

Statement of the Heads of the Institutions of the D20-LTIC

“D20 Statement 2020”

19-11-2020

Response to COVID-19 pandemic

We, the financial institutions with a development, promotional or public mandate established by a member of the G20, and other financial or non-financial institutions or organisations from other countries who share a similar mandate (hereafter jointly referred to as the “D20-LTIC”), are essential partners to provide a strong response to address the effects of the COVID-19 pandemic, which sharply affect our economies. With our broad spectrum of financial instruments and our knowledge and access to local and markets worldwide, we have launched immediate actions and measures to mitigate the impact of the pandemic in our countries of operation.

Together, we have provided finance, grants, guarantees combined with advice to those businesses most in need. So far, our implemented and planned Covid-19 related investments and support amount to more than USD480 billion. D20-LTIC members’ actions along with governmental fiscal and central banks’ monetary actions have played a major supportive role in limiting the immediate negative economic impact of the COVID-19 pandemic. During the upcoming recovery phase, our role as long-term financial institutions becomes even more important to implement and foster a green and sustainable recovery and to ensure a more sustainable economic growth. Investments in resilient infrastructure, with a particular focus on social infrastructure, will be a key component of ensuring sustainable economic recovery in the months and years ahead.

The investments we initiate today must be future proof and fulfil multidimensional targets:

They must reply to today’s COVID-19 crisis needs; boost employment; make our economies more resilient to future pandemics; bring us closer to achieving the Sustainable Development Goals and shall be in line with the climate targets of the Paris Agreement.

The need to shift towards more sustainable and resilient infrastructure investments is therefore greater than ever.

Mobilising private finance for sustainable infrastructure is needed to meet the Sustainable Development Goals

Investing in sustainable and resilient infrastructure constitutes the most effective capital allocation to meet the United Nations Sustainable Development Goals¹. Five of the seventeen SDGs are directly impacted by the successful delivery of sustainable infrastructure, while each of the remaining SDGs rely on sustainable infrastructure as an indirect prerequisite of their achievement. Sustainable infrastructure assets constitute the backbone for meeting the 2030 Paris Agenda objectives.

¹ <https://unstats.un.org/sdgs/>

Conversely, infrastructure development, if done without respect for sustainability principles, could undermine the achievement of other SDGs such as Goal 13, Climate Action, Goal 14 Life Below Water and Goal 15 Life on Land.

The world will be facing a USD15 trillion investment gap² between projected investment and the demand for adequate global infrastructure by 2040. An additional USD2.7 trillion would be required to fulfil the Paris Agenda agreements by 2030.

The role of the public and private sector engagement remains essential to bridge this long-standing investment gap. Governments, especially those in emerging countries, where the infrastructure investment needs are the greatest, need to be able to draw on private capital to meet their development goals and investment needs. Risk mitigation facilities remain at the very core to unlock that much-needed private capital. Blended finance mechanisms need to be designed so that the resulting investment risk-return profile is acceptable to investors. In addition, such facilities should be designed not as one-off solutions but rather as standardised, replicable solutions, which will lower future transaction costs. Development banks and financial institutions can forge alliances with that private capital and de-risk the investment by providing guarantees, through setting up security funds, or other financial instruments. Such credit enhancement alternatives could prove quite effective in attracting mainstream investors, particularly pension funds and public pension reserve funds into infrastructure assets. Current global portfolio allocation of approximately 1% of Assets under Management linked towards infrastructure assets must be substantially increased if the world is to meet the SDGs.

Sustainable infrastructure as an asset class: Information lies at the core

Sustainability and resilience must underpin the definition of infrastructure as an asset class. This asset class can only fully demonstrate its comparative long-term benefits by integrating these two characteristics. Effectively managing Environmental, Social and Governance (ESG) risks is increasingly recognised as contributing to more stable and predictable long-term cash flows, thus improving the asset's financial performance. Causality between enhanced ESG performance and higher company valuations is becoming more apparent at the corporate level. Examples of financial benefits of improved ESG range from decreased operating from low cost clean energy, to reduced risks of project delay, and increasingly to improvements linked to greater inclusion, especially of often-neglected groups such as children, youth, elderly and people with disabilities. However, more research and especially data collection at project level is needed to draw conclusions on the relationship between ESG and enhanced financial performance (or better asset valuation) for this nascent infrastructure asset class. International Data platforms facilitate the provision of that granular information required to determine that link between ESG and financial performance.

The collection of infrastructure project data presents several complex challenges. Access, ownership and confidentiality are usually cited as major deterrents to disclosure. In addition, ESG data collection efforts are typically time-consuming and the benefits of gathering often heterogeneous data sets, is not always well understood. Clear, aligned and harmonised indicators for sustainable and resilient infrastructure could enable effective collection of data, as well as to guide, from inception, the delivery of more sustainable infrastructure and avoid lock-in to unsustainable development pathways. Development banks will need to harmonize their approaches for quality and sustainable infrastructure based on national priorities with the support of MDBs. Challenges currently preventing data transparency are surmountable but require high-level political support and a common approach. 'Infratech' solutions can also assist, such as, machine learning and artificial intelligence, which may support by processing vast amounts of data, which could drive the creation of ESG and financial

² Global Infrastructure Hub: <https://outlook.gihub.org>

benchmarks. Such benchmarks form a basic tool that asset managers and investors require to form their investment decision process and its subsequent tracking. Without them, the process of investing in additional, greenfield, sustainable infrastructure projects could remain out of the scope for mainstream investors in a sufficient scale.

Sustainability or ESG standards play a decisive role in proving and certifying the validity of the information provided. Without such standards, there is a great risk of “ESG / green washing” which will not provide the future-proofed assurance of a truly sustainably built infrastructure asset. (Self-) reporting constitutes an initial step in the right direction, however third-party validation should be further encouraged so that the information provided has been verified and a quality label can be attached.

Addressing climate change

Climate change clearly poses a risk on the medium to long-term financial performance of infrastructure. As indicated by the Task Force on Climate-related Financial Disclosures, a scenario analysis should also be carried out to (i) assess the materiality of such risk to the asset and (ii) ascertain the potential effects on its performance. Disclosing accurate information to investors, including climate related data, is essential for a correct asset pricing and allocation. Uncertainty needs to be tackled with more information so that infrastructure can manifest its full economic competitiveness vis-à-vis other types of assets.

The heads of institutions of the D20-LTIC urge regulatory bodies to create conducive environments that enable further data disclosure and transparency related to sustainable infrastructure. Whilst there are currently several initiatives³ aiming to facilitate this, these should be harmonised to provide clarity to the market, and actively supported through regulatory frameworks and policy incentives. Further efforts are thus encouraged from government institutions to mandate rather than simply advise the voluntary periodical disclosure of a given asset ESG performance.

Moreover, project externalities should be systematically priced-in to increase the competitiveness of sustainable infrastructure projects, as compared to conventional infrastructure. The integration of ESG into capital regulatory frameworks as well as more favourable prudential treatment of long-term investment in infrastructure for insurance companies and pension funds are measures that should be adopted to act as a catalyst for further capital allocation towards more sustainable infrastructure assets.

Collective action for a sustainable global recovery

We, the D20-LTIC members, continue to support our governments and economies in this unprecedented COVID-19 crisis. We focus our financial firepower and support towards the global economy by making our economies more resilient to future crises, contributing to the achievement of the Sustainable Development Goals and aligning our strategies with the targets of the Paris Agreement.

Investing in sustainable and resilient infrastructure, providing liquidity and improving the availability of infrastructure investment data are therefore key elements of achieving this goal.

³ Such as the EU Taxonomy and its allied EU Green Bond, the Aligned Set of Sustainable Infrastructure Indicators (ASSI), the Infrastructure Data Initiative, the Quality Infrastructure Indicators.



Contact: ltic-secretary-general@eib.org www.d20-ltic.org