Mind the Gap - Unlocking Investment in Infrastructure

Tuesday 24 June, 2014

One of the biggest economic challenges facing governments and developers around the world is how to meet the growing demand for infrastructure development.

It has been estimated that US $3.2 trillion will be needed each year for the next fifteen years to fund infrastructure development. However, the shortfall in available funds is significant - estimated at $500 billion annually. So governments and businesses share an interest in identifying the causes and finding solutions to close this funding gap. The B20 group, which brings together business leaders from the G20 countries, asked the six largest international accounting networks to come together to analyse the issue and develop practical recommendations that would promote more long-term investment from non-government sources in infrastructure.

A Panel of experts from the six largest international accounting networks has now published a report focused on possible accounting and corporate reporting reforms that could help attract increased private financing.

The Panel identified recommendations relating to the following three areas:

- using corporate reporting to achieve a longer-term focus;
- continuing to improve financial reporting through ongoing accounting standards development; and
- encouraging improved alignment of regulatory risk calculations with the actual risk profiles of infrastructure investments.

The Panel concludes that - for the most part - changes to accounting principles would not increase the attractiveness of long-term infrastructure investments, but supports the IASB's ongoing work to improve financial reporting. In particular, the IASB should continue to prioritise the issuance of a global standard on insurance contracts in the near future - with the insurance industry being a potential major investor in infrastructure. The IASB should also continue its consideration of performance reporting as part of its Conceptual Framework and Disclosure Initiative projects.

Historical financial information plays an important role in supporting investor assessments of potential project outcomes, but it cannot provide the complete picture on its own. In recognising this, the Panel recommends that the B20, along with the G20, should actively promote corporate reporting innovations and initiatives that provide investors with a longer-term and broader perspective on shareholder value creation to complement the historical financial performance and current financial position perspective provided by financial statements. The Panel notes the particular relevance of integrated reporting as an example in this respect.

In the report, the Panel acknowledges that other factors - such as the evaluation of regulatory requirements, geographic and political stability or the development of credit enhancement structures for project bonds - have a more significant role to play in making investment in infrastructure more attractive. However, the Panel believes that greater transparency of project data and risks would help to capture potential capital, and that certain improvements could therefore make corporate reporting more conducive to infrastructure and other long term investment.

- Ends -

About the Panel:

In light of the importance of infrastructure and other long-term investment for the global economy, the B20 created an infrastructure and investment taskforce, which developed actionable recommendations for the G20. As a result of one of these recommendations, the six largest international accounting networks formed a panel to analyse existing accounting and corporate reporting practices, and suggest improvements that would help the corporate reporting model provide a broader perspective of business performance that is more conducive to long-term investment.

Notes to Editors:

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