Investment in quality infrastructure to promote sustainable growth and the role of Development Financial Institutions[1]

by
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Dear President Hoyer, dear colleagues (and friends),

it was early 2009 when the Long-Term Investors Club was first created. At the time, our aim was to foster the right conditions for long-term investment in promoting sustainable growth and to counteract the 2008 financial crisis. Short-termism and speculation were, in our view, the main reasons of such a crash of the world economy.

Today, we are facing an even worse global crisis. This time, the crisis trigger did not come from finance nor from the economy, but from the global spread of a virus and from the dramatic acceleration of the climate change challenge to the planet ecosystem.

So, these are still challenging times. After a global recession of 3,2% in 2020, in 2021, as you know, the recovery is expected to reach the 6% at global level. However, with a pandemic not yet tamed and an economy still fragile also by issues on the world's supply chains, the economic outlook could register fluctuations. Increasing public debts and probable tightening monetary policies could also jeopardize the pace of growth in 2022 and following years.

Anyway, one thing is certain. Today, like then, for the creation of a stable, sustainable, safe, livable and peaceful world, the role of long-term investment is crucial. Especially crucial is, moreover, the role of investment in tangible and intangible quality infrastructures.

This applies, first of all, to the investments needed to overcome the megatrends challenges that the world must face today. Climate change (decarbonization and clean energy, energy efficiency, decommissioning of obsolete nuclear plants, and so on); demographic revolution (population aging in advanced economies and demographic

[1] Text of the Introductory Speech at the meeting of the D20/Long-Term Investors Club Steering Committee, Rome 23 September 2021.

explosion in developing countries); digital transformation and technological change; modernization and maintenance of existing infrastructure; substitution of stranded assets; new infrastructure assets arising from the technological transformation and energy transition; reconversion of human capital required by technological change and the green economy: the investment needs in all these sectors are huge as never before.

Only for the network infrastructure— roads, railways, ports, airports, power, water, and telecoms—the financing gap is estimated at 2,5 trillion dollars every year through 2035, plus up to 1 trillion dollars to meet the United Nations' sustainable development goals. Many technological disruptions will further shape and perhaps increase those needs, in amounts that we cannot now predict.

As regards social infrastructures (education, health, retirement homes, affordable housing), the estimate of the EU Commission, for Europe alone, amounts to 1.5 trillion euro by 2030. The US has launched an infrastructure and Labor Act worth 1 trillion dollars. High-quality large-scale investments in social infrastructure are important for advanced societies, given demographic projections and radical structural changes in labor market and human capital, due to globalization, climate change and digital transformation. But they are crucial also for developing countries, first of all education and health.

If the need is huge, however, the positive effects of quality infrastructure investments are also whopping. Their multiplier effects are high, especially when the economy is at the Zero Lower Bund. Their counter-cyclical role could help to boost employment, to foster a significant increase of productivity and to make regional and global value chains more resilient to disruptions. Sovereign and quasi-sovereign bonds, issued to finance long-term investment in infrastructures, can offer attractive savings for households and can, more generally, meet the growing demand for safe assets, thus contributing to the stabilization of financial markets. A special role could have the project bonds, green bonds and social bonds issued, inter alia, by national and multilateral development financial institutions.

However, in a context of constraints for public debts, it will be impossible to close the investment gap without the input of private investors. Our Institutions have played and will play a core and growing role to attract private capital in long-term quality investments.

To this end, since its inception, our Club has emphasized the need for international and national regulations capable of reconciling the needs of safeguarding financial stability with those of encouraging long-term financing of investments in sustainable infrastructures and in the real economy (including SME financing). We have as well stressed the need to provide adequate public-private partnership models and well-designed risk mitigation tools and securitization mechanisms.

Your D20 Statement 2021 suggests to the G20 a lot of smart proposals and measures fit to remove the obstacles and barriers that still limit a more massive contribution of private capital to the financing of quality infrastructure.

To conclude.

Development Financial Institutions are entrusted, above all, with a fundamental and crucial mission: to foster a long-term, inclusive and sustainable growth able to ensure a future of prosperity or at least of livability for the next generations and for our planet.

Consistent with this mission, Development Financial Institutions will be key to support the G20 efforts to overcome the challenges of climate change, digital transformation, and demographic revolution. In this framework, they must play a fundamental role to close the huge long-term investment gap in green, digital and social quality infrastructures.

Cooperation will be the buzzword to be successful in this mission. And the D20-LTIC will be a key actor in the promotion and organization of this cooperation.

Thank you for your attention!