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

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G20 Financial Institutions with a Development or Public Mandate (D20) met for the sixth time in Buenos Aires on 10+11 September 2018. Representatives discussed various issues, among others, financing for development, with a focus on mobilizing private investment for sustainable infrastructure. The role of data availability and transparency and of the D20 in mobilizing private, especially institutional investors stood center stage.

The importance of infrastructure as a backbone of economic growth can hardly be overstated. Economic and social infrastructure is both a pillar and a connecting thread in the 2030 agenda, affecting a range of sustainable development goals (SDGs) from transport and connectivity, through health and education, to equal opportunities for women and girls. Yet the infrastructure sector remains under-funded: the formidable financing gap stands at 15 trillion USD for the period 2016-2040.

To boost investment in quality infrastructure and meet the SDGs, the G20 has recognized the benefits of promoting infrastructure as an asset class. Faced with this long-term challenge, D20 as the cooperation framework for financial institutions of G20 member states can facilitate intermediate steps toward this objective by serving as a platform for advocacy and policy dialogue on at least two essential prerequisites for an investable asset class: data and incentives for private investors.

## Quality data: paving the way for asset class

Robust and accessible data represents a key part of the evidence base that both private and public investors need to make better-informed decisions about capital allocations to sustainable infrastructure in emerging markets. Data would help reduce information asymmetries on the demand and supply side by strengthening the quality of project proposals and reducing excessive risk perceptions. Consequently, this could help mobilize additional private investment in infrastructure on capital markets.

Yet, working towards a “one-stop shop” infrastructure data repository that could eventually become a global public commons demands concerted action by the public sector, in tandem with reputable international actors including Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs). Policy dialogue should aim for shared definition of standards, which would then provide guideposts for harmonizing data collection and dissemination. In the medium-term, it is crucial to integrate valuable existing initiatives and ensure their financial sustainability and complementarity.

D20 members and LTIC can significantly advance the policy dialogue on data with at least two key stakeholders: the private sector and regulators. In the first case, private investors often harbour inflated risk perceptions that likely stem from lack of information and anecdotal evidence of protracted project lifecycles marred by cost overruns and political instability. D20 institutions' experience as captured in data could help bridge the information gap if reported consistently and in tandem with MDBs. Second, regulators tend to design overly restrictive frameworks when faced with data unavailability, which is more common in developing countries, but also affects advanced economies. This, in turn, prompts regulated financial institutions to allocate sizeable amounts of capital to support investments in long-term debt, especially for unrated transactions, which effectively reduces the return and profitability of such portfolios.

D20 will continue to aid the amassing of evidence of the real risks of infrastructure projects and assets, in order to advance the debate with regulators on extending more equitable regulatory treatment of infrastructure instruments to more developed countries, but eventually also to emerging markets. This way, the full potential of private investment in sustainable infrastructure could be fully tapped. Encouraging examples already exist in Europe, where regulators recently acknowledged the particular risk properties of infrastructure, reducing the capital charge applied to selected infrastructure investments.

## Mobilizing private, especially institutional investment: toward the trillions

In parallel to the ongoing work on defining an infrastructure asset class, it is imperative to adequately target selected groups of private investors with D20 and MDB existing toolkits. Institutional investors, for one, represent a firepower of 100 trillion USD. However, pension funds, sovereign wealth funds, and other investors in this segment only constitute a minuscule part of infrastructure investment – 0.7%. They most frequently cite better-defined investment objectives, longer duration, greater geographical and sectoral differentiation and lower fees and costs as the most common improvements that could incentivize them to increase their investment in infrastructure funds. In this respect, D20 can orchestrate a stronger push for higher standards, especially in ESG and procurement.

Matching different classes of investors with different phases of the infrastructure investment cycle is also a form of targeting that can secure backing for projects throughout their lifetime. Infrastructure assets carry significant start-up costs and risks related to uncertain demand at construction stage, which can deter some investors. However, these assets become more attractive as they become operational and start generating more stable yields. The D20 can thus contribute to the build-up of ever-more integrated financing chains for sustainable infrastructure, encouraging public institutions to share the risk or de-risk – including via blending – where necessary and then phase out as assets mature enough to transition to private investors.

At the same time, public financiers should be encouraged to gear investment in markets with the greatest private investment deficit in infrastructure, especially the low-income and fragile ones. The latest report on mobilization of private finance by MDBs and DFIs, released in July 2018, clearly states that private investment in infrastructure in low-income countries (LICs) is lagging behind that in middle-income countries (MICs). Alarmingly, social infrastructure, which is critical to human development, accounts for merely 15% of the private investment mobilized by MDBs and DFIs. The D20 thus calls on the shareholders of publicly mandated institutions to put their money where their mouth is: in support of the poorest and most vulnerable, to ensure that no one is left behind. At the same time, public financiers including MDBs and DFIs should continue to invest brainpower in creative financial engineering that could attract private investment to challenging environments down the line.

Heads of D20's member institutions firmly support close collaboration between the G20 and D20 to uphold the G20's agenda on long-term investment, including in infrastructure. As the upcoming 2019 Japanese G20 Presidency will focus – among other challenges – on boosting the quality and quantity of infrastructure investments, the D20 stand ready to support this agenda by intensifying the transfer of its members expertise and experience as well as by helping to define standards and explore ways to harmonise data collection across the public sector, MDBs and DFIs. The shared overarching goal remains to advance the discussion and contribute to implementation of shared priorities as efficiently and effectively as possible.