Statement of Heads of G20 Financial Institutions with a Development or Public Mandate (D20)

—— Conclusions of D20 Annual Conference 2016

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Introduction

- The current global growth rate is very far from the goal of a strong, balanced and sustainable growth stated by the G20 as needed to cope with poverty, population aging and climate change.
- This is due, largely, to an insufficient level of long-term investment in innovation, infrastructure and inclusiveness, despite the large liquidity and the strong demand for long-term financial instruments by long-term investors at the global level.
- This question must to be urgently tackled by policy makers, regulatory agencies and market participants.
- Innovation and inclusive growth are two of the fundamental drivers at the core of D20 members within their respective mandates.
- Inclusiveness includes actions to reduce poverty and increase investment, in particular, in social and urban infrastructure.
- After COP21 climate change will need strong centered efforts among D20 members to create, among other things, “climate financing” projects to properly monitor program in climate-related investment and their impact.
- The Long Term Investors Club (LTIC) has drafted a position paper “On the effects of the current regulatory framework on Long-Term investments” and presented it to the D20 as an initial analysis of the barriers to Long-Term investments. The Paper is going to be the starting point to further analyze impediments to Long-Term investments with the following approach:
  1. The LTIC shall contribute to the discussion on the identification of barriers to investments. Such barriers are typically the most important constraints to Long-Term investments in the economy and are related to both administrative procedures as well as regulatory uncertainty. From the latter point of view, the G20 has acknowledged that the uncertainty on the conditions applicable to
Long-Term investments is a major obstacle to Long-Term investments. The possibility to reduce such an uncertainty and in particular to rules such as concession, tariffs, procurement, etc. could be investigated including the design of a partial guarantee covering such uncertainty.

2. There is scope to engage with regulators and the G20 to identify the instruments/vehicles that are or can be best designed to address the need to finance Long-Term investments. Such vehicles could have a specific regulatory treatment based on the nature of the underlying assets as well as on specific constraints to the investments. The vehicle/instrument shall be open allowing institutional investors as well as other types of investors to invest in it maximizing the attraction of private resources. The vehicle/instrument shall facilitate the creation of infrastructure as an asset class.

3. In order to generate needed incentives to Long-Term investments, it may be worth exploring the pros and cons of fiscal or other economic incentives to promote them. In this context, consideration shall be made on the possibility to identify very significant regulatory constraints specifically related to LTI, which, if adjusted, would generate a needed incentive to LTI.

4. Finally, to increase long-term investors’ asset allocations, infrastructure needs to be transformed from the realm of an ‘alternative’ investment category into a real full-fledged ‘asset class’. The D20 shall contribute to the discussion regarding the nature of such asset class. This implies a better understanding of the underlying long term risk, past and potential cash flows (benchmarks) produced by Long Term financial products back by infrastructure.

The D20 members agree on the above guidelines to elaborate a position paper in view to be finalized in the margin of the World Bank and IMF annual meeting in October. This position paper can be also informally discussed with key governments to verify that they do not cross any red line before being eventually shared with the G20 in 2017.
The Statement

G20 Financial Institutions with a Development or Public Mandate (the “D20”) held the fourth annual conference in Beijing on 27 May, 2016. Discussions at the meeting revolved around the main theme of G20 Summit – “Toward an Innovative, Invigorated, Interconnected and Inclusive World Economy” and central topics of the G20 Finance Ministers and Central Bank Governors Meeting. Opinions were exchanged regarding a broad range of major issues and challenges confronting the world economy today – “Long-term Investment and Finance for Innovative Development” and “Long-term Investment and Finance for Poverty Alleviation and Inclusive Growth”, in particular.

As the cooperation framework for financial institutions of G20 countries with a development or public mandate, D20 is committed to supporting the fulfillment of public policy objectives of G20 member states and serving the interests of relevant stakeholders. To this end, D20 endorsed the agenda proposed by the G20 China Presidency, of driving strong, balanced and sustainable global economic growth by means of promoting innovation, deepening reforms and further enhancing strategic interconnectivity. Today, innovation and inclusive growth are the two fundamental drivers for revitalizing the world economy which are at core of D20 members’ activities within their respective mandates.

The D20 supports the G20 recognition of the role played by long-term investment and financing organizations to contribute to national and international economic development by means of specialized expertise and financing capabilities.

The role of D20 Institutions to promote LTIs (Long Term Investments) and in particular their public nature supporting public goods, are fundamental elements to progressively implement standards of the highest quality as well as to ensure that projects are aligned with countries’ priorities to support growth and employment.

D20 members support the focus on connectivity and financial innovation tabled by the G20 Presidency. To that purpose, D20 members will strengthen international cooperation with the governments and enterprises in G20 member states via international cooperation platforms, improving the standard of transnational technical innovation collaborations between G20 countries, levering on D20’s advantages in financing and knowledge management.

The D20 also realizes that inclusive development encompassing middle as well low income countries providing appropriate means of implementation
represents an important challenge to ensure global economic growth in the world.

In the current stagnant economy, the importance of infrastructures as a backbone of economic growth and employment and as a means to ensure shared prosperity including low income countries is fully recognized by D20 members.

The D20 is well positioned to enhance cooperation for cross-border projects and engage with the private sector to align to high quality standards, ensure projects abide to the sustainability agenda and appropriate crowding-in of private resources is generated in the financing of such projects. In particular, we can assist in: (i) financing – by combining government credit with our own resources together with the private sector to facilitate the financing of projects by means of an opportune distribution of risks between private and public sector; (ii) knowledge management – LTIBs and other non-banking financial institutions should contribute to assisting countries with their own expertise and knowledge to facilitate development planning, consulting, education and training, and to assisting the local governments in drawing up a well-defined roadmap, setting out development targets progressively enhancing own local capabilities whenever needed.

The D20 members acknowledge the recent changes in the regulatory framework to reinforce institutions and ensure better resilience of the economies in the aftermath of the financial crisis. The D20 members draw the attention to the unintended consequences of the reinforced regulatory and accounting framework to the financing of long-term investments. In particular, the current framework penalizes illiquid assets and at the same time does not recognize that infrastructures as an asset class is historically proven to be less risky than corporate risk. The call by the G20 to backing long term investments to support economies with particular reference to infrastructure investments should be coupled with the needed regulatory environment conducive to LT investments including for lending, borrowing and for sectoral issues. In particular, investors and sponsors base their decisions to finance infrastructures and LT investments on the basis of their perceived level of riskiness of the underlying project. Such risk heavily depends on the level of uncertainty of the projects including regulatory uncertainty. Projects would therefore highly benefit from an appropriate guarantee scheme backed by governments that would ring-fence projects with a well-recognised impact to growth and employment from regulatory changes (such as change in tariffs or concession conditions) that would undermine the economic feasibility of such projects. In addition, without altering the current general regulatory framework, LT Investments would benefit from a product or vehicle specifically targeting LT investments recognized to positively impact growth and employment with a special regulatory treatment that would recognize the long term and illiquid nature of the underlying assets. Such product or vehicle could involve public
international financial institutions to ensure that needed criteria are met and economic impact is expected.

D20 Members held a first discussion on a Position Paper entitled “On the effect of the current regulatory framework on Long-Term Investment” which they agreed to continue to develop in view to share it with the G20 Presidency so as to provide the G20 with an expert view based on public institutions experience.

D20 members believe that it is necessary to cope with climate change through concerted efforts. This requires that financial resources be mobilized on a more extensive scale, including public, private, multilateral funding sources. It is, in addition, important to keep track of and report on the movements of funds appropriated for dealing with climate change and emission reduction. This way, mutual-trust and accountability mechanisms can be established for “climate financing” projects to properly monitor progress in climate-related investments and their related impact.

Heads of D20’s member institutions are convinced that close collaborations between the D20, MDBs and G20 will ensure effective implementation of the G20’s priorities and agenda on LT investments. The D20 Members stand ready to discuss best ways to feed the dialogue with G20 members and to find appropriate modalities to ensure that D20 members can be properly consulted on matters related to LT investments to provide experience and knowledge in the discussion so as to facilitate subsequent implementation.

The Fifth Meeting of G20 Financial Institutions with a Development or Public Mandate (D20) will be hosted by KfW, during the German rotating presidency of the G20, in 2017.