

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

*23 February 2017, Frankfurt*

G20 Financial Institutions with a Development or Public Mandate (the “D20”) held the fifth annual conference in Frankfurt on 23 February 2017. Opinions were exchanged regarding a broad range of major issues and challenges confronting the world economy today, among which “Infrastructure Investment and Long-Term Financing”.

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. 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 and cooperation by means of specialized expertise and financing capabilities.

In the current challenging economic environment, the importance of infrastructure as a backbone for 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. More specifically, D20 institutions support long-term investment in infrastructure through different channels: (i) financing out of their own resources, (ii) crowding-in co-financing from the private sector to facilitate the financing of projects, an opportune distribution of risks between private and public sector and to maximize the complementarity between public and private sector resources and (iii) knowledge management as D20 institutions assist 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 that recent changes in the regulatory framework to reinforce financial stability considerations call for an updated landscape for the financing of infrastructure. We need to collectively ensure that the limited resources of D20 institutions are used to maximize their contribution. This calls for making clear progress on two fronts: (i) definition and recognition of infrastructure as an asset class, and (ii) development of replicable techniques for co-financing by D20 members, MDBs and private sector financing institutions.

## **Infrastructure as an asset class**

Infrastructure can be very diverse and refers to assets used to satisfy general community, societal and economic needs that underpin the operation of the society. These assets include energy ( generation and transmission), utilities (electricity, gas, water and telecommunications), transport (roads, rail, airports and ports) and social infrastructure (such as schools, hospitals, prisons and public housing). The broad range of infrastructure assets means that it is not a homogeneous set of assets. It encompasses lower returning, lower risk social infrastructure that is mainly supported by the public sector; regulated utilities and other assets with moderate risk profile; and demand-based infrastructure such as ports and airports that are run mostly on a commercial basis.

Additionally infrastructure assets typically follow a lifecycle that see them start off with significant construction costs and risks and with mostly stable yields during the operational life of the asset. As such infrastructure assets are subject to different risks at different stages of their lifecycle and thus can be better suited to different investors depending on their stage in the lifecycle. Traditionally most investors are reluctant to take on green-field construction risk and demand uncertainty. Many investors concentrate on mature operational assets, where viability has already been proven and cash-flows are more predictable.

While infrastructure as an asset class has been a topic for discussion for some years, there has not been much advance to really define and calibrate that asset class. The D20 members consider that it is essential to make serious progress in the definition and measurement of the asset class characteristics of infrastructure. D20 members will contribute and pool specific project and (financial) performance information so that the characteristics of infrastructure as an asset class can be defined. As the next step, more complete and clear financial regulations can be developed for investment in infrastructure and carefully adjusted to the specific characteristics and the actual risks of different types of infrastructure investment. All this will contribute to reducing the existing inefficiencies and opacities in the infrastructure marketplace and make the asset class more attractive for public and private financiers.

## **Co-financing by D20 members, MDBs and private sector and standardised platforms**

Even with the proper characteristics of infrastructure being recognized as an asset class, there is a need to develop better cooperative models for the financing by D20 members, MDBs and the private sector.

The necessity to identify appropriate platforms to attract long term investments has been repetitively voice in line with the need to mobilise more private resources. The fragmentation of markets and the complex fiscal, legal and regulatory framework is not conducive of initiatives to set up needed instruments/vehicles to attract private investors. In this context 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 be designed so as to ensure a level of risk matching investors' interests and ensuring a fair regulatory treatment. The design should include appropriate constraints to the investments so as to match appropriate regulatory and rating agencies criteria. The vehicle/instrument should 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.

The vehicle/instrument should target (a) institutional (including small and medium sized) investors ; (b) high net worth and retail investors, seeking exposure to long-term, typically illiquid, assets.

The vehicle/instrument could then be used to set up an appropriate international platform supported by MDBs and D20 members pooling assets in infrastructure to facilitate the development of a standardised approach. The platform could combine MDBs/NPBs support with appropriate risk absorption mechanisms (including with the support of dedicated grants) aimed at ensuring the needed level of risk which would meet both private investors' appetite and regulatory conditions.

If this project succeeds producing good results, it may be extended also to other sectors such as innovation, research and support to SMEs, both of which produce strong positive externalities.

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 long-term 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 Long-term investments to provide experience and knowledge in the discussion so as to facilitate subsequent implementation.