Statement of the Heads of the Institutions of the D20

26 April 2019, Tokyo, Japan

Financial Institutions with a Development or Public Mandate (the "D20") held their seventh annual conference in Tokyo, Japan, on 26 April 2019. The debate covered a range of challenges facing the world economy and the development finance community today, including the promotion of "Quality Infrastructure Investment".

The G20 has demonstrated commitment to boost investment in infrastructure to close the USD 1 trillion financing gap[1] and ensure that it is underpinned by high standards in line with the ambition of the Sustainable Development Goals (SDGs).

The Eminent persons group (EPG) states that a world now multipolar and interconnected whose decisions are today more than ever decentralized, calls for a better coordinated global financial system. In this context our Club is in line with the recommendation of the EPG:

"*We must leverage systematically on the strengths of the multilateral anchors, regional and bilateral institutions, and other key stakeholders that make up the system, and build trust and transparency amongst these different players. This new, cooperative international order must also help nations achieve more inclusive and sustainable growth, while enabling us to tackle collective challenges effectively*"[2]

The D20 may be an active part of this architecture as the voice of the long-term financial institutions.

In this constantly evolving multipolar world where States are under strong budgetary constraint, all sources of funding must be mobilized to fill the considerable shortfall in infrastructure financing.

The long-term financial institutions members of our Club are ready to articulate their interventions with those of other stakeholders in the area of development and financing of quality infrastructure needs, including social infrastructure (education, health, affordable housing). The ultimate objective should remain to maximise social benefits: indeed, long-term, flexible and efficient investment in social infrastructure is essential for the economic growth and the well-being of people.

Indeed, sustainable, efficient and meaningful infrastructure gathers all the characteristics of long-term investment, generates positive externalities and plays a key role in supporting growth and employment, and in allowing all countries regardless of income, to share economic prosperity. The

[1] According to the Report of the G20 Eminent Persons Group on Global Financial Governance (October 2018, page 14)
[2] Idem, page11

economic and technical longevity of infrastructure assets accounts for a large proportion of their economic and social benefits. It can be assumed that, at the end of its lifecycle, a correctly maintained infrastructure asset will still have the same capacity and provide the same quality of service as at the time when it was commissioned.

The D20 as the cooperation framework for G20 financial institutions with a development or public mandate recognizes its contribution to the G20's work on infrastructure in terms of articulation and dissemination of shared principles on due diligence and project preparation, taking into account in particular environmental, social and governance considerations at all stages of an infrastructure asset's lifecycle.

Quality Infrastructure Investment: life-cycle analysis

Governments around the world are facing a substantial lack of adequate infrastructure and changing quality expectations. Reducing these shortcomings requires a modified investment approach that focuses on the *long-term quality* of infrastructure assets. "Quality" here refers both to the ability of infrastructure assets to retain their service level until the end of their lifetime and to the fact that they are flexible enough to accommodate changes in demand patterns.

There is an urgent need to develop a common approach to the lifecycle analysis of infrastructure assets. Future analysis and infrastructure planning should focus more on the end of the life-cycle when the asset is expected to be decommissioned. Today, most infrastructure is still planned and designed on the basis of current demand patterns and available technologies extrapolated into the future, with minor variations, while the need to incorporate future technologies into the design is ignored. By contrast, "backward planning" is an assessment based on multiple criteria and scenario analysis in an attempt to anticipate a broader spectrum of possible outcomes. Although undisputedly challenging, it is the best way to identify suitable options and select from a range of alternative solutions. It also facilitates the decision-making on optimal approaches to design, build, operate and maintain an asset.

Looking ahead, the growing investment gap, changing demand patterns and technological sophistication will confront G20 governments with an enormous challenge. First, the investment need will generate pressure on public finances, and second, G20 countries will need to generate efficiencies by improving the process of planning, designing, building and operating infrastructure systems. In this context, a multi-pronged approach would seem appropriate:

- extending the life of existing assets through better maintenance and rehabilitation to expand service capacity quickly without major costs;
- expanding infrastructure capacity in areas of high demand, anticipating that new assets may need to be in operation longer than expected today;
- keeping new infrastructure flexible enough to be modernised and upgraded within its expected lifetime including integration of future generations of digital technologies and accounting for future migration and forced displacement patterns;
- enhance private investments in this sector.

The D20 is supporting not only the concept of quality of infrastructure, but also the idea of quality of investment in infrastructure, which would result in economic growth through widening investor base and mobilization of private sector financing. Besides life-cycle cost economic effect of quality investment in infrastructure is achieved through mitigation of risks, resilience against natural disaster, job creation, capacity building, transfer of expertise, integration of social and environmental implications, proper governance and transparency. Quality infrastructure investment should be aligned with economic and development strategies of the G20 member countries.

The D20 is committed to promoting a universally shared set of parameters governing quality infrastructure and serving as a channel for disseminating best practices. The development finance community ought to design adequate indicators for the measurement of the quality dimensions of infrastructure, including performance indicators focused on sustainability (such as Environmental, Social and Governance aspects, debt levels, but also contribution to the UN Sustainable Development Goals) as well as growth (investment's economic rate of return). The indicators should also allow benchmarking and comparison of infrastructure asset quality.

Progress on elaborating best practices for quality infrastructure investment is important for both investors (to take informed investment decisions) and policymakers (to adopt tailored infrastructure policies).

Quality Infrastructure Data: linking quality and performance

In this context, *robust and accessible data on quality* represents a key part of the evidence base that both private and public investors need to make better-informed decisions about capital allocations to infrastructure. Increased data availability would help reduce information asymmetries on the demand and supply side, strengthen the quality of project proposals and contribute to sound decisions by public and private financiers. In this context, D20 institutions support the Infrastructure Data Initiative (IDI), which seeks to enhance data transparency and quality, especially in emerging markets. Under one of the IDI constituent projects, stakeholders including some D20 members aim to link financial performance of infrastructure assets to project preparation, to highlight the importance of quality for the asset's performance throughout its lifecycle. In this respect, IDI could contribute not only to the G20 Roadmap for developing infrastructure as an asset class, but also to future mobilization of investment – including by private financiers – in high-quality infrastructure.

The D20 agree that at the backdrop of rapid demographic and technological shifts, demand for quality infrastructure as an enabler of economic growth and gateway to social cohesion is likely to increase in the future. Hence, D20 members agree that there is an urgency for the development finance community to agree on a shared robust methodology that starts with a needs assessment at the end of the infrastructure asset life-cycle, under a range of scenarios. That said, Heads of D20's member institutions firmly support close collaboration between the G20 and D20 to advance the G20's agenda on infrastructure, especially when it comes to quality and data transparency.