

Joint Action Proposal for the G7 and MDBs/DFIs on Mobilizing Private Capital for Quality and Sustainable Infrastructure Investment

Executive Summary

G7 Leaders established the G7 Partnership on Infrastructure and Investment (PII) to deliver a step change in the approach to financing quality and sustainable infrastructure. Developing countries face significant fiscal and capacity constraints to deliver on global development goals at the pace needed to achieve the Sustainable Development Goals 2030 and the Paris Climate Agreement.

Three important and mutually reinforcing Collective Actions were identified by the Ad-hoc MDB/DFI Expert Group on Infrastructure and Investment (Expert Group)¹ as driving this transformation and incorporating the principles of other sub-actions. Each of these proposed Collection Actions offer opportunities for G7 countries, host countries, and MDBs/DFIs to collaborate together.

Establish Coordinated Support for Country-Led Infrastructure Development Policy Programs

Private participation in infrastructure (PPI) in emerging markets and developing economies (EMDEs) has remained limited because conducive PPI and sector legal and regulatory frameworks are not fully in place, or due to weak institutional capacity within governments. It will not be possible to transform markets to attract private investment at scale to quality, sustainable infrastructure without strong political commitment and reform. In response, this priority action will establish coordinated support for Infrastructure Development Policy Programs in G7 PII priority countries as a pilot that would incentivize the removal of barriers preventing quality, sustainable infrastructure markets, entailing a compact between G7 and participating developing countries, as well as MDBs/DFIs and other development partners. It will deploy technical assistance, capacity-building, and engage stakeholders and finance transformative investments and safety nets according to clear commitments and agreed policy reform roadmap.

Recapitalize Project Preparation and Technical Assistance Facilities to Make More Resources Available to Build Country Capacity

The lack of well-structured, quality infrastructure projects and bankable investment opportunities at sufficient scale are significant barriers to mobilizing private capital and attracting institutional investors. Project preparation demands significant financial and human resources and considerable lead times that are in short supply in EMDEs. Additional financial resources and technical expertise need to be channeled into project preparation facilities and technical assistance facilities to deploy scaled support to programs and projects—from planning to pre-feasibility, feasibility, through to financial structuring and close that can broadly appeal to private investors. This priority action will recapitalize existing project preparation and technical assistance facilities and seek to broaden their access by supporting the establishment of national and regional facilities.

Develop investment platforms to aggregate DFI-originated green, resilient, and inclusive infrastructure projects to co-finance with, or securitize for, institutional investors

Infrastructure is not yet well-established as an asset class, rendering it difficult for institutional investors to reliably evaluate risks and returns in EMDE infrastructure markets. DFIs can provide specialized intermediation and promote convergence on standards for sustainable and quality infrastructure investments, but do not individually have the size of assets that can transform markets. This priority action will aggregate DFI-originated portfolios into an investment platform(s) focused on

¹ Please refer to the Annex 1 for a detailed list of Expert Group participants.

sustainable and quality-compliant projects, offering opportunities for co-investment and securitization that brings in institutional investors.

1. Introduction

G7 Leaders are driven by the need to rapidly increase availability and financing for resilient, inclusive and sustainable infrastructure, an important basis for the achievement of the Sustainable Development Goals (SDGs) under the 2030 Agenda and the climate goals of the Paris Agreement.

G7 Leaders established the G7 Partnership on Infrastructure and Investment (PII) and committed to deliver a step change in the approach to financing quality and sustainable infrastructure in the June 2021 Carbis Bay Summit. In 2022, under the German G7 Presidency, the G7 Elmau Summit will take this agenda forward with concrete initiatives that mobilize private capital for infrastructure in low- and middle-income countries, especially in Africa and Asia, by leveraging partnerships with multilateral development banks (MDBs) and development financial institutions (DFIs).

This document sets out the Joint Action Proposal from Ad-hoc MDB/DFI Expert Group on Infrastructure and Investment, that builds on agreements in the previous Summit and further consultations with the Expert Group on Infrastructure and Investments. The Joint Action Proposal aims to support putting the G7 Partnership for Infrastructure and Investment (PII) into practice. The G7 must work together to support these collective actions and draw on the experience, capacities, and toolboxes of MDBs, the G7 national DFIs, and the development banks in partner countries.

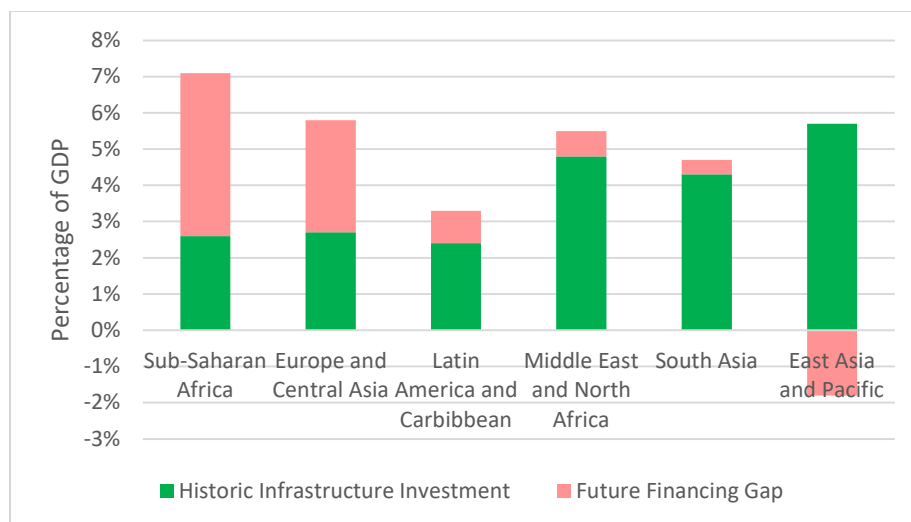
2. Background

EMDEs face significant infrastructure needs if they are to deliver on global development goals. The Paris Climate Agreement calls for the achievement of net zero emissions by 2050. Over 60 percent of these emissions come from the energy and transport sectors, with the bulk of projected emissions growth through to mid-century coming from low and middle-income countries. Moreover, infrastructure either directly or indirectly influences the attainment of all the United Nations' SDGs.

The World Bank estimates the associated infrastructure investment needs for the developing world at 4.5 percent of GDP annually, mainly for energy and transport, but critically, also for investments in infrastructure that increase adaptive capacities such as water, flood protection and irrigation. This ranges from around 3.3 percent of GDP annually in Latin America to 7.1 percent of GDP annually in Sub-Saharan Africa. These estimates are conservative and could be much higher unless governments make smart policy choices and spend resources efficiently. Furthermore, substantial operating and maintenance expenditures are also needed amounting to 2.7 percent of GDP annually.

Most low and middle-income countries face substantial infrastructure financing gaps. These gaps, between investment needs and what is actually being invested by countries, can be as high as 4.5 percent of GDP annually for Sub-Saharan Africa, 3.1 percent of GDP in Europe and Central Asia, and 0.5-1.0 percent of GDP annually elsewhere. China stands out as one of the few countries investing above benchmark levels and alone accounts for almost half of all infrastructure investment in low and middle-income countries.

Figure 1: Infrastructure investment financing gap by geographic region



Source: Derived from Rozenberg and Fay, 2019 and Fay and others 2019

Public investment in infrastructure was already in decline before the pandemic. Recent evidence – based on a sample of over 60 low and middle-income countries excluding China and India–shows that on-budget public investment on infrastructure had already been declining from 1.9 to 1.5 percent of GDP during the five years (2014-19) leading-up to the global pandemic.

Infrastructure spending, especially on operations and maintenance, is particularly vulnerable to cuts during economic downturns. Given the procyclical tendencies of infrastructure spending in low and middle-income countries, and the mounting demands for public expenditure on health and social protection, public investment in infrastructure is likely to have been further squeezed during the economic downturn caused by the global pandemic.

Many larger economies are trying to buck this trend and are incorporating infrastructure investment as an element of medium- and long-term stimulus packages to drive an economic rebound and enable sustainable transformation of the economy post-pandemic. While these plans may be largely delivered by traditional public investment, many stakeholders have called for scaling-up private sector participation to tap into financing from long-term investors. G7 members, in partnership with MDBs, have been at the forefront of this global agenda aimed at development of high-quality, sustainable infrastructure and mobilizing private-sector capital to support the world recovery from the pandemic.

PPI remains relatively low and concentrated in larger economies. In recent times, PPI represents no more than 10-15 percent of total infrastructure investment in low and middle-income countries, averaging around US\$80 billion annually since 2000. The geographical distribution of PPI is highly skewed towards five large emerging economies–China, India, Mexico, Turkey and above all Brazil–that together account for two thirds of total flows. Almost all the remainder is captured by other middle-income countries, with only about 1 percent (or US\$1 billion annually) reaching low-income countries. Whereas the top five countries rely primarily on domestic sources of debt, predominantly from national development banks and state-owned commercial banks, the low-income country group relies predominantly on DFI support. Moreover, international commercial debt plays a secondary role and is of primary relevance in middle-income countries.

The pandemic had a major impact on PPI investment which declined to \$45 billion in 2020, its lowest levels since 2004. In 2021, private sector investment commitments increased by 49 percent, showing clear signs of recovery, although commitments were still 12 percent lower than the previous five-year average (2016–2020). This may suggest that recovery is underway, though tight fiscal and financing conditions will require selectivity and attention to quality investments that support multiple economic

and social goals such as green, resilient, and inclusive investments. As economic stimulus slows, credit conditions tighten, and uncertainty from overlapping crises intensifies, there will be even greater need for reforms and for scaling private investment in infrastructure. This will require working collectively to enable private sector solutions and putting in place stronger foundations for a post-crises recovery.

G7 initiatives and DFIs have played a significant role in mobilizing private capital in the developing world. Over the period 2010-2020, about 17 percent of PPI projects received DFI support, mainly in lower-income countries. On average, every dollar of DFI support mobilized about one dollar of private capital, although mobilization ratios are much higher in the largest emerging markets (US\$1.45 per dollar) than in low-income countries (US\$0.37 per dollar).

Equally substantial, but as yet not systematically measured, is the contribution of G7 and MDBs/DFIs initiatives in enabling private capital. These enabling initiatives address binding constraints and result in private capital investments in infrastructure within a defined timeframe. Although enabling efforts do not involve co-investing in transactions, they create the market conditions without which transactions would not have happened. MDBs/DFIs support these efforts through development policy financing and institutions building.

Meeting international development goals calls for a step change in both public and private financing. The experience of the last 20 years highlights that some types of countries (large MICs), as well as some types of infrastructure (such as power generation and airports), are more attractive to private finance. In lower income countries, and for other types of infrastructure, public finance continues to play a dominant role.

Every dollar of investment, whether public or private, must support high-quality, sustainable infrastructure that maximizes its value to a country's economy, citizens and environments. The Principles for Promoting Quality Infrastructure Investment (QII) were first introduced at the G7 Ise-Shima Summit in 2016 and expanded and endorsed by G20 Leaders at the Osaka Summit in 2019. The principles include value for money and fiscal sustainability aspects, alongside governance considerations such as transparency and integrity, as well as the environmental and social safeguards. When applied, these principles enable countries to pursue investments that maximize the economic, social, environmental, and development impact of infrastructure.

3. A Call to Collective Action

The Joint Action Proposal calls for Collective Actions that address key barriers to private investment for the kind of infrastructure that will put the global community on a path towards achieving the 2030 Agenda and climate goals of the Paris Agreement—despite current global and regional challenges and multiple crises.

There are numerous barriers to mobilization of private capital for high-quality sustainable infrastructure in low and middle-income countries. EMDE governments have a central role in creating the macro-economic and sector-level enabling environment characterized by transparency and predictability that builds confidence among potential investors. G7 Country Governments influence market conditions and investor appetite through the international legal framework and financial market regulations that they put in place. Both G7 and EMDE governments also exert influence through their role in the governance of DFIs, whose own leadership and management help shape the extent to which such institutions are able to mobilize private capital.

Collective Action Area 1: Efforts on supporting country institutions and programs for private participation in infrastructure (PPI)

Barriers

Infrastructure markets are often closed to private participation because the legal framework prohibits it, or more often, because EMDE governments have not established reliable rules of engagement due to weak institutions. In many countries, existing legal frameworks are designed to support public investment and public entities hold monopoly positions or compete against the private sector, and at times enter into direct negotiation of infrastructure projects with other offshore public entities. In countries where private participation frameworks exist, their implementation is frustrated by key lacunae in policies (e.g., fiscal and transparency management) resulting in substantial public commitments that may not always be efficient, bureaucratic inertia, unrealistic expectations, and weak project execution capacity particularly for more complex project finance and PPP structures. Finally, public investments, where necessary to enable private sector in other parts of the value chain are not always forthcoming and may create a ‘chokepoint’ not just for investments up and down the value chain, but also typically, for universal access to service.

Infrastructure investors are looking to investments that generate a reliable return on capital, yet infrastructure assets in EMDEs are considered to have higher variability in revenues and higher risk. However, in many EMDE countries infrastructure sectors are not at financial equilibrium because of poor planning, weak governance, investment backlogs, and poor operation and maintenance of assets. Furthermore, end-user prices in many infrastructure sectors, which critically determine project financial returns, are regulated and, even where an autonomous, accountable and technically competent regulator exists, may be held below cost recovery levels for political reasons.

Proposed Action 1.1: Establish coordinated support for Country-Led Infrastructure Development Policy Programs to incentivize enabling environment reforms for PPI

Implementing sector reforms can be challenging for governments, but without a conducive enabling environment, it will not be possible to reach the scale required nor the sustainability of quality investments. Systems transformation of the kind needed to achieve global climate and sustainability goals need to be supported by policy reforms that open up markets and strengthen the viability of private investments in infrastructure sectors. In EMDEs, there is additional need for concerted and simultaneous support for technical assistance, capacity-building, institutional development and infrastructure financing.

This action proposes to establish coordinated support amongst G7/MDBs/DFIs for a Country-Led Infrastructure Development Policy Program in G7 PII priority countries as a pilot to enable private capital. This would incentivize reforms of infrastructure markets/sectors, and help countries create markets in ‘new’ green infrastructure sub-sectors, as well as coordinate efforts across multiple development partners based on clear commitments and agreed policy reform roadmaps² that would generate investible projects downstream within specific timeframes (e.g., an election cycle). This would entail a true compact between G7 and participating EMDE countries and MDBs/DFIs to provide resources and expertise to facilitate difficult transitions, and to address investment bottlenecks and

² Policy reform roadmap will address reforms related to inter alia PPP/PPI ecosystem, sector legal/regulatory / institutional reforms, transparent accounting for contingent liabilities, credit ratings for SOEs, improving creditworthiness of sectors/infrastructure SOEs to enable private sector projects, tariffs and subsidies, etc.

enabling environment barriers that prevent infrastructure market growth and private capital from being effectively mobilized.

Proposed Action 1.2: Scale up private capital mobilization to support the energy transition, through sector reform, regulation, and risk mitigation to facilitate renewable energy (RE) development and associated innovative technologies

An important theme within the above-described Infrastructure Development Policy Program would be to support the scale up of RE and associated innovative technologies. Accelerated transitions need concerted and well-timed efforts to address the fundamentals of the enabling environment in order to foster markets that promote the use of RE and adoption of related new technologies at scale (e.g., battery storage). MDBs/DFIs and G7 countries can coalesce to speed-up the adoption of green and renewable technology across an economy or, even, across broader regions. This proposed action aims to support private capital mobilization as part of countries' energy transition efforts, including with Just Energy Transition Partnership (JETP) countries focused on transition out of coal. These actions could be nested within the broader infrastructure development policy program set out in Action 1.

Best Practice Examples

Efforts to improve PPI at the country-level have been supported by a range of existing initiatives—encompassing policy and enabling environment reform, capacity-building for sector planning and legal frameworks, and targeted support to facilitate the energy transition, among other areas. These best practice examples contribute to the main proposed action which is meant to establish a coordinated support amongst G7/MDBs/DFIs for country-led Infrastructure Development Policy Program in G7 PII priority countries. **Best practice examples include:** ADB's grant support for energy system planning and risk mitigation for the Apia Port in Samoa; AfDB's African Legal Support Facility (ALSF); APMG Global's PPP Certification Training Programme; Expanding Private Participation in Infrastructure Program (EPPIP); BMZ's Build4Skills technical and vocational education and training program in Pakistan and Mongolia; Commercial Law Development Program; IFC Upstream; Climate Finance Leadership Initiative (CFLI) Country Pilots; GEF's Global Electric Mobility Program; World Bank's and JICA's Public Debt and Risk Management Training Course; World Bank Group's Public-Private Infrastructure Advisory Facility (PPIAF); World Bank's Infrastructure Assessment Program (InfraSAP), and; World Bank Development Policy Lending for Private Capital Enabling.

Please refer to Annex 2 and the associated compendium for additional details on select best practice examples listed above suggested by members of the G7 ad-hoc MDB/DFI Expert Group on Infrastructure and Investment.

Collective Action Area 2: Efforts to de-risk sector projects and address low creditworthiness of contracting authorities

Barriers

Relatively few EMDE countries have investment grade credentials. Even in those that do, the creditworthiness of the counterpart contracting authority, and the specific risks posed by certain types of infrastructure projects continue to present excessive risks. Furthermore, local private infrastructure companies may not have access to a sufficient scale of financing at tenors and terms that are suitable for infrastructure projects. Contracting authorities may be prone to payment delays given cashflow issues at the level of the enterprise or even at the level of government, or the off-taker to an

infrastructure PPP may simply not have sufficient track record. The risks of specific types of projects may not be well-known to investors if the market is new or untested. Risk appetite may be particularly limited in countries that do not have a well-established track record with PPPs—particularly for projects that are particularly large and complex—or lack access to comprehensive data on infrastructure PPP performance. Moreover, even where governments are willing to improve the enabling environment for the sector, it may take many years before the underlying governance issues actually improve off-taker creditworthiness and sector financial viability to a point where the projects can attract purely commercial investment.

Public goods and market failures also raise barriers. For public policy reasons, such as to ensure affordability and access to basics services, or to promote greener, cleaner infrastructure alternatives, economically viable projects may not be financially viable on a purely commercial basis. Hence the use of public or concessional financing may be needed to support project bankability without sacrificing public policy objectives. On the other hand, climate change itself creates risks to infrastructure projects and uncertainty in financial returns for investors. Compensatory instruments available in the market, such as insurance and weather-derivatives, are only still evolving and do not yet match market demand.

As a result, infrastructure projects in EMDEs or in new sectors can benefit from the judicious use of concessional funds and financing from DFIs. This makes it possible to create or optimize financial additionality through co-financing, loss-/risk-sharing, guarantees, and forms of blending. The presence of MDBs/DFIs in such projects can play a catalytic role, providing comfort for other investors through their facilitating role with government, and their ability to bring concessional co-financing resources, as well as potential guarantees.

Proposed Action 2.1: Develop and scale platforms/facilities/initiatives that mitigate risk and improve project bankability with the efficient use of additional concessional capital via MDBs/DFIs

This action proposes to develop and scale up guarantees, risk-sharing and risk-mitigation instruments, and blended finance with additional concessional capital via MDBs and DFIs. The judicious use of concessional resources has proved to be catalytic in attracting private-sector investments for strong development outcomes. Such instruments back-stop public sector commitments that have proven critical to providing the necessary assurances to the private sector on the risks being taken. Hence, scaling these instruments will help to further amplify private capital mobilization efforts.

Additional resources would enable MDB partners to explore new, innovative finance instruments and responsibly leverage their balance sheet. Innovative financial structures that mobilize ESG-linked finance and long-term institutional investors at scale can play an instrumental role in supporting key climate transitions, complementing MDB/DFI loans/guarantees and climate financing, working to create ‘wholesale’ platforms or programmatic approaches that support diversification of risk at a portfolio-level and present an opportunity to invest ‘at scale’ (e.g., a regional transport decarbonization facility, a national coal phase-down facility). Additionally, in nascent markets, developing risk sharing or blended facilities can mobilize financing for green infrastructure for new technologies and/or borrowers, such as SMEs (e.g., rooftop solar, e-mobility, battery storage), including in local currency. These require leveraging concessional and donor funds for scalability and affordability. This action also considers exit options under these platforms, such as refinancing or establishing secondary markets for such positions. G7 could consider providing a dedicated funding window on a reimbursable contingent grant basis through MDBs to support wholesale and

programmatic interventions for mobilizing commercial financing for public and private climate infrastructure investments.

Best Practice Examples

MDBs offer a wide range of guarantees and other instruments to support private capital mobilization in infrastructure, although mobilization levels have remained static around US\$66bn over the four years pre-pandemic. **Best practice examples** at both a global and a national level include: ADB's Infrastructure Finance Company Limited (IIFCL) in India; DBSA's Embedded Generation Investment Programme (EGIP); JBIC's Special Operations; KfW's GET FiT Premium Payment Mechanism program; KfW and World Bank's Line of Credit program; the efforts of the Solar Energy Corporation of India; and the World Bank's Guarantee Program.

Please refer to Annex 2 and the associated compendium for additional details on select best practice examples listed above suggested by members of the G7 ad-hoc MDB/DFI Expert Group on Infrastructure and Investment.

Collective Action Area 3: Efforts to expand project pipeline, as well as scale up and improve project preparation quality and bankability

Barriers

Among the well-documented challenges to mobilizing private capital for infrastructure at scale is the lack of quality prepared projects and bankable investment opportunities. Project preparation demands significant financial and human resources and can involve considerable lead times. It requires care in planning and economic assessment even before financing sources are identified; designing appropriate technical and social solutions; allocating risks and contractual responsibilities; all the way to financial structuring. Particularly at the national-level, significant technical and management expertise is needed to identify, prioritize, prepare, and structure infrastructure projects. In low and middle-income countries, the institutional capacity and resources needed to prepare infrastructure projects, particularly large-scale assets, remain limited.

A related barrier to attracting investors to infrastructure, particularly international institutional investors, stems from the lack of projects of sufficient scale. Bespoke financing structures of standalone infrastructure transactions can add complexity, additional preparation time, and higher upfront transaction costs to the due diligence process.

Proposed Action 3.1: Recapitalize project preparation and technical assistance facilities, including building national project preparation capacity, promoting regional projects, and facilitating access to such resources

To address the chronic shortage of well-structured and bankable infrastructure projects, project preparation facilities (PPFs) and technical assistance facilities at both the national- and global-level serve as critical drivers in improving project bankability. In efforts to bring more bankable, quality infrastructure projects to market, additional financial resources and technical expertise must be channeled into PPFs and technical assistance facilities, many of which are housed in MDBs or at the national-level within developing country governments. Reviewing lessons from existing technical assistance facilities and PPFs, and then, capitalizing and scaling up technical assistance facilities and PPFs will enable needed support for creating policy, regulatory, and institutional environments

conducive to private investment in infrastructure, as well as provide funding and technical support for designing and structuring specific infrastructure projects at each stage of the infrastructure project lifecycle—from planning to selection, pre-feasibility through feasibility, design, choice of procurement, structuring, and contract development, through to financial closing. Additional resources to technical assistance facilities and PFFs will need to ensure that they have a broad remit, flexibility and responsiveness in order to address the significant gaps, and where appropriate, such resources may be channeled alongside private sector development platforms or for the benefit of private sector led project development.

Proposed Action 3.2: Introduce new standardized investment programs at scale

Additional resources should be mobilized to introduce new MDB-supported standardized investment programs at scale with a focus on critical climate-systems transition sectors (e.g., energy: distributed energy; scaling wind and mini-grids; low-carbon transport and green mobility, etc.). Building on existing best practice models, establishing such mechanisms can aggregate individual infrastructure projects beyond the national scale to create a critical mass for investors, while also standardizing contractual design to additionally reduce transactions costs and enable rapid preparation, tendering, and financial close of infrastructure programs.

Best Practice Examples

A variety of **existing project preparation and technical assistance facilities** advancing sustainable infrastructure solutions with demonstrated track records exist at both the local- and global-level. Such facilities include: ADB Innovative Financing Facility; Ayana Renewable Power; Cities Development Initiative for Asia (CDIA); Global Infrastructure Facility (GIF); Globeleq; Green Energy Corridors, India; IFC Upstream, and; Project Development Cell – MNRE India.

Investment tools, such as GIH Infrastructure Monitor, Public Investment Management Assessment (PIMA), and WB/IMF PFRAM help to improve project preparation management capacities and source data on global infrastructure pipelines. SOURCE—a digitized quality infrastructure project preparation management platform that has received support from AfDB, ADB, EBRD, EIB, WBG and IDB—also serves as an important tool in promoting high quality and efficient global infrastructure project delivery.

Existing **best practice on scalable, standardized programs** include: IFC’s Scaling Solar, Scaling Mini-grids, Scaling Wind Programs, as well as its Utilities for Climate Initiative; IFC, GIF, and World Bank’s support to the Brazil Municipal Streetlighting Program, and; MIGA’s Proposed Distributed Generation Platform.

Please refer to Annex 2 and the associated compendium for additional details on select best practice examples listed above suggested by members of the G7 ad-hoc MDB/DFI Expert Group on Infrastructure and Investment.

Collective Action Area 4: Efforts that accelerate infrastructure systems transition by improving infrastructure quality, standards, and governance, greening supply chains/logistics, and promoting sustainable financing

Barriers

Without decisive actions to transition to low-carbon emitting infrastructure systems, the world will not achieve 2030 Agenda and climate goals of the Paris Agreement. The energy sector alone accounts for three-quarters of global Greenhouse Gas (GHG) emissions. Infrastructure faces significant growth in demand and adaptation challenges as well. Transforming infrastructure is critical for countries at all

stages of development and requires action from the public and private sectors to unlock major economic opportunities, create new markets, and create new jobs and reduce the trajectory of emissions and limit climate vulnerabilities.

Climate-informed decision making is not yet standard for infrastructure investment. On the one hand, EMDE governments need access to the tools and resources to mainstream quality and sustainability across their infrastructure planning and investment, and to support transparency. While on the other, private investors who are not familiar with EMDE assets needs an efficient system of discovery through standards against which sustainability and quality can be measured. The lack of this quality raises barriers to investments in potentially climate-critical investments in EMDEs or increases the cost of their financing and the value of government investment is not maximized.

Fiscal and debt management capacity and project governance and execution are significant constraints to quality infrastructure. Weak institutions and capacity discussed in previous Collective Actions equally affect the enabling environment for fostering the type of investments that attracts private investors, but also delivers welfare outcomes to consumers in the long-run.

Proposed Action 4.1: Increase resources for technical assistance and incentive programs for mainstreaming QII principles, ESG/sustainability standards, and other best practices

It is important that principles of quality and climate considerations are mainstreamed in infrastructure development and not seen as an added burden. Therefore, this action proposes to scale up technical assistance that gives governments the tools and resources to incorporate the principles of quality and sustainability into their infrastructure investments to maximize the economic, social, environmental, and development impact of infrastructure and promote evidence on how quality standards can improve economic efficiency and generate other benefits. Complementing this with incentive programs and the development of standards bodies, at the national-level and with the private sector, will help to enable the prioritization of high-quality investments and ESG/sustainability standards.

Proposed Action 4.2: Promote harmonization and standardization of ESG/sustainability indicators

Given limited capital, allocation needs to be made more efficient and transparent through comparable, relevant ESG/sustainability guidelines and indicators in the market. Increased appetite from the private sector to align investment decisions with ESG/sustainability considerations has given rise to the number of standards, frameworks, and taxonomies. Schemes differ in the degree to which they address sustainability issues across the processes and activities of infrastructure—with some more comprehensive and others more selective. To promote liquidity and efficiency in capital deployment, and to encourage more investments into sustainability, comparable and standard ESG reporting frameworks and indicators are important. This requires actions explicitly aimed at harmonizing and converging existing industry best practices, and to support EMDE countries to plan, prioritize, and prepare sustainable infrastructure projects and take sustainability into account to take advantage of private investors seeking to align their investment decisions with ESG needs.

Proposed Action 4.3: Facilitate usage of and access to sustainability/green-linked bonds and certifications in developing countries

The development of bond markets can attract a broader class of private investors, particularly those who are interested in portfolio diversification or investments into an aggregated pool of infrastructure products rather than ad-hoc investments in individual projects. Thematic bond certifications aligned to sustainability objectives—such as green bonds, social bonds, and blue

bonds—have the potential to mobilize needed capital from institutional investors into infrastructure. G7 and partner governments should build on, and further scale usage of, existing capital market solutions and work in collaboration with MDBs and DFIs to make anchor investments into sustainability-linked bond issuances. Depending on market context, there may be additional value in developing platforms for aggregating sustainability-linked bonds into an investment structure that could appeal to a wider group of private investors. In addition to anchoring investments and developing aggregation platforms, MDBs and DFIs should identify opportunities to promote more transparent and accessible sustainability/green-linked bonds ecosystems in the markets in which they are active, such as through regulatory and policy framework reforms around issuances.

Best Practice Examples

A variety of best practice examples focused on **improving infrastructure quality, standards, and governance** exist in the market, including: ADB’s Facility on Strengthening Fiscal Governance and Sustainability in Public-Private Partnerships; ADB’s facility on Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management; JICA’s Clean City Initiative (JCCI); USTDA’s Global Procurement Initiative, and; the World Bank/Japan Quality Infrastructure Investment (QII) Partnership.

Examples of initiatives aimed at promoting **harmonization and convergence of ESG/sustainability standards and indicators** include: the Aligned Indicators for Sustainable Infrastructure (AISII); the FAST-Infra Sustainable Infrastructure Label; the International Sustainability Standards Board, and; Taskforce on Climate-Related Financial Disclosures (TCFD). The G20 Infrastructure Working Group has been developing a Compendium of indicators to operationalize QII principles draws from existing indicators, standards, and reporting frameworks currently used by G20 member countries and different organizations.

Best practice examples that facilitate the usage of and access to sustainability-linked bonds and certifications include IDB Invest’s Thematic Bonds Issuance Program and JICA’s Social Bond Issuance Program

Please refer to Annex 2 and the associated compendium for additional details on select best practice examples listed above suggested by members of the G7 ad-hoc MDB/DFI Expert Group on Infrastructure and Investment.

Collective Action Area 5: Efforts to facilitate institutional investors to finance infrastructure, including local institutional investors

Barriers

Capital from institutional investor can have enormous potential to fill infrastructure investment gaps in developing countries. However, the current level of institutional investor activity in new infrastructure deals for both debt and equity investments remain low. Infrastructure is not yet well-established as an asset class, rendering it difficult for institutional investors to reliably evaluate risks and returns from infrastructure projects—particularly in low and middle-income countries. The barriers associated with a poor enabling environment and unreliable financial returns in EMDE infrastructure markets are addressed in the previous actions. In regard to the supply of capital, there

are restrictions through rating and prudential regulations, lack of expertise in EMDE risks, and lack of access to data. There is also an absence of tradable securities associated with such projects that would provide some degree of liquidity.

Long-term, local currency financing is also lacking. Local currency financing offers advantages in that it is less exposed to foreign exchange risk and local investors may be better positioned to evaluate and manage local political risks. However, domestic capital markets are not adequately developed to channel a sufficient magnitude of local capital into infrastructure projects. Typical problems are the small scale, shallow depth, and poor liquidity of local capital markets, combined with their inability to offer long-term financial instruments at competitive rates.

Proposed Action 5.1: Develop shared investment platforms into which DFIs can originate and aggregate green, resilient, and inclusive infrastructure projects to co-finance with, or securitize for, institutional investors

MDBs and DFIs could further develop investment platforms—at the regional, national, and/or global scale—that aggregate infrastructure projects/assets and share risks with the private investors through co-investment or securitization. Shared platforms would aggregate projects, which could be co-invested into by, or securitized and sold to, the larger institutional market. These platforms would diversify risks, potentially aggregate across DFIs, to achieve scale; promote the emergence of sustainability standards through the identification, structuring, and financing of sustainable infrastructure investments; and, de-risk & provide the necessary credit enhancements.

Proposed Action 5.2: Support regulatory reforms that can enhance local capital markets to mobilize local currency finance from domestic institutional investors

The nascence of local capital markets remains a critical bottleneck to mobilizing private capital for sustainable infrastructure at scale. To that end, enhanced regulatory reform and technical support to further develop local currency solutions, such as local currency bond markets, for infrastructure projects are critical factors towards helping local governments and investors raise capital and de-risk investment opportunities. Regulatory reforms, enhanced risk-sharing initiatives, and the provision of non-commercial risk guarantees that tap into local currency financing will not only help create deep and liquid local capital markets, but also facilitate the establishment of a more robust domestic institutional investor base from which to channel more investments into sustainable infrastructure.

Proposed Action 5.3: Promote regulatory reform in G7 countries to enable institutional investment into sustainable, resilient infrastructure in emerging markets

Among G7 countries, reforms to regulatory capital requirements (particularly as it relates to insurance regulations) are fundamental to allowing further flows of de-risked, long-term finance into sustainable infrastructure in the global South. Despite amendments to certain financial regulation requirements—such as the Solvency II Directive for European insurance companies—the regulatory environment, particularly as it relates to insurance companies, generally treats infrastructure debt in the same risk category as other types of long-term exposure, resulting in higher capital charges. Amendments to regulations that significantly lower capital charges for infrastructure debt and equity investments should be scaled across G7 countries to ensure broad-based participation of institutional investors in infrastructure and unlock capital flows from G7 countries to low and middle-income countries. Particularly for the insurance industry, such amendments can also facilitate the creation of new types of insurance offerings that can make infrastructure projects more standardized, create more predictable cashflows, and further promote infrastructure as an asset class.

Best Practice Examples

A variety of **innovative, specialist investment platforms** exist to de-risk and mobilize private capital in sustainable infrastructure, including: ADB's Innovative Financing Facility; Canadian Climate Fund for the Private Sector in the Americas (C2F); EBRD's Liquidity Facility; Global Environment Facility's Equity Fund for the Small Projects Independent Power Producer Procurement Programme; GIF's Downstream Financing Window; IDB Invest's A Loan-B Bond Program; IFC's Managed Co-Lending Portfolio Program (MCPPI); IFC and World Bank's Joint-Capital Market Program (JCMP); Mobilising Institutional Capital Through Listed Product Structures (MOBILIST); The Emerging Market Climate Action Fund (MCAF), and; World Bank's Guarantee Program.

Please refer to Annex 2 and the associated compendium for additional details on select best practice examples listed above suggested by members of the G7 ad-hoc MDB/DFI Expert Group on Infrastructure and Investment.

Annex 1: List of Ad-hoc MDB/DFI Expert Group Members

G7 Member Country DFI		
	Name	Institution, Position
Canada	Ms Suzanne Taylor	FinDev Canada , Senior Advisor, Strategy & Innovation
	Mr Etienne Grall	FinDev Canada , Director, Strategy & Innovation
	Ms Fatuma Muzungu	FinDev Canada , Advisor, Strategy & Innovation
France	Ms Ariane Ducreux	Proparco , Head of Energy and Infrastructure Division
Germany	Ms Andrea Hauser	KfW (Co-Chair) , Member of the Management Committee
	Ms Carmen Colla	KfW (Co-Chair) , Principal Sector Economist
	Mr Vitalis Ritter	KfW (Co-Chair) , Project Manager
Italy	Mr Enrico Petrocelli	Cassa Depositi e Prestiti , Head of International Institutional Relations
	Mr Luca Maci	Cassa Depositi e Prestiti , Head of Infrastructure & Climate Financing – Development Finance
Japan	Mr Hiroki Sekine	JBIC , Special Advisor for Operation Policy and Strategy, Corporate Planning Department
	Mr Yusuke Shimizu	JBIC , Deputy Director, Corporate Planning Department
	Mr Tomoya Yoshida	JICA , Deputy Director General, and Group Director for Health 2, Human Development Department
	Mr Kota Yasumura	JICA , Private Sector Partnership and Finance Department
UK	Mr Nick O'Donohoe	CDC Group/ British International Investment , Chief Executive Officer
	Mr Jesse Baver	CDC Group/ British International Investment , Sector Strategist for Infrastructure and Climate
USA	Mr Andrew Herscowitz	DFC , Chief Development Officer
	DFC, Managing Director, Strategy Execution	DFC , Managing Director, Strategy Execution
European Commission	Mr Markus Berndt	EIB , Acting Managing Director of EIB Global, Head of Operations
	Mr Neil Valentine	EIB , Head of Urban Mobility Division
	Mr Gerhard Gunz	EIB , Senior Policy Officer
Multilateral Development Bank		
	Name	Institution, Position
ADB	Mr Bruno Carrasco	Director General Sustainable Development and Climate Change
AfDB	Mr Solomon Quaynor	Vice-President Private Sector, Infrastructure and Industrialization
EBRD	Ms Nandita Parshad	Managing Director, Sustainable Infrastructure Group
	Ms Susan Goeransson	Director, Infrastructure Europe, Sustainable Infrastructure Group
	Mr Matthew Jordan-Tank	Director, Policy & Project Preparation

IDB	Mr Ariel Yopez-Garcia Ms Elizabeth Robberechts	Manager of the Infrastructure and Energy Sector (IDB Invest) Acting Chief of the Infrastructure and Energy Sector
World Bank Group (Co-Chair)	Mr Riccardo Puliti Mr Imad Fakhoury Ms Vivien Foster Mr Laurence Carter Ms Fatouma Toure Ibrahima	Vice President, Global Infrastructures Global Director of the Infrastructure Finance, PPPs & Guarantees Global Practice Chief Economist, Infrastructure Practice Group Senior Advisor, Infrastructure Department, IFC Practice Manager, Infrastructure Finance, PPPs & Guarantees Global Practice
G7 Partner Countries DFI		
	Name	Institution, Position
State Bank of India, India	Mr Gulshan Malik Mr M.P. Siva	Chief General Manager, Project Finance and Structuring & Strategic Business Unit Deputy General Manager, Project Finance and Structuring & Strategic Business Unit
PT Sarana Multi Infrastruktur, Indonesia	Mr Edwin Syahrud	President Director
Fonds Souverain d'Investissements Stratégiques (FONSIS), Senegal	Mr Papa Demba Diallo Mr Babacar Gning	General Director Chief Investor Officer
Development Bank of Southern Africa, South Africa	Mr Paul Currie Mr Zeph Nhleko	Advisor, Office of the CEO Chief Economist
Other		
	Name	Institution, Position
European Development Finance Institutions (Association)	Mr Søren Peter Andreasen	EDFI, General Manager (CEO)

Annex 2: Compendium of Best Practice Examples

The table below lists Best Practice examples received from Expert Group members, organized alphabetically by the institution providing the example, i.e. the sponsoring institution. For details, please refer to the separate Compendium of Best Practice Examples.

Sponsoring Institution	Best Practice Examples
AFD (French Development Agency & Proparco)	<ul style="list-style-type: none"> • Africa Renewable Energy Scale-up Facility
African Development Bank (AfDB)	<ul style="list-style-type: none"> • Africa PPP Development Fund (APDF) • Ghana Infrastructure Investment Fund (GIIF) • New Partnership for Africa's Development – Infrastructure Project Preparation Facility (NEPAD-IPPF) Special Fund
Asian Development Bank (ADB)	<ul style="list-style-type: none"> • Samoa: Enhancing Safety, Security, and Sustainability of Apia Port Project • TA 6756: Improving Infrastructure Sustainability through Better Asset Management • The India Infrastructure Finance Company Limited (IIFCL) • Cities Development Initiative for Asia (co-implemented with AFD) • Build4Skills (B4S) (co-implemented with BMZ)
British International Investment (BII)	<ul style="list-style-type: none"> • Development of Globeleq and Ayana
BMZ	<ul style="list-style-type: none"> • GET FiT Program Uganda
Cassa Depositi e Prestiti SpA (CDP)	<ul style="list-style-type: none"> • European Guarantee Renewable Energy (Non-Sovereign Risk) – EGRE NS
Development Bank of Southern Africa (DBSA)	<ul style="list-style-type: none"> • Accelerating the shift towards electric mobility in South Africa (implemented through the Global Environment Facility) • Embedded Generation Investment Programme • Small IPP Equity Fund (implemented through the Global Environment Facility)
European Bank for Reconstruction and Development (EBRD)	<ul style="list-style-type: none"> • 6th of October Dry Port PPP • 100 MW Uzbekistan Wind • AISI – Aligned Indicators for Sustainability in Infrastructure (co-led by World Bank through PPIAF) • APMG PPP Certification • EBRD Credit Enhanced Scatec Green Bond • Elazig Hospital PPP Turkey • Public Power Corporation (PPC) Sustainability Linked Bond • Greek PPP Preparation Facility, the 'GPPF' (implemented through the Ministry of Development and Investments of the Government of the Hellenic Republic)
Foreign, Commonwealth &	<ul style="list-style-type: none"> • DRC Essor Programme • MOBILIST (Mobilising Institutional Capital Through Listed Product Structures)

Development Office (FCDO) UK	<ul style="list-style-type: none"> • PIDG (Private Infrastructure Development Group)
Global Infrastructure Facility (GIF)	<ul style="list-style-type: none"> • Brazil Municipal Public Streetlighting Program • Downstream Financing Window (DFW) • Finance to Accelerate the Sustainable Transition-Infrastructure (FAST-Infra) Sustainable Infrastructure Label (co-led by Macquarie Green Investment Group) • Upstream Advisory Window (UAW)
International Bank for Reconstruction and Development (IBRD)	<ul style="list-style-type: none"> • Argentina FODER • Angola Luanda Bitá Water Supply Project Guarantee • The Partial Risk Sharing Facility for Energy Efficiency (PRSF)
International Development Association (IDA)	<ul style="list-style-type: none"> • Cote d'Ivoire CI-Energies Guarantee Project
International Finance Corporation (IFC)	<ul style="list-style-type: none"> • Managed Co Lending Portfolio Program (MCP) • Scaling Solar/Wind • Upstream • Utilities for Climate (U4C)
Japan International Cooperation Agency (JICA)	<ul style="list-style-type: none"> • JICA Clean City Initiative (JCCI) • Public Debt and Risk Management Training Course (co-implemented with World Bank) • Social Bond Program
KfW (German Development Bank)	<ul style="list-style-type: none"> • Emerging Market Climate Action Fund (EMCAF)
World Bank	<ul style="list-style-type: none"> • Public Private Infrastructure Advisory Facility (PPIAF) • Climate Toolkits for Infrastructure PPPs – CTIP3 (implemented by PPIAF, GIF, and IFC) • Development Policy Financing to Enable Private Capital Investment in Infrastructure • Infrastructure Sector Assessment Programme - InfraSAP • Quality Infrastructure Investment (QII) Partnership (co-implemented by the Japan Ministry of Finance) • Uzbekistan Navoi IPP Scaling Solar (co-implemented by IFC and MIGA)