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**SUMMARY RECORD OF**  
**OECD-ADBI HIGH-LEVEL PANEL ON INSTITUTIONAL INVESTORS AND**  
**LONG-TERM INVESTMENT FINANCING**

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## HIGH-LEVEL PANEL ON INSTITUTIONAL INVESTORS AND LONG-TERM INVESTMENT FINANCING

### Panel I: Investing for the Long-term: Challenges and Opportunities

Long-term investment has long been identified as an important contributor to economic growth, both in terms of tangible fixed assets (*e.g.* equipment, machinery, facilities) and intangibles such as human capital. Stimulating long-term investment is consequently identified in recent and current G20 work as a crucial element for achieving agreed growth targets. The recent decrease in long-term investment illustrates a set of barriers and challenges, some specific to the investment horizon, and some related to broader developments in financial markets.

One barrier highlighted in this session was the accelerated change of conditions due to new technologies. Products and services with disruptive capacity are today much more common than in the past, which makes long-term planning more complex. Financial market actors must adapt their strategies accordingly and as such, a short-term investment horizon, inherently more flexible, might be explained in part by this far-reaching change in everyday life.

The two traditional sources of long-term financing, banks and governments, still remain stronger in Asian economies than in other regions. Asian banks are even progressively taking the place of more constrained banks in Europe as providers of long-term financing. The non-bank financial sector is on the other hand much smaller in Asia than in other regions where more savings are being intermediated by institutional investors.

Institutional investors were identified as having a critical role in long-term investment and growth, providing counter-cyclical financing. Many institutional investors are looking for long-term assets to match their often long-term liabilities, and alternative assets, especially infrastructure, provide a seemingly natural match. However, they also face important challenges to long-term investment, both of regulatory and market nature. Institutional investors are often tightly regulated, both by international and national legislation, which promotes prudent behaviour but also limits investment options. Recent international regulatory initiatives (Solvency II, Basel III) could have a negative impact on the supply of long-term capital due to more stringent capital charges and solvency requirements, as well as accounting frameworks focusing on the short-term. Basel III could have pronounced consequences in Asia due to the largely bank-based economy.

The emerging topic of the social responsibility of institutional investors was also discussed. They have the capacity to play an important part in the promotion of non-financial investment goals such as environmental, social and governance (ESG) ones. The emergence of long-term investment vehicles and incentives by the public sector can help the promotion of ESG goals and broader social responsibility of investors.

The lack of investable brownfield projects was a topic of discussion. Brownfield projects offer operational cash-flow and do not include the risks associated with construction, thus are more interesting for institutional investors. The issue of making greenfield projects investable was raised, a process in which policy makers can play an important role. Private investors have only provided limited investment in financing new infrastructure under the current conditions. The poor governance record of infrastructure projects was also discussed as an important barrier to more investment in infrastructure, limiting trust in the market.

## **Panel II: Diversification in Alternative Assets: The Case for Infrastructure as an Asset Class**

Infrastructure is often described as having specific financial characteristics including low risk, lower return, long maturity, low correlation with other asset classes and stable cash flows. This makes it a natural fit for institutional investors, for example pension funds and insurance companies, looking to match their long-term liabilities with long-term assets. However, institutional investment in infrastructure remains low.

Surveys indicate that institutional investors' interest in alternative assets has been growing since the mid-2000s in Asia, Europe, and the US, but available data shows that these investors have on average allocated no more than 1% of their portfolios directly to long-term illiquid assets such as infrastructure. Major challenges to the thorough understanding of infrastructure as an investment are the differing definitions and categorisation of investments relating to infrastructure. Speakers raised the need for international harmonised reporting requirements to address this issue.



A coordinated research effort is needed to collect and analyse infrastructure data in order to provide the basis for sound policy-making and enhance the transparency of infrastructure investment. The lack of data remains an impediment to a broader commitment to infrastructure by private investors. National governments and multilateral agencies were identified as having an important role to facilitate infrastructure investments, both through setting an enabling, stable financial framework and through taking part in the risk-mitigation process. Several international organisations as well as private sector groups are currently setting up projects to address the data issue.

Establishing a widely accepted definition of infrastructure and defining the potential benefits for long-term investors can widen the investor base by lowering the entry barriers. Speakers also emphasised the particular importance to distinguish projects by development phase, since this has a high impact on the risk profile and thus the appeal for different investors. The lack of investable projects was discussed, highlighting the need for a clearer picture of the risk/return profile of infrastructure, supported by high quality data.

## **Panel III: Role of Capital Markets for Long-Term Investment**

The speakers identified an increasingly important role of capital markets for long-term investment. In times of shrinking bank balance sheets, capital markets could provide an alternative source for long-term financing. A well-functioning and diverse financial system enables higher and more stable economic growth, even in a bank-dominated system.

A series of techniques and vehicles for capital market investments in long-term assets and SMEs were presented and discussed, including securitisation, debt and mezzanine financing, illustrating the very diverse opportunities for capital market participants. Recent government initiatives contributing to the involvement of private investors were also discussed, highlighting the importance of a regulatory and legislative framework conducive to investment. Global reforms need to strike a balance between international standardisation and taking into account the particularities of each economy, particularly when it comes to emerging economies.

Liquidity in the banking sector is high, but infrastructure deal volumes have gone down. Capital markets could step in provided conditions are right. Some capital market participants have advantages over banks when it comes to providing long-term financing, for example the long-term nature of available funds or less stringent liquidity requirements as well as a better position to invest in smaller projects and SMEs.

It has been noted that current regulatory reforms like Basel III and Solvency II could have unintended consequences on the provision of long-term financing. Regulators and policy makers should take a holistic approach to financial regulation, keeping in mind how a given requirement might impact the capability to invest in long-term assets.

The scope for collaboration between different capital market participants on financing infrastructure projects was also discussed. Risk assessment and ensuing allocation for risk and revenue could be rendered more efficient if responsibilities are shared between banks, institutional investors and other stakeholders like national development banks. Cooperation across the spectrum of investors would be beneficial to promote infrastructure investment; banks were mentioned to be particularly suited to take on the risks associated with the development and construction of a project, while other investors could finance the operations stage.



#### **Panel IV: Next steps for Long-term Investment Financing in Asia**

The concluding panel focused on Asia-specific issues relating to long-term investment. Speakers highlighted the importance of building trust in the legal framework, explaining that the political risk perceived by investors is quite high in some countries. Steps should be taken to ensure that commitments will be fulfilled in the future. International and regional organisations are taking steps to make the market more accessible to investors, including foreign investors faced with a complexity of regional markets. Cooperation and knowledge-sharing among institutions will play a key role.

The different demographic situations of Asian economies offer a set of opportunities, but also pose a set of specific challenges. Recent reforms in Indonesia, where fuel subsidies have been cut in favour of infrastructure investment and the organisation of the social security system is changing, and Japan, where the structure and policy portfolio of the largest institutional investors have been altered, show that governments are conscious of the pressing need to address the issue. Furthermore, Asia comprises economies at all stages of development, with gross capital formation on the rise in advanced Asia but significant infrastructure investment needs in sectors such as water, electricity or telecommunication in developing Asia, providing a wide range of investment opportunities in theory. The region already houses some of the largest managers of pension and insurance assets, with pension assets set to grow in some countries while others face substantial pay-out phases in the near future. Several initiatives with the goal to channel more of these assets to financing the real economy are currently under way. Institutional investors can contribute to more inclusive and distributed growth.

Speakers also expressed concern that trust in the infrastructure market could further erode if national regulatory and legal frameworks are not improved by their respective governments. Political risk is very difficult to mitigate for investors, thus making Asia a less attractive investment destination.