentially half the amount, for the **Global Gateway Africa – Europe Investment Package**.

> **FOCUS:** broad remit on 'hard and soft' infrastructure including digital, energy, transport, health, education, and research systems. The press release specifically mentions fibre optic cables, transmission corridors, and clean power transmission lines.

> **€135 billion of investments** will be enabled by guarantees from the European Fund for Sustainable Development Plus (EFSD+) program, itself an arm of the EU's new financial instrument for external action, **NDICI-Global Europe**. This is backed by **€40 billion** in guarantee capacity. The EU will provide a total **€26.7 billion guarantee** in partnership with the EIB.

> **€18 billion in grant funding** will be made available from the EU budget from 2021-2027.

> European banks and development finance institutions (DFIs) have ***up to*** **€145 billion in planned investment volumes** *[presumably with the bulk of this coming from the private sector.]*

> **€2.4 billion in grants** for sub-Saharan Africa and **€1 billion** for North Africa to support renewable energy, energy efficiency, just transition, and greening of local value chains.

> **Additional €4.6 billion** in financing to enhance sustainable transport connections in the Western Balkans, Turkey, and the EU Southern neighbourhood.

> **PROJECTS:** The following were posited as initial areas for exploration.
Western Balkans and Turkey: transportation flagship project – trans-euro
Eastern Europe: Digital infrastructure and renewable energy
Ukraine: raw materials and battery value chain
South Europe: €7 billion grant to leverage €30 billion private; green hydrogen development
Africa: digital and transportation infrastructure
Indo-Pacific: work with Japan on Artificial Intelligence
Latin America: fibre-optic cables (undersea and on-land) to connect countries
Arctic: 5G cross-border corridors and green hydrogen in Greenland

> **IMPLEMENTATION:** Global Gateway will be developed and delivered through Team Europe Initiatives, overseen by the Commission President. Commissioners for International Partnerships and for Neighbourhood and Enlargement will be tasked with implementation. EU Delegations in-country will work with partners to identify projects.

> **MONITORING:** Progress will be 'regularly evaluated and reported on' and the EU aims to host an annual Global Gateway Forum. A stocktake meeting is planned for June 2022.

> **CHALLENGES:** The G7 includes EU members France, Germany, and Italy, and it seems unlikely that they would want to commit additional resources to both B3W *and* Global Gateway.

> **FRAMING:** For better or worse, President von der Leyen has explicitly remarked on the goal of countering China's Belt and Road Initiative.

While the initial organization of the Global Gateway is a step ahead of its peers, it's clear a large portion of the top-line investment number is expected to be leveraged from the private sector. Some new money is on the table, but expectations are that most of the committed funds are being re-packaged. The EU press release asserts that the B3W and Global Gateway will mutually reinforce one another but does not explain further how they plan to interact. That said, the EU Global Gateway is off to a promising start and appears to be making efforts to deliver on the promise of the European Green Deal.

UK Clean Green Initiative (CGI)

> **HEADLINE: £3 billion ($4 billion)** in climate financing for developing countries **over the next five years** (2022-26), doubling the climate investment from the CDC, the UK's development finance institution, from 2017-2021.

> Includes **£200 million** for a new Climate Innovation Facility to scale green tech for drought-resistant agriculture and sustainable forestry *[in partnership with the private sector].*

> UK aid-backed Private Infrastructure Development Group (PIDG) to commit **£210 million in new investment** for EV manufacturing in India, green bonds in Vietnam, solar power in Burkina Faso, Pakistan, Nepal + Chad *[expected to mobilize **£470 million ($650 million)** in private finance].*

- Package of guarantees to MDBs to boost climate investments in India and Africa.
  - **'Room to Run' guarantee** to the African Development Bank (AfDB) expected to unlock **£1.45 billion ($2 billion)**, half of which is earmarked for adaptation.
  - **'India Green Guarantee'** to the World Bank, to unlock an additional **£750 million ($1 billion)** for clean energy, transport, and urban development.
- **FRAMING:** Prime Minister Johnson says this is the UK's chance to lead a global "Green Industrial Revolution."

It's unclear how much of this is new investment or merely has funds that have been reallocated from existing aid and development budgets, and the degree to which financing will be concessional or support catalytic coordination platforms. While the CGI nominally supports a country platforms approach to coordinate governments, donors, DFIs/MDBs and the private sector, the initial wave of announcements appears to be a scattershot across sectors and geographies in Asia and Africa.

China's Belt and Road Initiative (BRI): A Contrast

While B3W, CGI, and Global Gateway all represent opportunities for new G7 finance offers to developing countries, they sit in contrast to China's existing BRI funding, which exceeds these programs' by *an order of magnitude*. In sub-Saharan Africa, for example, China Exim Bank and China Development Bank provided $23 billion in financing from 2007-2020 while all other development finance combined there totalled $9.1 billion. (Of this, the US lent a mere $1.9 billion directly.)[1] The side-by-side regional comparison simply demonstrates how far wealthy G7 partners need to go to for the world to collectively move *over a trillion dollars annually* into developing countries' clean energy infrastructure.

If China proves credible in its recent messaging to "green" its BRI lending, it could be a major tailwind driving cooperation with the G7 where possible, and competition where necessary. In 2019, China established a BRI Energy

[1] https://www.reuters.com/markets/us/chinese-funding-sub-saharan-african-infrastructure-dwarfs-that-west-says-think-2022-02-09/

Partnership that now includes 39 countries and is purportedly interested in fast-tracking renewable energy buildout, rather than continued overseas financing of coal power plants. Drawbacks to China's approach, though, include the collateralization of projects, lack of transparency, high interest loans at commercial rates, and short maturities that have contributed to unsustainable sovereign debt levels.

While G7 initiatives might offer an attractive alternative in these respects, they will contend with China's successful track record of getting no-strings projects funded and built. Conditionality has historically been a sticking point with recipient countries, and B3W/CGI/Global Gateway must be careful in managing outreach while excluding fossil fuel infrastructure development. Ultimately, though, the G7 must determine where additional financing can be sourced. Even the massive scale of Chinese BRI lending, assuming it embraces low-carbon standards, will not be sufficient to leverage enough private investment into clean infrastructure to maintain a stable climate.

Private Sector Mobilization

Given the initial figures laid out by the three G7 infrastructure initiatives, it's evident that the bulk of the investment needed to keep 1.5°C 'alive' and close the trillion-dollar investment gap in emerging countries must come from the mobilization of private capital.

There is enormous potential for the development of green capital markets in this context through green and sustainability bonds. The G7 infrastructure initiatives could include guidance on the design and provision of guarantees for credit enhanced bond issuances in developing countries. Furthermore, G7 countries can better utilize DFIs and MDBs by expanding the development of project pipelines and scaling up de-risking and portfolio services through matchmaking platforms for investors.

For example, changes in institutional risk management approaches, such as capital adequacy rules, more use of investment risk mitigation tools (e.g. guarantees) and relaxation of capital offset requirements in MDBs could better harness private capital. Furthermore, the strengthening of MDB cooperation with National Development Banks (NDBs) and the utilization of the entire development finance ecosystem could substantially leverage private finance.[2] The introduction of a "wholesale" approach to risk-sharing through blended finance that allows developing economies to benefit from the sustainable bond market, and the creation of new platforms for the mobilization of climate finance of institutional investors are other avenues G7 countries can promote. This is precisely why a high-level political process such as B3W, CGI, and/or Global Gateway should be used to bring early movers from the world of investment into this new burden-sharing arrangement between public banks and private capital.

State of Play

B3W, CGI, and Global Gateway were all announced last year to assist Covid recovery, but world events and macroeconomic conditions have quickly shifted the backdrop in recent months. Rocketing energy prices, tensions surrounding energy security, and recovery-related inflation all factor, directly or tangentially, into decisions regarding overseas infrastructure investment. While these issues have the potential to distract from climate and development needs, they can also be viewed as an opening. Perhaps investors will develop greater appetite for yields from infrastructure as an asset class due to inflation concerns; and the energy crisis merely serves to highlight the need to scale up stable, renewable sources that aren't vulnerable to global price shocks. In light of these events, the USA and Germany, in particular, are in the process of making their agendas known regarding infrastructure finance in the developing world.

After several months of relative quiet on the Build Back Better World initiative, recent intel suggests the US government is now readying its primary directives. **White House sources expect a US B3W launch date in the coming weeks**, that will explicitly task various US government agencies with instructions to advance B3W priorities and timelines. This should include sector specific goals and metrics, a menu of side events to engage MDBs/DFIs, and a top-line investment mobilization figure to signal to the private sector. Regional investment platforms are expected to figure prominently. Despite any perceived delay, President Biden is determined to drive the B3W initiative as it checks several boxes, politically speaking, on confronting climate change, encouraging multilateralism, and building an alternative offer to China. The major factor to be determined though, is whether the US will actually include new spending to successfully deliver B3W,

[2] See strategic, feasible policy options that donor countries can deploy in: **https://www.e3g.org/publications/closing-the-trillion-dollar-gap-to-keep-1-5-degrees-within-reach/**

or simply rely on policy guidance and re-packaged funds. President Biden should address this soon in a pending presidential memo. The world eagerly awaits.

Germany, on the other hand, has already shown signs of embracing the global infrastructure challenge and is to be commended for opting to build on the groundwork laid last year. **Last month, the German G7 Presidency put forth a policy note specifically addressing sustainable development and infrastructure**, setting it at the top of the global agenda to be tackled by world leaders in 2022:

> "An estimated annual investment of €1.3 trillion and a respective pipeline of bankable projects… will be required to bridge the world's infrastructure gap. At the Carbis Bay Summit, G7 Leaders committed to an ambitious agenda to build back better and to urgently narrow the infrastructure financing gap in developing and emerging market countries... **The German G7 Presidency is committed to build on these commitments.**"

The brief contains further language on building **Partnerships for Infrastructure and Investment via dialogue with recipient countries, financial structural reforms, project pipeline development, flagship initiatives, MDB/IFI coordination, etc.** This a positive sign that the German Presidency has elevated the topic where it belongs as a G7 leadership issue, and hopefully actions will follow. Turning this window of political opportunity into concrete reforms is the critical path for keeping 1.5ºC within reach and maintaining the required momentum ahead of COP27. Now it needs to be embedded in a larger discussion on structural framework conditions and impediments to investment in developing economies to eventually move money out the door. For example, many have pointed to the $8.5 billion Just Energy Transition Partnership with South Africa, announced at COP26, as a successful finance model to be replicated elsewhere, but at present it is just an offer, grounded in a very country-specific context. It will be discussed in further detail in the next paper in this series.

The EU Global Gateway has also made strides since its December rollout, with the upcoming '27 + 30' meeting in late February between EU and Indo-Pacific Foreign Ministers posited as a possible landing point for infrastructure dealing.[3] Nations reeling from Chinese debt have been invited, including Bangladesh, Sri

[3] **https://www.politico.eu/newsletter/china-direct/scoop-paris-indo-pac-plans-greens-want-reset-bundes-boo-boo/**

Lanka, and Papua New Guinea, and the hope is to put projects on the table for discussion. Furthermore, European leaders recently announced an **Africa-Europe Investment Package, earmarking $150 billion**, or roughly half of anticipated Global Gateway funding. This week also marks the EU-AU Summit in Brussels, where French organizers hope to extend promising country-specific offers on infrastructure investment. Senegal, Egypt, Nigeria, Ivory Coast, Morocco, and Rwanda are touted as possible partners. Real funding must be attached to each of these initiatives, though, and they must be country-led from the start.

Initiatives Intersection

With three plans designed to deliver congruent outcomes, it is imperative that the G7 acknowledge how these initiatives will interact and support one another. Otherwise, recipient countries will be left with competing options to finance whole-of-economy transitions that amount to less than the sum of their parts and may impede leveraging of private capital. A promising approach in this regard would be to convene stakeholders from national and multilateral development banks with G7 donors and the private sector to discuss partnerships. B3W, CGI, and Global Gateway could engage as separate entities, but coordinate together on infrastructure finance via country or regional platforms, where deals can be pieced together with input from the various donor initiatives. This could be workable for recipient economies where a host of piecemeal development needs at scale must be addressed simultaneously.

Conversely, the G7 could also agree to focus their finance and attention independently on regions and/or recipient countries. While this wouldn't necessarily preclude the various initiatives from driving investment in the same targeted areas, it implies that one would take responsibility for developing and implementing finance packages, with potential support from one or both of the other initiatives. For example:

- **B3W** could take the lead on developing country packages with India and/or Indonesia and pilot a regional platform with Latin America.
- **CGI** could take the lead working with ASEAN and with the governments of Vietnam and the Philippines, facilitating at-scale country packages.
- **Global Gateway** could take the lead on developing a MENA regional platform and facilitating support packages for African and EU neighbourhood countries.

To be clear, these options are outlined for illustrative purposes. The larger point is that no matter how these initiatives are synced, they need to move beyond a project-by-project approach, bring all sources of co-financing and de-risking tools to bear, and experiment to find more effective approaches to donor coordination and co-development with recipient countries. Beyond financing infrastructure, G7 governments must also scale up technical assistance and capacity-building to ensure that each country has the economic planning expertise and the confidence to fully commit to a net-zero economy, and use this juncture to jump-to and lock-in a clean energy pathway. **We need these infrastructure initiatives to help countries *transition*, in the truest sense of the word, and put a real dent in GHG emissions.** While sorting out a working arrangement between G7 initiatives could create its own geopolitical frictions, not unlike China's BRI, it would at least provide a clear signal to financiers and governments for engagement.

Key Questions

In short, the world needs the G7 to spell out exactly how all of this is going to work. As noted above, emerging markets will have to secure on the order of a trillion dollars per year in clean energy development finance by 2030. B3W, CGI, and the Global Gateway have the right idea in jumpstarting this, but even assuming the G7 can coordinate them, important questions remain as to how they will be operationalized and made effective. To succeed, they will need:

> **Financial Firepower** – What are the practical options on the supply side? How can MDBs increase leverage ratios and optimize balance sheets? Can capital adequacy rules be changed? Is replenishment on the table? Can SDRs be reallocated toward project financing, to unlock a massive ramp-up of renewables and the early retirement of coal? What about de-risking using sovereign guarantees? Green bonds? Sovereign wealth funds? How can the private sector be brought in early and efficiently? Is there a role for GFANZ?

> **National Project Planning** – Countries also need economic planning to articulate and actualize NetZero transformation and project pipeline development on the demand side. Can sector specific plans fit into larger country-level or regional roadmaps? Where has work already been done and by whom? IEA? ETC? World Bank? Can NetZero World build on these? Where is there overlap?

- **Coordinating Mechanisms** – Once plans are in place, how can they be organized so development banks aren't competing with each other? Who will be the intermediary charged with 'herding the cats?' They will need to organize investor conferences bringing to bear the entire capital stack and connect funding to roadmaps and projects. The Climate Investment Funds (CIF) are doing it in South Africa; could the FIRE dialogue do this in Indonesia? Can regional and country partnerships move things past a project-by-project approach?
- **Supportive Politics & Diplomacy** – How can the clean infrastructure agenda keep pace throughout various fora, including the G7 and G20? Can a coherent diplomatic framework be developed to send strong political signals and push momentum? Can Just Transition politics be successfully embraced in-country to rally support?
- **Most importantly, where will the money come from?** How can the entire ecosystem of development finance institutions be better utilized to significantly catalyze private finance? This is not a new topic of conversation; on the contrary it has been on the agenda for decades. Certainly there is a political window of opportunity given Covid-19, rising tensions with China, and the climate crisis. With concerted top-down political will, can this moment lead to a different outcome?

These questions, and many others, will be explored in depth later in this briefing series and must be resolved to ensure these initiatives truly deliver at scale on the ground this decade.

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