

G20 releases GI Hub report on MDBs

SYDNEY, AUSTRALIA // 15 February, 2017: The G20 today released the Global Infrastructure Hub report reviewing the extent to which Multilateral Development Banks create incentives within their organisations to ‘crowd-in’ private finance to fund public infrastructure.

The report comes as infrastructure needs continue to expand across the globe, particularly in the developing world and emerging markets, while at the same time the massive pool of private investment capital is increasing.

At the G20 meeting in Chengdu, China in July 2016, the GI Hub was asked by G20 Finance Ministers and Central Bank Governors to “work with the MDBs to assess internal incentives with regard to crowding-in private finance and to report to our deputies in December 2016”.

MDBs are established to provide finance and guidance to developing countries to support economic development and construction of key infrastructure. Each year the MDBs, which include the World Bank, the Inter-American Development Bank, the Asian Development Bank, Asian Infrastructure Investment Bank, the African Development Bank, and the European Bank for Reconstruction and Development, provide billions of dollars in loans and grants to developing countries.

But despite the financial strength of the MDBs and their billions of dollars of investment every year, there is still an estimated US\$1.2 trillion shortfall in infrastructure across the globe.

With the support of key G20 stakeholders, the GI Hub looked at pragmatic changes in operating incentives and practices that could bring about better balance between direct lending and lending that crowd-in private sector investors. In preparing its report, the GI Hub consulted with a range of MDBs, as well as key private sector stakeholders, and made seven key findings and a number of recommendations.

The report found:

WHILE MDBs are receptive to private finance of infrastructure, there is considerable diversity to the approach taken to facilitate and monitor such private investment.

MDBS have shown their ability to change behaviour to address new investment priorities such as climate change – therefore they should be able to respond to this new priority of crowding-in private finance.

“POACHING” of business – where crowding-in of private finance by one MDB is undercut by another MDB using traditional loan arrangements – was discouraging the use of private finance.

SOME MDBs had established systems in their internal structures to progress crowding-in, while others were still developing such arrangements.

The recommendations include:

MDBs to report on achievements on crowding-in of private finance, through annual reporting.

MDBs should ‘mainstream’ the objective of increasing crowding-in of high quality private investment in infrastructure throughout their organisations.

MDBs should publicise the infrastructure projects they are supporting, to highlight opportunities for the private sector.

GI Hub Chief Executive Officer Chris Heathcote said the report would assist the G20 in understanding the vital role that MDBs must play in helping countries to transition from reliance upon aid lending, to accessing the pools of private capital looking for infrastructure assets. As well, the MDBs were uniquely placed to undertake crowding-in, by shifting their emphasis to capital facilitation, through the use of guarantees and other instruments, rather than relying primarily on capital provision.

“We know that only the private sector can bridge the huge gap between available funding and the infrastructure the world needs,” he said.

“The MDBs are the trusted partners to the emerging market countries that need assistance, they are critical to helping these countries access the massive pool of private funds that is available. This report will help to guide the MDBs to make pragmatic changes to their incentive and operational structures, allowing them to more effectively link private investment with public infrastructure projects.”

The report can be accessed at:

<http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Featured/G20/G20-Documents/2017-Germany-GIH-report-to-G20.pdf>

Or access it on the GI Hub website at: <http://www.globalinfrastructurehub.org>

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About the Global Infrastructure Hub

The Global Infrastructure Hub (GI Hub) was launched in 2014 with a G20 mandate to increase the flow and the quality of opportunities for public and private infrastructure investment. We work to facilitate a better supply of quality, bankable government infrastructure projects to the private sector, identifying reforms, planning approaches and risk management strategies that drive public-private partnership and investment into infrastructure. We aim to be a leading reference on infrastructure best practices, providing innovations that enhance the market’s ability to finance, build and secure the best returns from infrastructure projects.

For more information about the GI Hub, visit: <http://globalinfrastructurehub.org/>