2021 G20 Infrastructure Investors Dialogue

Financing Sustainable Infrastructure for the Recovery

Outcome Document

October 2021

2021 G20 Infrastructure Investors Dialogue: Financing Sustainable Infrastructure for the Recovery

held in collaboration with the OECD and the D20 Long-Term Investors Club on 3 June 2021

Outcome Document

The ***"2021 G20 Infrastructure Investors Dialogue: Financing Sustainable Infrastructure for the Recovery"*** was a successful event[1] that brought together distinguished speakers from G20 governments, investors, National and Multilateral Development Banks (NDBs and MDBs) and businesses.

This outcome document is intended as a **non-binding input** to the discussion of G20 Finance Ministers and Central Bank Governors (FMCBGs) at their October meeting and to future G20 Presidencies' agenda. Building on the G20 Leaders call in 2020 to continue the dialogue with infrastructure investors, in July 2021, G20 FMCBGs stated they "*will continue to develop further the collaboration between the public and private investors to mobilise private capital and look forward to the outcomes document of the first G20 Infrastructure Investors Dialogue at our October meeting*" (G20 FMCBG Communiqué, July 9-10, 2021). This document has been prepared by the Italian G20 Presidency together with the co-organisers of the event (the Organisation for Economic Co-operation and Development (OECD) and the D20 Long-Term Investors Club) in consultation with the members of the G20 Infrastructure Working Group. **The policy messages and proposed actions advanced in the document are non-binding and voluntary, reflect ideas expressed during the dialogue and are not consensus-based.**

As the next G20 Presidency, Indonesia has already committed to continue the Dialogue in 2022, with the aim of reconvening governments, Long-Term Investors and the private sector to make progress in creating the right conditions for increasing private investment in infrastructure, promoting inclusive growth and sustainable development.

The context

The COVID-19 pandemic presents an opportunity to rethink how economies and societies can boost investment in sustainable, resilient and inclusive infrastructure that leads to economic growth and sustainable development.

Already before the pandemic, public finance alone could not address the growing infrastructure investment gap, estimated at USD 14.9 trillion through 2040, and even higher when considering the need to meet the Sustainable Development Goals (SDGs) which would require an additional USD 3.5 trillion in investments[2]. According to the Global Infrastructure Hub (GI Hub)[3], global primary market transactions, i.e. new security offerings in greenfield or brownfield infrastructure projects, declined in the decade ending in 2019, with the decreasing trend continuing throughout the COVID-19 pandemic. By contrast, secondary market

[1] More than 550 unique users logged on to follow the event and more than 1,000 watched it on the OECD and G20 digital channels and on YouTube.
[2] *Global Infrastructure Outlook*, 2017, Global Infrastructure Hub, https://outlook.gihub.org/
[3] *GI Hub Infrastructure Monitor* (2020), https://www.gihub.org/infrastructure-monitor/

transactions, i.e. trading of existing infrastructure investments, increased, accounting for 75 percent of all private infrastructure financing in the same year.

Closing the long-standing infrastructure financing gap while building more sustainable economies requires more investment, but also better investment. Thus, financing sustainable infrastructure calls for urgent action from all stakeholders including governments, public and private firms, NDBs and MDBs, and civil society. Massive investments in innovation and Research and Development (R&D) in new technologies that will reduce greenhouse gas (GHG) emissions will be required, as infrastructure is a central part to support this process.

Environmental, Social and Governance (ESG) criteria integration has been growing in investment decision-making, and is not only being used by investors to assess risk, but also for value creation and impact. The proliferation of different ESG criteria is among the factors preventing the full potential of private investment in sustainable infrastructure.

Environmental aspects have been generally known and considered for some time now. However, developing sound ESG approaches can contribute to ensure that sustainability considerations are integrated into financial decisions and private investments choices, in line with the UN 2030 Agenda and the Paris Agreement, while taking into consideration different national circumstances and in the context of sustainable development. Social and inclusiveness aspects are also becoming key factors to be considered by investors in infrastructure, given the need to achieve affordability and long-term acceptance of an infrastructure project within a community.

Key policy messages and proposed actions

Building on inputs gathered during the 2021 G20 Infrastructure Investors Dialogue, the G20 could:

Policy message I	**Continue the dialogue with the private sector**, especially long term investors, asset managers and the wider international community (e.g. International Organizations (IOs), MDBs and NDBs) to inform, as appropriate and where applicable, the formulation and implementation of the G20 infrastructure agenda, with the aim of facilitating G20 efforts to bridge the infrastructure investment gap and align investments with sustainable development goals.
Proposed action	*G20-lead activities conducted throughout the year could* ***foster an ongoing collaboration with the private sector****, while building on applicable recommendations from G20/OECD Report on the Collaboration with Institutional Investors and Asset Managers on Infrastructure.* *As done in 2021 with the cooperation of the G20/OECD Task Force on Long-Term Investment and D20 Long-Term Investors Club, those activities could lead into* ***annual infrastructure investors' dialogues****.* *Based on the inputs collected from the G20 membership, the rotating G20 Presidency would consider how to hold a dialogue with private investors on the G20 infrastructure investment agenda. The G20 Presidency would decide, through consultation with the IWG and the OECD Task Force on Long-term Investment, on the mechanism for such a dialogue. The G20 Presidency would identify the topics and suitable modalities to conduct the dialogue, which should leverage and complement existing private sector-focused events and coalitions undertaken by MDBs, IOs and national governments.*

Policy message II	**Track and monitor infrastructure investments** – in particular, the status of the infrastructure financing gap – on a regular basis and in quantitative and qualitative terms to inform G20 policies and work, and track progress.
Proposed action	*Leveraging on the work and the analytical tools already developed for the G20, such as the GI Hub Infrastructure Monitor and the GI Hub InfraTracker, and complementing the ongoing work on data initiated under previous G20 Presidencies, the G20 could ask, as appropriate,* ***partner organisations and MDBs to continue tracking and sharing data on infrastructure financing trends,*** *including on operation and maintenance of existing infrastructure. A specific section could focus on the infrastructure financing needs to achieve the UN 2030 Agenda and the Paris Agreement objectives. Results could be disseminated ahead of the annual infrastructure investors' dialogues.*
Policy message III	Continue to recognise the role of infrastructure investment for the recovery, and **develop and release recovery strategies and long-term infrastructure investment plans.** Clear and reliable long-term plans will provide investors with certainty about goals, sustainability targets and regulations, and thus build the confidence needed to unlock further private investment. Environmentally sustainable infrastructure will be fundamental to make the recovery more robust, inclusive and resilient to climate-change risks.
Proposed action	*The G20 could use the infrastructure investors' dialogues, as appropriate, for* ***governments and investors to continue sharing and accessing information on a voluntary basis on long term policies*** *related to infrastructure investment, including a focus on sustainability and building on existing initiatives, such as the work of the GI Hub InfraTracker and the G20/OECD Task Force on Long Term Investment.* *The G20 could ask the International Monetary Fund (IMF) to* ***continue assessing the economic impacts stemming from sustainable infrastructures investment****.*
Policy message IV	**Examine more closely the legal and regulatory contexts as well as administrative capacity for infrastructure investments, in order to remove barriers** that may prevent private investors from playing a bigger role in the development of sustainable infrastructure projects.
Proposed action	*Drawing on the efforts the* ***G20/OECD Report on the Collaboration with Institutional Investors and Asset Managers on Infrastructure*** *and building on efforts of the* ***G20 Roadmap for Infrastructure as an Asset Class****, further assessment of the regulatory frameworks would be necessary, related in particular to institutional investors with the objectives of establishing regulatory, legal and stable environments that enable investments.*
Policy message V	Analyse current financial instruments and mechanisms in order to get a **better understanding of available infrastructure financing mechanisms** among the public and the private sector (i.e. Public-Private Partnerships (PPPs), co-investment funds, guarantee facilities and other financial instruments), which could foster appropriate risk allocation and allow for a model balancing financial and construction-operation-maintenance approaches.
Proposed action	*The G20 could support the* ***systematization and further dissemination of existing work related to availability of financial instruments and***

	mechanisms, *including the G20/OECD/WB Stocktake of Tools and Instruments Related to Infrastructure as an Asset Class, the OECD Taxonomy of Infrastructure Financing Instruments and Channels, the G20/OECD guidance note on diversification of financial instruments for infrastructure and SMEs the GI Hub Innovative Funding & Financing tool and GI Hub/IFC workshop series.*
Policy message VI	Recognize that **sustainability is a critical factor in long-term infrastructure investments**, which are influenced by ESG and sustainable development aspects that investors consider when assessing risk, value creation and impact of infrastructure projects.
Proposed action	*As part of its effort to position infrastructure as an asset class, the G20 could task, as appropriate and where applicable, relevant partner organizations, such as the OECD, to compile a* ***study on the life-cycle performance of environmentally, governance and socially sustainable infrastructure investments*** *compared to traditional ones.* *MDBs, with support of interested NDBs and IOs, could provide input regarding the scope and amount of upfront costs of ESG projects and* ***solutions to mitigate these costs, including in emerging economies and developing countries****.*
Policy message VII	Promote further **consistency in data collection** through improved methodologies and common terminologies, in particular in the ESG and new technologies area, as well as through closer operational dialogue between public, private and academic communities.
Proposed action	G20 could consider actions to address the need to better inform infrastructure investment decisions, including through the ongoing work of related initiatives by international organizations on access to data, such as the Infrastructure Data Initiative, and in cooperation with the various institutions collecting infrastructure data (e.g. EDHEC Infrastructure Institute and other relevant institutions).
Policy message VIII	**Prioritize project preparation** and the development of infrastructure project pipelines **as lever for private investment. Project preparation is also critical to ensure high quality and sustainability of infrastructure assets.** To ensure investment returns while achieving affordability project preparation should *inter alia* include the consideration of sustainability and inclusiveness aspects, patterns of demand, early stakeholder engagement and risk assessment.
Proposed action	*Building on the work commenced by previous G20 Presidency,* ***the G20 could leverage, raise awareness and, where possible, increase funding support to scale-up existing global platforms – such as the Global Infrastructure Facility (GIF) –*** *that help increase the supply of bankable, investment-ready infrastructure projects that can deliver on environmental, social and economic benefits over the long term.* *As part of this work, the G20 could mandate partner organizations to undertake a general* ***stock taking exercise of existing national and international project preparation facilities (IPPFs)*** *to find out the initial capitalization of those funds and how successful they have been in implementing infrastructure projects.*

	The G20 could also, as appropriate, acknowledge the role of the multilateral platform SOURCE*, which operationalizes international standards and knowledge products on project preparation from MDBs and the international community and facilitates access to project preparation facilities.*
Policy message IX	Reaffirm the importance of **building the capacity and capability of the public sector** in engaging with the private sector and financial market in delivering the projects. Better knowledge and the application of sound PPP principles would facilitate the successful development of the project pipeline and instil confidence in the private sector market.
Proposed action	*Building on existing efforts at country, regional and multilateral level, the G20 could encourage the establishment of educational programs aimed at educating and training public officials and practitioners based on good practices and lessons learned.*
Policy message X	Recognize that **NDBs and MDBs play a pivotal role** in catalysing private capital towards innovative and sustainable infrastructure investments by reducing real and perceived risk through financial instruments, such as co-investment initiatives, and by providing technical assistance to project development globally.
Proposed action	*The G20 could further* ***engage with relevant NDBs and MDBs*** *to address barriers to the development of sustainable, accessible, resilient and quality infrastructure for emerging countries, and encourage efforts to find new and innovative ways to unlock private infrastructure investment including through co-investment and guarantees.* *As part of this work, the G20 could acknowledge the important position held by the* ***D20 Long-Term Investors Club****, which brings together long-term investors and NDBs from several G20 countries, by involving it when useful in the activities of the Infrastructure Working Group, including the infrastructure investors dialogues' future editions.*

Background

The "2021 G20 Infrastructure Investors Dialogue: Financing Sustainable Infrastructure for the Recovery" – held virtually on 3 June 2021 – built on previous G20 works, including the 2020 "G20/OECD Report on the Collaboration with Institutional Investors and Asset Managers on Infrastructure, the 2019 "G20 Principles for Quality Infrastructure Investment" and the 2018 "G20 Roadmap to Infrastructure as an Asset Class".

In welcoming the 2020 G20/OECD report, **G20 Leaders called to "*exploring options to continue this work*** *in a flexible manner and without duplications with other initiatives, with the participation of interested MDBs and international organisations*" (G20 Leaders' Declaration, November 21, 2020).

The 2021 G20 Infrastructure Investors Dialogue leveraged existing efforts to advance collaboration between governments, MDBs, NDBs and private sector to unlock further investment in infrastructure. Considering the current pandemic crisis and need to plan for long-term and sustainable recovery, the conference focused on **sustainable infrastructure investment for the recovery**.

Summary of sessions

High-level Roundtable: How strengthening dialogue between investors and governments can help mobilise private capital in sustainable infrastructure for long-term recovery

High-level panellists spoke of the need to foster a **different kind of economic development** following the pandemic, based on **sustainability** and achieving **climate targets. The role of infrastructure**, including when spanning across-borders, **is key in meeting this objective**.

Massive investments in innovation and R&D would be needed to ensure commercially viable green technologies within a very short timeframe across all economic infrastructure sectors including energy, transport, agriculture, water, sanitation, and heavy industry. Innovation and R&D are also needed for **meeting broader development objectives** (2030 SDG Agenda) in advanced and developing economies.

It was noted that there is an **abundance of private long-term capital** ready to be deployed for infrastructure, but **governments should supply** more **long-term planning and investible projects** to increase investments**.** Projects should address the **climate transition**, as well as broader **social and inclusiveness considerations**, including the importance of addressing poverty and quality of life objectives (e.g. health services, housing, digital and green) through infrastructure investment, especially at the **urban level**.

To tackle these issues, a **strong collaboration** with the **private sector**, together with the **involvement of NDBs and MDBs**, would be required. NDBs and MDBs can play an important role in **catalysing private capital** and **aligning it** with investments consistent with **long-term development goals** – providing a **bridge between the public and private sectors** by **crowding in capital** and **de-risking investment**. Their support in the form of **technical assistance** in project preparation/development and **financial instruments** in the form of debt, equity, guarantees and blended finance solutions could have a positive effect in advanced and developing economies alike.

Some concern was expressed on placing **pressure on public companies** to decarbonise (e.g., divestment), as other privately owned enterprises should share the responsibility to reduce the total carbon footprint. At the same time, the **important role to be played by investors in providing good stewardship of assets and working with public companies on climate and other sustainability objectives**, including ESG integration, was highlighted.

Seminar Session I: Mobilising private finance for sustainable infrastructure

Panellists discussed how to mobilise investment in sustainable infrastructure in emerging economies. Among the experiences shared, a **fund model used in India was mentioned, where the government established a collaboration investment platform with large institutional investors,** including sovereign wealth funds and pension funds, creating an asset management fund to manage investments. This fund model was supported by "**asset recycling**" by which state assets are sold or leased to the private sector, allowing for the proceeds to be directed to new investment. **Asset recycling was described as a potential model for consideration.**

Another partnership model was an example **from Australia**, where investors approached the government to improve existing investments in toll roads (like a "reverse enquiry"). Finally, panellists talked about a creative use of **concession models in Latin America that help to address affordability issues** through a mix of subsidised tariffs for poorer populations.

How PPPs can be better leveraged was discussed. Greater understanding is needed on the difference between a **traditional procurement method** (i.e. government financed through debt issuance, contracting, and procurement) versus a **PPP model** which brings in external finance. An **appropriate risk allocation mechanism on PPPs** that is reflective of value for money, affordability and bankability considerations should be developed, and can be made achievable through **standardization of the process by member countries considering their local conditions**.

To address COVID-19 recovery packages, one panellist stressed the **need for governments to be more specific about long-term infrastructure plans, targets and concrete actions for the recovery and how they intend to involve the private sector**. Efforts are needed to develop and publish long-term infrastructure plans prioritizing the deployment of fibre, investing in health care, and scaling up climate efforts (e.g. renewable energy, clean transport, energy efficiency in buildings), backed up by the right policy actions.

The **development of long-term infrastructure plans and projects** was also the **most favoured option among conference participants as a priority area for governments**[4], as it is seen as catalyst to boost private investments and facilitate the involvement of long-term investors in infrastructure financing.

Seminar Session II: Risk mitigation, bundling of projects and Environmental, Social and Governance (ESG) risk assessment in infrastructure financing for climate mitigation, adaptation and resilience

Panellists discussed ways to move from a defensive risk mitigation posture to one that is more impact driven. Data was suggested as a missing or needed element in order to accomplish this as it can inform decision-making and measure risks and impact. **Access to data will help to de-risk projects** by reducing some uncertainties related to financial performance and to non-financial elements. Yet there are significant challenges for such data disclosure. For instance, in Africa, only 50 percent of utilities publish

[4] Poll question: "Which area do you believe should be prioritised by governments to support private investment in sustainable infrastructure, also in view of the current pandemic crisis?" Options given were a) Development of long-term infrastructure plans and projects, b) Data collection and sharing initiatives on performance measurement, including financial, c) Risk mitigation measures, d) Development of a common understanding on key contractual building blocks, e) Capital market development and regulatory frameworks.

audited reports. Panellists recognized that the **Infrastructure Data Initiative**[5] **is well positioned** to coordinate issues related to data at the G20 level.

The COVID-19 crisis has demonstrated the **resilience of infrastructure as an asset class in the face of unexpected shocks.** Infrastructure meets the key essential needs of society and this feature is thus attracting increased investor interest. Infrastructure is also a growth story as more infrastructure is needed to meet climate, social and development objectives. In polling,[6] **private and public stakeholders alike answered** the most effective solution to mitigate sustainable infrastructure investment risk was to have a **stable policy, regulatory and legal framework environment**.

At the same time, despite growing investor interest, some panellists expressed **frustration at the slow progress made to mobilise investment for infrastructure**. The G20 Roadmap to Infrastructure as an Asset Class is not progressing fast enough, particularly in terms of **financial standardisation** and in **ensuring concerted efforts between public and private sectors**.

Approaches such as **guarantee facilities and frameworks** – second-best solution to mitigate infrastructure risks for the private sector according to the poll – **are needed**, as well as better risk allocation. **NDBs and MDBs** can **play a key role** in this regard by **sharing technical knowledge and by reducing risk through improving enabling environment at upstream, supporting quality project preparation at midstream, and co-investments or guarantees at downstream**. Further, some called for scaled-up international efforts at **building bankable project pipelines**, through increased funding for the Global Infrastructure Facility (GIF)[7].

In many cases, **sustainability** is viewed as a **prerequisite** in infrastructure projects, but in practice **yet to be fully understood by investors**. Sustainability can become a key part of an infrastructure asset class by emphasizing how **ESG can be used in risk management as a value-driver over the long-term**. Sustainability considerations need to be considered from the early stages of project development, to ensure that the project can deliver value to both investors but also to the broader society. There are many ESG or sustainability approaches and standards for instance of reviewing the approaches and indicators that are typically used by private investors. The governments are sensitive to ESG requirements and are taking measures in accordance with their national circumstances. One panellist mentioned the Aligned Set of Sustainable Infrastructure (ASSI) indicators[8] as ongoing work in this regard.

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[5] The IDI aims to improve the availability and quality of data and information on infrastructure investment, particularly at the granular project and cash flow level. The IDI is a voluntary federation of relevant initiatives and efforts. Its members are the MDBs (Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, Islamic Development Bank, World Bank and the International Finance Corporation), the Global Infrastructure Hub, the Long-Term Infrastructure Investors Association, the Long-term Investors Club, and the OECD. The OECD also serves as a secretariat for the IDI.

[6] Poll question: "Which solution do you see as most effective to mitigate sustainable infrastructure investment risk?". Options were: a) Stable policy, regulatory and legal frameworks, b) Public support through blending / guarantees / etc., c) Investment-ready project pipelines, d) Better assessment of sustainability risks/impacts, e) Project bundling and securitization.

[7] The GIF, established in 2014 as a G20 initiative, is a global collaboration platform that integrates efforts to boost private investment in sustainable, quality infrastructure projects in developing countries and emerging markets. It encourages collective action among partners – including donors, development finance institutions, country governments, with inputs of private sector investors and financiers – to leverage resources and expertise and find solutions to build bankable pipelines of infrastructure projects that attract private financing. www.globalinfrafacility.org

[8] ASSI is a project sponsored by the Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank, with the support of the GIF, together with the European Bank for Reconstruction and Development (EBRD). It intends to build on existing standards to develop a harmonised set of sustainability indicators for infrastructure projects.