



OECD Workshop on Data Collection for Long-term Investment

Summary record

3 May 2018

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OECD Workshop on Data Collection for Long-term Investment

3 May 2018, OECD Conference Centre, Paris

On 4 May 2018, the [15th Meeting of the G20/OECD Task Force on Long-term Investment](#) took place at the OECD Conference Centre in Paris and was preceded by the [OECD Workshop on Data Collection for Long-term Investment](#) on 3 May 2018.

The meetings brought together academics, public stakeholders and industry experts to further advance the agenda on establishing infrastructure as an asset class, this time, with a particular focus on developing financial and sustainability benchmarks. The event benefited from a great variety of experts contributing and intervening over the two days. The key takeaways from the Workshop discussions and a more detailed session-by-session summary are provided below.

Objective:

The Workshop aimed at identifying existing methodologies to develop appropriate financial, economic and ESG-related performance indicators for infrastructure, which can help structure decisions and enhance sustainable infrastructure investment. The discussions at the Workshop were divided into two discussion rounds (financial performance benchmarks and ESG performance benchmarks) and focused on answering the following three questions:

What data is needed?

- Identification of the relevant financial, economic and ESG data to allow investors to take informed investment decisions and policymakers to support sustainable infrastructure projects.

What sources of data are available?

- Analysis of the data gap between what data is needed and what data is available (both at public and private levels) to maximize synergies and avoid duplication of efforts.

How would a template look like that allows for the collection of the needed data?

- Assuring an efficient and structured approach to collecting data across financial, economic and ESG indicators and feeding it into the benchmarking process.

Key Messages:

- * Establishing infrastructure as an asset class and defining financial and sustainability performance benchmarks for infrastructure has parallels to past efforts to assure simple and transparent securitisation for Asset Backed Securities (ABS).
- * To increase transparency and simplify the securitisation process, three elements were essential: i) improving and standardising data availability in the underlying asset classes (mostly real estate and SME loans) to assure transparency and reduce investment risks; ii) entering the policy dialogue on building a supportive regulatory environment (in the case of ABS to avoid over regulation after the financial crisis); and iii) engaging on the market and buying ABS and other bonds as part of quantitative easing efforts.

- * Rectifying misinformation and eliminating information asymmetries in the market is essential to build trust in an asset class and to provide the market with new (trusted) investment opportunities. With clear information and data the market can build trust from within and decide independently whether to invest in infrastructure assets or not, making data a key element to the development of the asset class.
- * According to presented estimates, the investible infrastructure market currently has a size of around USD 10 trillion, which represents around 25% of all infrastructure assets and around 5% of all financial assets globally.
- * Existing return methodologies, such as Net Asset Value (NAV) based return calculations and the statistical estimation of discount rates, all require time series data of equity and debt cash flows as well as capital structure data. The similar data requirements across these methodologies therefore allows separating data collection from data analysis, where the former could be conducted by a single (central) entity, while data analysis could be conducted by a variety of different entities using different methodologies.
- * MDB investments show significant overlaps with private investments and provide data across a wide range of sectors and geographies (with a strong focus on emerging markets). MDBs are therefore another essential data source of infrastructure investment data.
- * Standardised approaches for credit risk assessment in most regulatory frameworks do not reflect the unique credit performance of infrastructure assets. Empirical evidence and infrastructure investment data are essential to prove the resilience of the asset class and to drive regulatory differentiation.
- * An increasing amount of investment data will allow singling out core risks and core sectors, countries or regions that contribute most to infrastructure defaults. These can then be adequately addressed and reflected in capital charges.
- * Data categories have to effectively distinguish within the various infrastructure finance categories, such as project finance (equity, bonds and loans) and infrastructure corporate finance (equity and debt), as well as among different project phases (e.g. construction and operation phase) and contractual arrangements (e.g. PPPs).
- * Financial credit rating agencies are important sources of data that can help investors understand and categorise infrastructure investment risks and support the overall data collection effort to develop infrastructure as an asset class.
- * Rating agencies, however, need to further adapt and refine their rating methodologies for infrastructure as well as have to move into longer-term rating horizons, especially when taking ESG considerations into account.
- * The main difficulty related to project-level data collection was identified not to be data availability, but the time effort needed to retrieve it from project teams. Project operators have to be incentivised to actively disclose reliable data on project cost, opex, returns and ESG performance.
- * For the establishment of a standardised data collection template, it is essential to cover data from the early upstream planning stages through to late project maturity phases.
- * For a central entity that collects, compiles, and aggregates data, trust is an important factor to gain the confidence of data providers.

Discussion Round I: Financial Performance Benchmarks

Main takeaways:

- **Imperial College London:** The investible infrastructure market currently has a size of around USD 10 trillion, which represents around 25% of all infrastructure assets and around 5% of all financial assets globally. Listed infrastructure equity is around three times the value of unlisted infrastructure equity and at least for this part of the market, observable prices allow for traditional financial and economic analysis. Unlisted infrastructure equity, however, yet lacks liquid market prices. Together with only partial visibility of transaction values, this impedes a more in depth analysis of these assets and the proper measurement of risks.

Considering, however, that unlisted infrastructure equity is currently growing at a much faster rate than listed infrastructure and raised almost twice as much capital between 2010 and 2017, adequate return methodologies become necessary. Existing return methodologies include Net Asset Value (NAV) based return calculations and the statistical estimation of discount rates (EDHECinfra). Both of these methodology strands require time series data of equity and debt cash flows and capital structure data and are hence characterised by very similar data requirements. This may in fact allow separating data collection from data analysis. The former could be conducted by a single (central) entity, while the data analysis could be conducted by a variety of different entities and by using different methodologies. EDHEC's infrastructure benchmarks provide a thorough first attempt to benchmark unlisted infrastructure assets, but the used methodology presents only one of the many potential benchmarking approaches.

Also as a data source, EDHEC's benchmarks provide one of the only collections of asset-level infrastructure data, alongside MSCI/IPD asset data and IJGlobal's more descriptive data of infrastructure transactions. However, EDHEC data is not accessible to third parties, hindering not only its expanded use but also its verification. Alongside, EDHEC, also infrastructure investment data from Multilateral Development Banks (MDBs) could serve as a data source for asset-level and fund-level data collection and as the foundation for a new, open-access data base. In fact, MDB investments show significant overlaps with private investors and provide a wide range of sectors and geographies with strong focus on emerging markets.

Concluding from the above, three different approaches for the creation of a new database for unlisted infrastructure can be proposed: i) developing granular benchmarks based on listed infrastructure equities and bonds by comparing listed benchmark returns with currently available unlisted return samples; ii) producing and disseminating anonymised and publicly available data collection templates for unlisted infrastructure assets to collect benchmarking data, iii) expanding the EDHECinfra database by sharing and enriching its underlying data. In particular for the second approach, sufficient data is likely held by debt providers as well as equity investors.

- **The World Bank Group:** Current standardised approaches for credit risk assessment in most regulatory frameworks do not reflect the resilient credit performance of infrastructure assets, also in emerging and developing economies (EMDEs). In fact, enabling increased long-term finance for infrastructure from institutional investors substantially depends on supportive prudential infrastructure investment regulation. A differentiated regulatory treatment of infrastructure debt as a separate asset class would significantly reduce capital charges and could allow shifting the supply of long-term funding from banks to institutional investors, matching their liabilities-driven investment strategies. In most countries, however, data constraints have limited the scope of possible regulatory differentiation, especially for investment exposures in EMDEs.

Recent World Bank research, for instance, has shown that default rates of infrastructure debt even in EMDEs are in fact widely resilient to swings in general macro-financial conditions. Such findings can serve as an empirical foundation to drive differentiated regulatory treatment for

infrastructure investment. In particular, easily accessible and reliable data is needed to support broadening the evidence base. This data has not only to distinguish between the various infrastructure finance categories, such as project finance (equity, bonds and loans) and corporate finance (equity and debt), but also among different project phases (e.g. construction and operation phase) and contractual arrangements (e.g. PPPs). This is also essential to distinguishing fundamental risks, such as credit risks, from market-implied risks (spread risk). Ultimately, with an increasing amount of data we will also be able to single out core risks and core countries or regions that contribute most to infrastructure default risk and address them accordingly or in a separate form (e.g. adjusting capital charges on a more detailed basis).

- **S&P Global Ratings:** S&P population of rated infrastructure credits (including corporates and project finance) has grown substantially over the years and has maintained a lower risk profile than counterparties that are principally involved in the production of goods (non-financial corporates (NFCs)). Infrastructure credits rated by S&P have shown comparably lower default rates, lower ratings volatility, and higher recovery prospects relative to the larger NFC universe. The stronger credit risk performance is in particular attributable to the stronger rating profile for this sector. In fact, S&P’s global infrastructure credits portfolio has seen largely uninterrupted growth over the last 25 years and the majority of credits are rated Investment Grade. Default rates in the infrastructure sector were highest during the 1990-91 U.S. recession period, and again during 2000-2002, but especially over the long term, they show a lower likelihood of default.

In light of resulting increased investor demand, S&P is refining its rating methodology for infrastructure credits. Especially with regards to ESG considerations, ratings increasingly try to capture relations between sustainability and financial performance and the longer-term project performance. For longer-term ratings in particular, data availability is essential and currently an issue (e.g. current methodologies for corporate finance have a time horizon of 5 years). Longer-term predictions require different data than short-term credit ratings and also the long-term “migration” of the infrastructure sector as a whole, such as from oil and gas to renewables is making analyses over the long-term difficult.

Lastly, data held by credit rating agencies is becoming more and more important to help investors understand and categorise risks and rating agencies are indeed also opening up their methodologies in support of the infrastructure investment debate.

Discussion Round II: ESG Performance Benchmarks

Main takeaways:

- **GRESB (the Global Benchmark for Real Assets):** GRESB’s ESG assessment aims at understanding and improving the ESG performance of infrastructure assets. It covers environmental, social, board-level and operational issues and is composed of two complementary assessments, one at the fund and the other at the asset level. GRESB’s assessment is an industry led initiative and therefore tries to apply an investor lens on ESG issues. It is aligned to other relevant frameworks (e.g. the UN PRI) and strongly focuses on efficient stakeholder engagement.

The assessment process collects, through a questionnaire, standardised, measurable and comparable data that allows for detailed comparison and benchmarking of ESG performance amongst funds within certain peer groups. The submitted data is reviewed and validated in a third party process and alignment to other industry standards is assured.

With regards to a standardised template for data collection in the ESG space, GRESB recently submitted a joint proposal to the Public – Private Infrastructure Advisory Facility (PPIAF) on

“Promoting Sustainable Infrastructure through Data Collaboration”, which constitutes another joint initiative on collecting data for ESG performance measuring and benchmarking.

- **Harvard University:** The Envision Rating System is a set of 64 quantitative and qualitative indicators that identify and measure critical sustainability issues and provide recommendations for improvement. It was developed at the Harvard Zofnass Program for Sustainable Infrastructure, which is supported by an alliance of industry experts and academics.

Various research endeavours within the Zofnass Program, focusing specifically on Latin America, have provided insights into the availability of infrastructure sustainability data at the project, portfolio and country level and have identified varying gaps of data availability and accuracy: At the country level, national and international (policy) databases often include outdated data, making time series analysis difficult. In particular in countries with lower institutional capacity, data sources are incomplete and the objectivity of data cannot always be assured. This results in a lack of objective, peer-reviewed data for the analysis of the effectiveness of national infrastructure plans and policies. Also at the multi-project/fund level, publically available data and reports lack reliability and objectivity, often being polemic against project developments. While it was found that much data was indeed available for fund-level analysis, difficulties arose with evaluating the sources of the data linking to the underlying assets. At the project-level too, detailed data was found to be available and could be retrieved from responsible project teams. While the provided information was overall extensive in detail, particularly data on the ex-post evaluation of ESG initiatives proved to be only scarcely available. Overall, the main difficulty related to project-level data was thus identified to be the time effort needed to engage with the various project teams and retrieve the necessary data.

Regarding the establishment of a standardised data collection template, it can therefore be concluded that it is especially important to collect data from the early upstream planning stages through to late maturity and dismantling phases in order to adequately capture a projects ESG performance. Project operators should furthermore be incentivised to disclose reliable data on project cost, opex, returns and ESG performance. Especially for ESG considerations, it is important to work with governments and private sector stakeholders to integrate data collection protocols into sustainability management systems. Ultimately, for a central entity that collects, compiles, and aggregates data, trust is an important factor to gain the confidence of data providers. The OECD is thus well placed to use its reputation to build a trusted relationship with collaborators around the world.

- **SOURCE:** SOURCE is a data management platform that provides preparation guidance for quality infrastructure development. As such, it enables the collection of data at the project level and provides an information sharing platform for government preparation teams and decision makers. While SOURCE, does not analyse data, it is well placed to help with usage, dissemination, acceptance and data collection. SOURCE collects project-level data points during project preparation and operation related to governance, technical, legal, economic, environmental and social dimensions across 38 different project types. However, as a project implementation and operation assistance tool, SOURCE is not well placed to collect financial data. Nevertheless, financial performance indicators could in the future be integrated into SOURCE and help inform government decision makers as well as private investors to monitor projects/investments.

SOURCE provides a cloud-based data collection opportunity and offers quality project preparation templates that structure infrastructure project data collection and therefore the collected project data itself. These existing templates can be adapted depending on project type and according to data priorities. While SOURCE might not be suitable for the collection of financial data, it does collect data relevant for economic impact benchmarking methodologies. For a road development for instance data on traffic loads, road geometry, pavement structure and condition, road maintenance and improvement costs, and vehicle operating costs, but also

information about value added from improved transport links are collected. This data can therefore provide (or be extended to provide) the foundation for the analysis and benchmarking of economic indicators. With regards to ESG data, the Infrastructure Sustainability Council of Australia, Global Infrastructure Basel and the Zofnass-Program at Harvard are currently preparing to provide a harmonized set of principles and necessary data points for ESG benchmarking, which will be integrated into the SOURCE project templates upon completion.

- **International Transport Forum:** Better risk pricing for both investors as well as suppliers is required. The current debate on establishing infrastructure as an asset class and the infrastructure data gap is only focusing on enabling investors to price risks more efficiently. However, it does not address the fact that also infrastructure suppliers face risks which must be quantified. While it is true that infrastructure benchmarking can lead to lower cost of financing and greater transparency for investors, research from the ITF suggests that targeted efforts to either de-risk the supplier side or provide it with more information could also significantly reduce overall project costs. The inability of suppliers to address and price their risks adequately, due to a lack of information and data, results in higher principles that have to be repaid, which in turn inflates the amount of investment that is needed to realise a specific project.

The technical issue of not having enough information to efficiently price risks on the supplier side is amplified by the behavioural issue of uncertainty aversion. Together, these result in overestimated risk contingencies, excessive risk discounting, higher costs, and in reduced economic competitiveness of an infrastructure project. Improved contract design and data availability for suppliers are therefore essential to address these inefficiencies. While an investor can indeed fall back on historical cash flow data to help decide on a general portfolio strategy, infrastructure suppliers have to deal with risk and uncertainty on a project-by-project base. The ITF therefore called for a holistic view that considers not only the investors but also suppliers and is initiating a supplier-side focused data collection exercise together with UCL.

ANNEX - Agenda

Workshop on Data Collection for Long-Term Investment and Meeting of the Steering Committee of the Infrastructure Data Initiative

Thursday 3rd of May 2018

14:30 – 18:15

OECD Conference Centre, Paris, France

14:30 – 14:40	INTRODUCTION <ul style="list-style-type: none"> • Damien Dunn, Chair G20/OECD Task Force on Institutional Investors and Long-term Financing and Australian Treasury • André Laboul Special Advisor to the OECD G20 Sherpa and Senior Counsellor, OECD Directorate for Financial and Enterprise Affairs
14:40 – 14:50	KEYNOTE SPEECH <ul style="list-style-type: none"> • Peter Praet, Chief Economist and Member of the Executive Board of the European Central Bank
14:50 – 16:30	DISCUSSION: Developing benchmarks for sustainable and quality infrastructure. <p>Round one: financial benchmarks</p> <ul style="list-style-type: none"> • Raffaele Della Croce, Lead Manager Long Term Investment Project, OECD Directorate for Financial and Enterprise Affairs • Simon Wilde, Senior Managing Director, Macquarie, and Visiting Lecturer and Honorary Research Fellow, Imperial College Business School • Andreas Jobst, Advisor to the Managing Director and CFO, World Bank • Mar Beltran, Senior Director, and Karl Nietvelt, Head of Research, S&P Global Ratings <p>Round two: sustainability and quality benchmarks</p> <ul style="list-style-type: none"> • Rick Walters, Director, Infrastructure, GRESB • Andreas Georgoulis, Director, Zofnass Program for Sustainable Infrastructure, Harvard Graduate School of Design and Advisor, The Environmental Financial Consulting Group • Christophe Dossarps, CEO, Sustainable Infrastructure Foundation • Dejan Makovšek, Economist and Procurement and Private Investment in Infrastructure Lead, International Transport Forum (ITF)
16:30 - 16:45	Coffee Break
16:45 – 18:15	Meeting of the Steering Committee of the Infrastructure Data Initiative (open to members and observers only, including World Bank, EIB, ADB, IMF, IFC, AFDB, ISDB, EBRD, AIIB, IADB, NDB, LTIIA, FSB, UN and GI Hub)