Statement

by Heads of G20 financial institutions with a development or public mandate, approved as outcome of the international conference
"Infrastructure as Long Term Investment Tool for Sustainable and Comprehensive Growth"

Organized and hosted by
The Industrial Development Bank of Turkey (TSKB)
May 26th, 2015 - Istanbul

At their third informal meeting, which took place in Istanbul on May 26th 2015, the Heads of G20 financial institutions with a development or public mandate ("The D20") discussed their role in helping addressing the global challenge of sustainable, inclusive and robust growth. They focused, in particular, on the importance of attracting long-term finance for infrastructure from non-bank sources by developing infrastructure as a strong, viable asset class. They also stressed the fundamental role of social infrastructure, which is in need of a comprehensive policy, legal and institutional framework for PPPs. This should enable governments to better control PPPs structuring and to send a clear message to potential private investors on their commitment to ensure people safety, health and productivity in the community.

The D20 is a group of diverse financial institutions with a wide array of financial products combined with deep knowledge of domestic markets, which despite their differences, share a common mission to support the converging public policy objectives of G20 members, their respective shareholders.

- Building on previous Presidencies' agenda and ensuring continuity in the G20, the D20 supports the high level of priority put by the Turkish Presidency on providing **inclusive and robust growth** through coordinated and strong collective action.
- The G20 Turkish Presidency describes the **development of infrastructure and SMEs** as a key driver of sustainable and comprehensive **growth and employment** as also indicated in the D20 Statement of 2014. Support for infrastructure investment and long-term finance should therefore remain a key priority. Within their respective mandates and means, the D20 reaffirm their commitment to support the development and financing of economic and social infrastructure projects in both G20 and **Low-Income Developing Countries (LIDC)**.
- The D20 institutions, particularly in developed countries, can contribute ideas and share theoretical and practical experience in order to improve **financing schemes** to support the development of economic and social infrastructure projects in both G20 and Low-Income Developing Countries (LIDC). With acceptable schemes, quality infrastructure projects can provide adequate results for investors and provide greater benefits for the wider community.
- In reaching these goals, D20 institutions encourage further involvement of other financial institutions, notably the non-bank ones. The latter have a significant role to play in financing of infrastructure given their size, substantial investing capacity, linkages to the financial sector and long term vision. The

non-bank financial institutions and the members of the D20 are counter-cyclical actors, which offer considerable financing and expertise and can thus have a strong impact on the priorities set by the G20.

- There is momentum for long-term investment by institutional investors in social infrastructure that delivers financial gain and public value. Nevertheless, momentum will be stifled unless there is more **political and regulatory incentive** for long-term planning and associated risk assessment by places and sectors that need such capital. Competencies and capacity in both are pre-requisites for: guiding higher investment in education, health and social housing; needed reforms and; far more effective implementation of education and health policies. The Heads of the D20 are conscious of the need of ensuring the support to the financing of social infrastructure which directly and indirectly gives a crucial contribution to economic growth and job creation by inclusive access to services for lower income populations and improvement in people's lives hand by hand with economic infrastructure.
- The development and provision of economic and social infrastructure is potentially well suited to **PPPs**, which have been used to deliver public services since the early 90s. This has not been unproblematic and there is a basic need to strengthen the ability of the demand-side to generate investable social infrastructure. There is need to know when private investment is the right approach and to help improve the public sector capacity to negotiate socially useful PPPs that achieve their social goals effectively.
- Overall, the Heads of the D20 acknowledge that recourse to PPPs can often be an attractive way of meeting investment needs and should therefore be promoted to take the above issues into account, particularly in a fiscally constrained environment as also indicated in the D20 Statement of 2014. Therefore, public and private sectors need to find a method that is effective and appropriate in financing designing and building social infrastructure. The public sector expects budget efficiency in infrastructure development and improvement of public services to the community. Meanwhile, the private sector can provide technology, innovation and managerial ability.
- Members of the D20 recognize the utmost importance to join forces to cope with **climate change**. This requires mobilizing financial resources from a wide range of sources, public and private, national, bilateral and multilateral. Tracking and reporting financial flows that support climate change mitigation and adaptation is therefore becoming increasingly important, not only to build trust and accountability with regard to climate finance commitments, but also to monitor trends and progress in climate-related investments as well as their impacts.
- In this context, ahead of the **COP 21** in Paris, the D20 is supporting the efforts of **MDBs,** as well as the national and, regional development finance institutions from across the world that have been supporting ongoing efforts of the international community to transparently track and disclose global climate adaptation and mitigation finance commitments.

Keeping in mind the above mentioned issues, the Heads of the D20 are convinced that working closely with the G20 as a group would ensure that policies decided at G20 level can be implemented at best. In cooperation with MDBs, D20 members can provide a necessary bridge between governments, projects sponsors and capital markets if a framework favourable to "LTI" is set up by international regulators. Based on their reputation and high technical skills they can have an important and growing role as attracting and supporting market participants into the financing of economic infrastructure and SMEs especially in respect of social infrastructure investments.

As providing stable long term funding from institutional investors remains a priority, the Heads of the D20 acknowledge once again that the objective should be to develop infrastructure investment into a well-defined **"asset class"** with distinct regulation. This is needed to allow both domestic and international institutional investors to allocate to it a larger share of their portfolios. They declare their commitment to developing and using the required innovative approaches and instruments (including carefully regulated and designed asset-backed securities or private equity fund vehicles targeting infrastructure) to mitigate risks and leverage private flows in support of public policy objectives.

Given their relevance in supporting economic growth in G20 countries and their role in implementing G20 policies, the D20 institutions believe that they should be collectively represented in the G20 working groups, primarily – in G20 **Infrastructure and Investment Working Group (IIWG)**.

The D20 agree that some changes are required in an international (and European) regulatory framework still un-friendly to long term investment. A re-calibration of actual prudential regulations and accounting standards is long time due: consensus is now quite general, but no concrete results have been so far achieved. On the contrary, the Basel Committee is debating a new set of rules (Basel IV) which would make even harder (in terms of capital absorption and liquidity ratios) to finance investment and the real economy. The risk – at the end – is that financial institutions with a development or public mandate may be left alone in a market where other potential investors will have no convenience to participate, even if they wished to do so, due to the effects of rules drafted with no clear understanding that economic growth (that is, long term investment) are a binding condition for both financial stability and long-term sustainable fiscal consolidation.

One of the fields on which global competition is playing its game is the setting of prudential regulations and accounting standards. The tough prudential and accounting regulation which penalize the financing of real economy and infrastructures need a "levelling playing field" to avoid "regulatory arbitrage" and support homogenous treatment of long term investment. Financial systems, which are more bank-oriented may pay a greater price due to prudential regulations and accounting standards than market-based financial systems. We believe that international, regional and national regulators should work together to avoid regulatory and asymmetric global environments.

The fourth D20 conference of the heads of the G20 financial institutions with a development or public mandate will be organized in 2016 by China Development Bank (CDB) during the Chinese G20 Presidency.

Annex:

List of participating institutions to the 3rd D20 Conference in Istanbul, May 26th 2015

- Bank of Investment and Foreign Trade (BICE), Argentina
- Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Brazil
- China Development Bank (CDB), China
- European Investment Bank (EIB), European Union
- Caisse des Dépôts et Consignations (CDC), France
- Kreditanstalt für Wiederaufbau (KfW), Germany
- Indonesia Eximbank, Indonesia
- Cassa Depositi e Prestiti (CDP), Italy
- Development Bank of Japan (DBJ), Japan
- Japan Bank for International Cooperation (JBIC), Japan
- Korea Development Bank (KDB), Korea
- State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” (VEB), Russia
- Development Bank of Southern Africa (DBSA), South Africa
- ICO Instituto de Credito Oficial (ICO), Spain
- Türkiye Sınai Kalkınma Bankası (TSKB) - Industrial Development Bank of Turkey, Turkey - organizer