Сессия
«Проблемы долгосрочного инвестирования и роль государственных источников инвестиционного финансирования»,
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Директор Департамента международных организаций Министерства экономического развития Российской Федерации Владимир Ткаченко:

В. Ткаченко:

Thank you, Chairman. First of all, colleagues, I'd like to transmit regrets from my minister Ulyukaev, Minister of Economic Development who is on the way from the Far East where he was with the President, and will not be in the position to take part in this meeting.

I will share with you the ideas of my ministry on the role of long-term investment in sustainable economic growth. Well, we in Russia, as elsewhere, consider long-term investment to be a key element of sustainable economic growth. We are lucky to have such a growth which is not a bad thing at a current global weak economic environment, however this growth, which is projected to be at 2.5% this year, is clearly insufficient, and the role of the state is to take measures to support this growth. Some of the measures have been really referred to. The recent decision to provide direct support from the National Wealth Fund to finance infrastructure projects is one of the essential decisions that finalized a long discussion the government had as to how to use the surpluses that we are lucky to have in our funds. The first three projects that would be financed from the National Wealth Fund have already been defined, they are: a speed railway between Moscow and Kazan, the construction of central circular highway, and the upgrading of the Trans-Siberian Railway.

It is important to say that those projects will be financed on a return basis. Initially unprofitable projects will be supported by the state through allocations from the National Wealth Fund which will allow these projects to become commercially interesting for both Russian and foreign investors. And we think that the amount of those allocations could be increased further.

Another source of support of long-term investment is the use of pension funds that has already been mentioned. Russia has long been criticized for conservative policy investing pension funds, while this measure is an important opening and a serious instrument of support of long-term investment.

Among other instruments, which are very important, I would also mention the enabling and creation of a regulatory environment. And this is where administrative economic development has done a considerable work.

I would like to cite some of the laws that have been recently adopted. Those are about public and private partnership, which sets legal framework for private companies to participate in very important infrastructure projects; the law on concessions, which made it possible for foreign investors to invest in construction of roads and other long-term investment projects; and finally, I would like to mention what we call a national entrepreneurship initiative. This is a state programme which consists of a number of roadmaps that focus on particular drawbacks that prevent both Russian and foreign companies to develop business in Russia. Among such areas that are addressed by the national roadmaps are customs administration, and the aim is to simplify the customs procedures, to reduce the period necessary for customs clearance, for registration of real estate, registration of companies, access to energy infrastructure, development of national institutions of export support, and others. Those are, of course, very important elements for investors, both Russian and foreign, to be motivated and encouraged to invest in serious long-term projects in Russia. And finally, I would also mention a continued work that we carry out which is aimed at improvement of public governance in Russia, which includes different areas, transparency, openness of accessibility of government’s services; a serious work which is aimed at prevention and combating corruption, improvement of corporate governance, transparency in defence of the rights of stakeholders, management of state-owned companies and so on.

We think that the whole complex of such policy measures that we are carrying out in Russia will result in a considerable improvement of the business environment of this country and will support long-term investment which we consider again as an important instrument of sustainable economic growth. Thank you very much.

Германия

KfW Banking Group
Ulrich Shröder, Chief Executive Director:

Yes, thank you, Vladimir, for this very kind introduction. It is a great pleasure for me to address this audience here today, and it’s also a great pleasure that we have just signed another memorandum of understanding for further development and cooperation we are here enjoying since quite a number of years between Vnesheconombank and KfW.

Let me start with making three statements on which I would like to base my conclusions as regards to long-term investments. The first statement is – in order to grow economies need long-term investments. Long-term investments are necessary to grow the capital stock of an economy and long-term investments are needed to increase the proactivity of an economy. If you talk to economy’s elasticity between investments and productivity gains, not every economy is the same but there’s always a positive relation. The more you invest, the more you grow your capital stock, the more productive you become, and the more capacity you have in your economy to grow. That’s my first statement.

Second statement – long-term investments need long-term finance. It seems to be simple but it is a crucial point because only if you finance your long-term investments by long-term funding, you have the planning certainty you need for your budget, whether you are a corporate or whether you are a public sector entity, and you are reducing the interest rate risks that you have if you fund long-term investments with short-term financings.

The third statement is that we see a growing gap between the demand and supply of long-term financing and of long-term investment, particularly in Europe. And we have a very crucial difference in Europe compared to the States. In Europe, long-term investments are financed, used to be financed, in an amount of about 70% by banks and only 30% by institutional investors through capital markets. In America, the relationship is the complete opposite. In America, 70% of long-term investments are financed through capital markets and only 30% through banks. This situation we are facing in Europe is very important because we are facing a growing gap between demand and supply in long-term financing because we have a banking crisis, which is to a large extent a crisis of long-term funding and of long-term financing. And my feeling is that a lot of our governments have not completely digested this fact that the financing crisis has and is about to change the market for long-term financing completely. Why is that? Because banks are retracing from long-term funding and long-term financing, commercial banks in Europe I'm talking about. Why is that? Two reasons for that. One is regulations. Regulations make long-term financing for banks more burdensome, they need to place more capital against long-term financings. And capital is a scarce resource, so banks are retracting from long-term funding. We have seen in Europe, our economics have done a research, we have seen in the three deleveraging of banking balances in Europe by 5.8 billion Euros. And we have also seen reduction in maturity of the liability side of banks from about 27% more long-term than two years, and for us long-term is not starting with two years but rather with five years. It's now down to 20% only. Banks are funding beyond two years. So we have the shortening of balance sheets of banks and we have the deleveraging of balance sheets of banks. Both are to the detriment of long-term funding. And this is not completely seen because at the moment we have a lack of demand in investment. The public sector is indebted, the public sector needs to reduce its debts, so we have safes on long-term funding. The private sector fears negative implications for the economic development, and also keeps back with investing. But we in Germany long believe we have at the moment gross investment rate as regards to our gross national product of 18%, we need to have 22%, which we used to have some years ago, in order to grow significantly. So even in an economy like ours, we have strong needs for long-term financing. Our municipalities are underfunded in our estimate by a hundred thirty billion for the time being. If you look at the figures of the European Commission, they estimate that in energy and transportation alone, we have two trillion euros underinvestment, an investment that needs to be done. So we have a strong demand for long-term investments on the private and public sector side, and on the other side, we have, as I stated, the reduced supply by banks for this long-term financing due to deleveraging and problems in funding because banking crisis also is a crisis of confidence. And investors do not trust banks. It is funny, in Germany if you look at the large corporations, they all fund themselves cheaper than the banks in Germany. If you are Siemens of Thyssen, or any other large corporation, you can place money on capital markets much cheaper than Deutsche Bank could do, or Commerzbank could do, or whoever as a bank could do. So we have a very funny situation on the funding side for banks as well. So this is so to say a bit the diagnosis of the situation. What are the recipes for supporting or helping this situation? First of all, we have to look at the future players with regards to long-term funding and a number of these points have already been made. First of all, I would like to encourage commercial banks to stay in long-term funding. Commercial banks have a lot of experience in that. What I can imagine is that we will have – particularly in project financing, in export financing – the split between the creation phase of a project, between the building phase of the project, where banks are needed to structure fundings and financings, and the running phase of a project where we need long-term investors who want to invest in already existing brownfield project instead of going to the risk of a greenfield project. But banks need to stay in the structuring of projects because that is a crucial role they have played and they should play.

The second thing is we have to make long-term investments more attractive to new investors. Pension funds have been mentioned, wealth funds have been mentioned, and insurance companies have been mentioned. And they all have a strong need in long-term investments because they have long-term liabilities and they need to have them placed in long-term assets; and they have a lack of assets. They used to invest in state debt, and it is no longer of the quality as they like it to be. So they are urgently looking for new investment opportunities in long-term, stable margin assets. So we have to attract – and we are talking at KfW with a lot of insurance companies, for example, in Europe, that they have to build up capabilities to make judgments on these long-term investments because as an insurance company you are not naturally bound to assess the risk of a power station, you are not naturally bound to assess the risk of a motorway, you are not naturally bound to assess the risk of export financing, so they have to build up capacities here but they are doing it, they are willing, and we have to encourage them.

And thirdly, coming to our own role as development banks, I see a growing role of development banks in these circumstances, because as development banks we have all different business models, but in principle we are long-term finance institutions. I, at least, can say that we at KfW have just one product – that's long-term funding. We do not do anything else. That we do all over the world and in all different kinds of aspects: in development finance, in export finance, in domestic SME finance, in housing finance, in building finance, in project finance. We do it in all sorts. But we only do long-term funding. And therefore because there is a gap in long-term funding I see at least a growing role for development banks in this particular area. And we should take up this role. And our government, I guess, urges us to take up this role – not to replace commercial banks, not to replace institutional investors but to support the other players.

And finally, my last remark – we need to think more deeply about new products that make it easier for new entrance in the long-term financing market to enter, so we have to think about how we can create instruments that are applicable to capital markets instead of just creating loans. And there are a lot of tendencies we see already. I believe, though we had a difficult time and this instrument had been misused, we will see a new advent of securitization. We need securitization because securitization is at the end of the day, is a mean to repackage SME loans into a capital market instrument, so this is one tendency. The second one, as I see, is a new development for other special securitization like mortgage bonds. Which also gives a wrap up this package of wrapping for example housing or transport assets into capital market instruments. I see the PPP market growing. It is a shame that in Europe mainly the UK and the Netherlands have really deeply used the PPP market. I understand that Russia is on a good way moving forward in that direction but I believe, and I can only say it to my own government, 'Germany, you are far behind.' We are not using the PPP market in a way we should do it in order to open it to new investors.

And finally, I believe that an instrument like project bonds which we discussed with the European Commission can play a role. It is not the medicine for everything like none of the measures I mentioned is a medicine for everything but they all have to play a role in this changing environment for long-term investment. And we have to get it right because the demand is there, and we have to make sure that the supply will also be there. Thank you very much.

Бразилия

Banco Nacional de Desenvolvimento Econômico e Social (BNDES)
Luciano Coutinho, President:

First of all, let me say that I entirely converge and agree with the speech of my friend Ulrich Schroeder. So I will try to complement most of what he has said.

Let me point out that we are facing now a challenge of a deceleration of global economy growth, deceleration. Europe is stuck in recession or very low growth. China – decelerating moderately. Most developing economies are also decelerating. And on the other side, maybe the US is growing very moderately, and maybe Japan is recovering some growth; but on balance the global economy is decelerating. And the banking situation particularly in Europe but not just in Europe remains fragile. Its banks are deleveraging, particularly private banks and also the capital markets are risk-averse. Governments are heavily indebted and also most governments are decelerating. So we have a challenging situation of a lack of long-term financing. And long-term financing is badly needed for the expansion of long-term investment, particularly of infrastructure. And let me stress that it is not just a fact that we need to recover and expand long-term investment, but we must do it in the realm of a new sustainable development mode, which combines social inclusion and environmental sustainability. This is the challenge. The good news is that developing economies of Africa, Latin America, Asia, and Central America have many high-return investment projects and opportunities, particularly in infrastructure. And long-term credit is the most effective too, to promote this new wave of development. Budgets cannot support the effort but public budgets have limitations, the scale of the challenge is very high, the need for infrastructure investment is around 5 trillion US dollars per year. And we should add extra 700 billion per year making up 5.7 trillion per year in order to have a sustainable development. So there is a tremendous challenge in terms of scale, therefore development banks, public institutions, official institutions are a key to create the financing and leverage the private sector and market resources, and the way to do this is to create, to facilitate the increase of long-term funding through adequate incentives.

And let me add that long-term public bonds or long-term bonds emitted by development institutions with pubic guarantees either to project bonds or to securitized tools should have special incentives, particularly for a long term. And I would say that tax exemptions or tax-free for long-term bonds should be an important way to create incentives.

Another important thing is to reinforce the size and the scale of the multilateral development banks, of the regional development banks, of the sub-regional development banks, because not all countries have their own national development banks or the national development banks are not yet large enough or not yet developed, or because capital markets in most developing economies are small, and they are not sufficiently developed to supply the funds. So we do need regional, sub-regional development banks to be reinforced. And I think the incentives for these to multiply the scale of regional and sub-regional and multilateral development banks should be also a priority. Of course, I do agree that pension funds, insurance companies, and sovereign funds are also important sources of long-term finance that should be also on our priority list.

Let me finish by saying that long-term credit, particularly for infrastructure, as everyone else pointed about, is a must. But in order to have efficiency in credit allocation we need high quality planning and high quality projects. And we should dedicate resources for project preparation, and we should also mobilize the private sector in this task for preparing high quality projects, and also for engaging the private sector in long-term planning, particularly for infrastructure. We have an interesting experience of a public-private partnership in project preparation, which is faster and very effective in Brazil. And this is an interesting experience.

Let me also say that planning is absolutely essential for this new mode of sustainable development. I don’t particularly like the expression of ‘green growth’ because ‘green growth’ does not pass the message that we need a transformation. It’s not just growth; it is a transformation of the way even developed economies, because I think developed economies are mal-developed in many senses. And we should develop – both developed and developing economies – into a new growth model that reconciles environmental sustainability, low-carbon emission, and social and employment creation. So infrastructure, better logistics, efficient urban infrastructure for efficient energy-saving housing, watersaving systems, less and more effective consumption of energy in all process, energy-saving overall, increasing energy, so we have a big new agenda that requires a different quality in planning; and this requires, we understand also, the engagement and mobilization of the private sector.

And this also creates opportunities for creation of new services in many areas, new equipment, new techniques and innovation for many sectors that create economic opportunities for the private sector, so we must create this new agenda, and the long-term credit is an essential part of this agenda. Thanks for the attention.

Италия

Cassa Depositi e Prestiti (CDP)
Franco Bassanini, Chairman:

Thank you, Vladimir, for your kind and friendly introduction. I must say that after the impressive speech of my friend Ulrich Schroeder, my remarks are quite obvious. In any case, three starting points in the modern market economy – financial stability, growth and social cohesion – are inextricably intertwined. Second – long-term investment is a key factor not just for growth and competitiveness but also for the stability of financial institutions and for the rebalancing of the public finances. Third – now at least in the high public debt countries, resources for funding long-term investments can no longer come primarily from government budgets, which are squeezed by fiscal imbalances, or from commercial banks which are restructuring and under pressure from Basel III rules. So we need to create the condition for promoting the entry of private capital and for a new role of long-term institutional investors and financial institutions.

Particularly in Europe where the commercial banks which have been prominent in project finance – in Europe and globally – at leveraging with an increased aversion towards large projects and long-term tenures. Basel III and the risk weights it implies make it more costly for banks than before.

While we are waiting for the European banking system to recover, a growing role should be played by the institutional long-term investors – pension funds, life insurance, and national development banks – if they decide to raise the quarter of their investment allocated to infrastructure as an asset class. The global industries of institutional investors are estimated by the OCD at almost 90 trillion USD. Today they invest around 3% of their assets – 2.3 trillion USD in infrastructure.

Potentially, long-term institutional investors' asset allocation in infrastructure can grow up to about 4.5 trillion USD according to a recent research by HSBC.

The debt equity leverage is going to be much lower than in the past. This will decrease equity returns and make equity for infrastructures less attractive for those investors that claim high returns. New instruments and new agencies are going to be needed to mitigate risk and face credit crunch. They should work as a catalyser of institutional investors' participation to infrastructure financing by attracting co-investments in the equity side of the projects by playing credit announcement and by leaving the senior part of debt to pension funds and insurance companies. Long-term equity funds and the project bond initiative launched by the European Union go in this direction.

Among the new instruments which may need to be reinforced are credit enhancement mechanisms such as monoline mitigation mechanisms, which may include credit and risk guarantees, first-loss provisions, and bridge financing via direct loans.

But to lower long-term equity risks a few other actions should be taken. First, reconsider the securitization of lending; second – the regulatory framework.

Today it is skewed in favour of short-term lending, including speculative loans, while penalizing long-term investment and discouraging those investors (pension funds and insurance companies) that could hold long-term assets.

We do not suggest, to be precise, to diminish the effectiveness of measures meant to prevent new crises and preserve financial stability but to fine tune them in order to reduce their recessive effects and adapting the rules to the specific business models of financial institutions other than commercial banks.

Third, we should consider risk-segregation in the different phases of projects, i.e. construction, development, and managing. Each phase may need special financial actors, rules and instruments with banks taking care if the first and the second, and the capital market (institutional investors) taking over the longer-term and the lower-risk management phase.

Fourth, governance risk management by long-tem institutional investors has to be reinforced to include also infrastructure financing.

Fifth, an investment-friendly environment is needed for political and legislative stability, fast and stimulized administrative procedures, low regulatory and bureaucratic burdens, a swift and reliable judicial system, and efficient technical and capable public administration are key factors in investment decision which today consider the entire globe.

Finally, tax incentives may be crucial for making project finance more attractive and bankable. On the other hand, they could enable investment that otherwise would require the use of public resources, on the other hand, this investment contributes to growth and therefore to fiscal consolidation in both the numerator and the denominator side.

No less important for growth is the long-term financing of SMEs that have a high importance, especially in Europe's economy. The deterioration of the credit condition is impacting more negatively on financing capacity of the European SMEs. It is now crucial to build upon existing financial instrument as well as to develop a new innovative solution developed by national development banks for SMEs. We can act as catalyst or refer some term of creating additional or reinforcing existing national European long-term private equity funds specialized in SMEs investing, promoting SMEs access to capital market funding directly or through specially dedicated debt funds or funds of funds maintaining and reinforcing the provision of preferred liquidity to the market by means of banks' funding that is committed and bound only to SMEs financing.

To conclude, crucial is, in any case, the role of our financial institution with a development or public mandate. We have on this side good news because the focus of long-term financing is considerably growing both at the global and the European levels. In the European Union with the publication by the Commission of the "Green Paper" of long-term financing, at the global level – with the Russian presidency of the G20 giving to the long-term financing a priority status in the 2013 agenda of the Summit.

It is true that the conclusion of the G20 Summit in Pittsburg some years ago made the objective of growth, a strong balance and the sustainable growth a central priority. But in reality this did not alter the bank-oriented short-term procyclic approach that dominated and still dominates the international regulatory culture. Rules and measures aimed solely at ensuring financial stability have helped turn the financial crisis into a double deep economic recession therefore threatening efforts to restore financial health and achieve fiscal consolidation.

Now the issue of long-term investment is on the table. The international deciders know that it is crucial for the future of the world economy, that it may represent a turning point in the model of development of the European and the global economy, that it can play a positive role towards the financial market stability, that it is a necessary long-term vision to tackle major challenges facing our society like climate change, scarce natural resources, environmental protection, poverty, immigration, and education; they know that we need a long-term policy framework, a long-term international and global regulation not penalizing long-term investment but in favour of long-term investment. We hope that the international deciders and the international regulators will accept to give some positive and consecutive conclusions to this cultural and political idea. Thank you.

Япония

Japan Bank for International Cooperation (JBIC)
Fumio Hoshi, COO, Senior Managing Director:

Thank you very much for your kind introduction. Today, I think our crystal balls have been giving us the right answers to what Mr. Dmitriev has mentioned at the opening of the session. And I think that the concern for everybody is how to continue the sustainable growth of the world economy, and it is especially of great concern to the developing nations.

Projects that are related to public services and serve as a base of economic development and growth such as infrastructure and energy projects, and long-term planning and implementation. They require correspondingly long-term investments as the project continues to provide services and benefits while recovering the huge initial investment cause over the long run.

Recently the global demand for long-term investment has been increasing due, in large part, to the rapid growth of emerging economies. From the supply side, however, the situation of source of long-term financing is less optimistic because of the many explanations that have been given already.

I believe that one of the most important challenges is how to the ensure the host governments demonstrate a clear and convincing commitment to establish a stable regulatory and business environment and to enhance the certainty and predictability of project viability for these are the prerequisites of attracting long-term investments.

The question is how we can best address these challenges in our efforts to try to meet investment needs to create stable finance flows. And here I see the role of official source of investment financing not primarily as a provider of huge volume of funding but rather contributor to establish a bankable framework for investment. Today I am pleased to present our views on this issue based on extensive experience of JBIC in supporting long-term investment throughout the world.

A significant part of the demand for long-term investment derives from the infrastructure sector where we see increasing demand not only in the developing countries but also in the developed world where we can see a growing momentum, a rising demand for investment to replace ageing infrastructure facilities and expand green investments. Demand for global infrastructure development is estimated to reach 24 trillion USD between the years of 2011 and 2013. Such massive need for infrastructure provides opportunities for private investors, especially for investors with long-term view and sufficient risk appetite.

However, as everybody has explained, the private financial sector is not in that kind of a position to provide the finance. The official financial sector is therefore expected to step in and assume a great role. Under these circumstances an adequate framework for partnership between the public and private sectors is of key importance to facilitate the private flows of long-term investment and to meet the demand for funding of infrastructure projects. One such framework, the PPP scheme, has been crucial to mobilize private financial flows to infrastructure projects effectively. While various regulatory frameworks have been developed in emerging countries to promote infrastructure development through PPP, unfortunately, not all of them are seen as being clearly workable. For example, some schemes pay less attention to the issue of bankability. Allocating assessive risk to the private sector and make it difficult for private investor to see a clear path for project profitability. Since infrastructure serves as a foundation of economic activity and people's livelihoods, it is inevitable that the policies of host countries influence how price of the services the infrastructure provides are to be set. However, the project is to be operated and so on. Therefore infrastructure business necessarily entails risks for private business operators long cannot control, and a certain level of commitment by the host government is a critical factor in the success of the project.

Among emerging countries in particular we have seen the cases where problems have risen, such as setting tariffs that are lower than the project costs, inefficient administrative procedures, lack of institutional consistency between central and regional governments, lack of adequate government support, and failure to demonstrate the capability of the host government to implement the PPP.

This is where JBIC can play a vital role. JBIC not only provides finance as a public finance institution, but also works with host governments to ensure that they work to establish a bankable PPP structure, which will help to enhance confidence in private sector and attract long-term investment from private funding sources. In this regard JBIC tries to create harmonization of the five "Ps", that is: one, public entities, second, private investors, third, people of the country, fourth, providers of finance, and five, partnership among all the stakeholders over the long term. JBIC believes that this harmonization of the five "Ps" helps to foster an environment where risks and responsibilities are adequately shared between public and private sectors.

Here I would also like to emphasize the importance of partnership and sensible lending discipline among providers of finance. The acceptance of an unbankable framework by a single financial provider would lack lending standards or discourage the most governments from developing a proper PPP structure to attract long-term investments, which would eventually adversely affect the country's funding capacity in the future.

In addition to contributing in this way to establishing bankable project framework, the role of official source of investment financing as a provider of a steady volume funding cannot be underestimated. The function of counter-cyclable source of finance remains one of the important roles of official finance institutions.

We have learnt through bitter experience that global financial crises happen every once in a while, while the need for long-term investment always exists. And in this context, it is important for official finance institutions with institutional and financial capabilities to play a role in balancing fluctuations in the risk appetites of private financial institutions.

I would like to give some of the examples of what JBIC has done in the past few years. We have started the Asia-Pacific Export-Import Bank annual meetings, we have recently, with very strong initiative of Mr. Dmitriev signed a Memorandum of understanding on a Japan–Russia investment platform. We also have three MOUs and credit lines with Russian banks. We also have MOUs and long-term credit lines with Dr. Coutinho's BNDES. We also have a long-term relationship and an MOU with Mr. Enrique's CAF. We are also working on a new platform with EBRD. We also have an MOU with the Development Bank of South Africa. We are also working together with BANCOMEXT and IDB on a new fund facilities. We also work with the African Development Bank, Asian Development Bank. We also have funds with IFC. We also work together with KfW.

So what we all need to do is not to do everything by ourselves but to have a relationship with multinationals as well as governmental financial institutions, so that we can work together not in a single country but to work together in a third country, not just to finance but to provide for the kinds of needs that are there for the country to do in the future. This is what JBIC has been doing on the past few years. So JBIC over the years has gained in many ways, an extensive experience in long-term investments, such as infrastructure development projects around the world. We will continue and expand our long-standing commitment to contribute to the global infrastructure development by further strengthening of collaboration with host governments to support their efforts to introduce effective institutional framework for successful PPP projects as well as expanding our financial menu to promote long-term investment. Thank you very much.

Франция

Caisse des Dépôts et Consignations (CDC)
Laurent Vigier, Director of European and international Affairs:

CDC extended its first loan in 1822, this loan has been repaid since then, and it has been a good investment. But first of all, I would like to warmly thank Vnesheconombank and moreover the Russian presidency of the G20 for putting long-term investment on the top of their agenda and giving us, long-term investors, the opportunity to express ourselves on this key issue. With the permanence of the crisis, long-term investment is indeed more than ever a priority to promote sustainable growth. We urgently have to find the ways to reconnect markets and to channel the available resources to finance projects with high economic, social, and environmental value including through the development, as it has been mentioned before, and scale-up of the new investment approaches, such as project bonds, securitization, or PPPs.

As a preliminary remark, I would nevertheless like to stress that before addressing the issue of financing long-term investment, policymakers should focus on the quality of this investment. It is not only an equation of available resources – there are available resources in the world, there are available resources in Europe – but it is also an equation of qualified deal flow. How to translate the big figures, which are often mentioned, and we are talking about billions and hundreds of billion dollars and euros into actual investment? It is a key question. Then priorities should be given to the identification of high-quality projects that are economically viable – and not only financially viable – that have a positive impact on our society, taking into account the scarcity of natural resources and social environmental challenges.

The starting point should be a preliminary principle to be submitted to the G20. In order to fulfill this priority objective the cooperation among multilateral and national development banks, as well as public long-term institutions like Caisse des Dépôts should be encouraged in order to assure the quality of the investment and its monitoring all along the cycle. Our cooperation would enable to identify at an early stage the economically viable projects and to structure and provide finance for well-prepared project with adequate risk profile.

Together we can identify a deal flow of high-priority and, in particular when national institutions have a domestic advantage, and we can facilitate a lot of domestic flow for long-term global investors who have to deploy capital, such as sovereign wealth funds. We have to build on these complementarities. So, together we can identify deal flow of high quality, pull our expertise in our resources along with other major investors like we have already started in the framework of the Long-Term Investors Club through the 'Marguerite' and the InfraMed Fund. These two instruments are now successes, and they were just ideas, concepts a few years ago. They have already invested 40% of the initial envelope in just over less 2 years in function, so it is undeniably a success, and we can build on this. All bilateral cooperation among some other institutions and, Vladimir, you mentioned my participation in the Russian Direct Investment Fund, and I am happy to say that we have initiated between CDC, Vnesheconombank, and RDIF the work to establish in the next two or three months a joint Franco–Russian investment vehicle, and this is part of a broader strategy developed by CDC following the creation Franco-Chinese SME fund with China Development Bank, a joint investment vehicle with Qatar, which has been finalized just a few weeks ago, and a similar initiative with the United Arab Emirates. These are parts of a broader strategy that has been confirmed, and which is going to be scaled up in the coming years in the new strategy plan that CDC just adopted a few days ago.

So, it is important in this respect to take into account a broad diversity of institutional investors. Policymakers and regulators should indeed encourage the diversity of those who can act as long-term investors. This diversity is necessary to well functioning of the market and needs guarantee of stability that may prevent the emergence of bubbles that dangerously affect long-term growth.

While we wait for the banking system to recover, and, as it was rightly pointed out by Ulrich Schroeder, it is very important that the bank come back to long-term financing. And it is really the stock of savings in France at the moment is 5 trillion euros. There is no shortage of capital in France, it is how we mobilize this capital, we put it at work to finance the economy, we need to bring back, and there is a big work in that respect. But while we wait for the banking system to recover, there is a growing role for other alternative long-term investors, such as pension funds, insurance companies, sovereign wealth funds, which play a growing role, and other financial institutions, to raise the quota of total investment allocated to long-term investment, especially in infrastructure as an asset class. In this respect the OECD and furthermore the G20 should take into account all institutional investors including the specific characteristics of the business model.

Last but not least, it is essential to provide an adequate regulatory framework enabling long-term investment. One of the key reasons we have established the Long-Term Investors Club in 2009, was the question of regulation. The concern we had at that moment was about the impact of Basel III and other initiatives. This issue is still on the table, and we need, and the international community, the regulators need to eventually and seriously address the issue. I am sure we all agree around this table that there is a lot of work to be done in that respect, that accounting rules, prevention rules, and new accounting rules will have an impact on the abilities of institutional investors to undertake long-term investment, it is of the utmost importance the G20 address the issue seriously and start to review, to revisit this regulation. The research project undertaken by the OECD with the support of the Long-Term Investors Club on institutional investors and long-term investment addressing potential regulatory ostacles and market gaps in OECD countries and some major non-OECD economies is essential in this process. So let me thank again our friends from Vnesheconombank for this important initiative. And we really hope that the G20 leaders under the leadership of President Putin and the Russian Federation, will take our proposals into account in order to foster global growth. Thank you for your attention.

Special representative of the President of the World Bank on Financing Development and Millennium Development Goals, to Mr. Mahmoud Mohieldin:

Thank you so much, Chair, for the kind invitation. It is very hard to talk at this session after so many interesting points have already been raised. Let me complement what was mentioned by the following findings of studies and researches we have been conducting at the Bank, including a policy paper that we prepared for the G20, which is a reminder of the following: that it is very important to talk about financial constraints but we shouldn't forget that there are many impediments that are there, and are very much country-specific. And we see a great deal of discrepancy between different economies based on some factors influenced by the country-specific conditions, including investment climate, project quality, planning, governance, and regulation. In this regard, before getting into the financial aspects, I'd like to emphasize that no amount of financing can compensate for an environment that is not conducive to productive investment, and in that context I very much welcome the points that were mentioned by many of the speakers, including Mr. Coutinho, about the importance of high-quality projects and high-quality planning. And I'll come back to this point later.

The crisis has had an impact on the availability and composition of long-term investment; and it impacted mainly the funding available for long-term finance. As it was mentioned before, there can be a great mismatch: that we are seeing a demand that is, roughly speaking, there is no accurate estimate but in the case of long-term finance there are more guess-timates rather than estimates. And even with our work we can really talk about our figure of around one trillion USD a year, but this is a very conservative figure; if you include the funding that could be required for climate finance, that could add to the figure, refer as well to the figure mentioned by Mr. Hoshi based on the work of the 24 trillion USD from 2011 to 2013 is giving you the kind of a figure close to the one trillion, but there are higher estimates than that. Meanwhile, as mentioned, there are some funds available for the private sector by the pension schemes, by the institutional investors, and sovereign wealth funds that are amounting to be in the neighborhood of 55 to 57 trillion USD. The obvious question if you have this kind of demand for one trillion roughly speaking, and availability of a close to 57 trillion USD available, why don't we really have this mismatch settled? And you are not after the whole amount being invested in the short term, and you will find many of the problems highlighted by the previous speakers about the high quality of projects, having that kind of an asset class with the right mix of return a risk to attract investors as an issue to be dealt with. And this is the story so far: the long-term bank lending declined sharply in all developing countries, the G20 developing countries are no exception, low-income countries are suffering more. There is something here that you can already see that the percentage of GDP is very low, lower even than the pre-crisis levels, and there is a great deal of volatility of the financing available; so another way of seeing the matter from a focus on this indicated bank lending, which declined sharply in all developing countries. And there is a great deal of importance for syndicated bank as mentioned by one or two of the previous speakers, while we would appreciate the long-term finance available through bond issuance but in particular related to the greenfield operations and the time of the design of the projects and startups. You cannot really find a substitute for bank lending, and this kind of a sharp decline of syndicated loans is very worrying. Of course, it is that bad given the other sources of funding including the government finance had been under very much stress, so the infrastructure sector with all of its aspects has been suffering during the last four years.

For those of you who have been following the activities and the bonds markets, you can see a kind of a comeback, especially by developing countries, to the fixed income or the bond market. But again, the issue of concern here is that much of the funding. And this rebalancing was not redirected to long-term finance for infrastructure, most of the issuances had been there to fund budget deficits and to benefit from the bitter terms and conditions in the international markets given the quantitative easing, and that had benefited many of the developing countries. Not much of these funds have been directed at the development finance in infrastructure.

Another evidence to support that point about the challenges facing the infrastructural finance, is the fraction of finance dedicated for long-term finance for infrastructure, so you can say that the fraction of claims with maturity over two years have been in decline, not just in the developing countries but also for some of the developed countries.

So what is the role of the multilateral development banks including the World Bank? You can see a kind of a countercyclical activity on the part of the MDBs including the World Bank when there had been some major decline after the crises in 2007–2008 reaching its bottom in 2009, the MDBs came and provided some funding to be a kind of a countercyclical support. But if you see the kind of commitments and the projections for finance in the current year and the forthcoming two years, the figure is basically around the 60 billion USD coming from the MDBs. So, the idea here is how the MDBs' dollars could be used in a way to enhance the impact and their influence by better leveraging. And here by leveraging we are not talking about the MDBs leveraging each other, not the World Bank leveraging the African Development Bank, and both leveraging some of the bilateral agencies, we are talking here about leveraging the private sector. Our colleague from the IFC can give you some good examples in the next session on good leveraging cases through which the IFC managed to have decent ratios being more than match by the private sector investments, so a dollar from the IFC and in some cases from the IBRD have been seeing multiples of that in variety of projects, so this issue of leveraging is a very important aspect. In many cases we have seen that many of the private sector are comfortable when we see that the MDBs are involved, they do a good work in the environmental impact and the developmental impact, and in a world that is fool of uncertainty and high risks having an MDB in the scene could really send some signals of comfort about the seriousness of the projects. Again, the problem here is not the shortage of private sector capital but of long-tern capital, and we can see that there are many issues that have been there to encourage funding to be focusing on short term. Those who are investing in the short term – they are not complaining when we are saying that all of these funds by pension schemes and sovereign wealth funds in the short term, they are not complaining, they have their investment, they have adequate returns to them, and they will not really reject a good opportunity to invest in the long term if the right people are going to be there. Of course, developing the domestic markets for long term and for a local currency bond market could be a good opportunity. We shouldn’t be expecting that pension funds and sovereign wealth funds are going to be experts in funding bridges or ports, or electricity plants. As far as we are not providing adequate papers for them to get them the investable vehicles, we are not going to be seeing more of attention, we are going to be seeing more talk on the topic but less money flowing into that direction. So there is a possibility to attract part of the 57 trillion USD plus of funding available. But, basically, how to enhance the attractiveness as mentioned by Minister Anton at the beginning? How to make the private sector with adequate incentives available, to get itself into funding infrastructure projects is basically something that governments have to take care of in the way to provide opportunities for the private sector to be involved in. Here we are seeing five specific pieces of work that an institution like the World Bank and other MDBs could be working on: first, on the financial additionality, like these indications of co-financing of activities – we do a lot of that but we could be doing more, and there are many facilities that are being provided now for emerging markets, developing countries, low-income countries and as well for post-war, post-conflict states. We do it through a variety of instruments including investing and long-term finance for government with long grace periods and for longer maturities than you can get from the markets.

The other thing is basically about the design additionality, like improving the standards, having the safeguards to improve the project quality and the bankability that have been mentioned by previous speakers. One point here that I would like to raise very quickly about the issues related to the preparation of the projects, we are seeing a great deal of discrepancy between different projects in different countries. That cannot be justified by them being allocated in different countries. Here we see that the preparation for a particular project could cost anything between 0.5 to 2% of the total cost of the project in one country. For a similar size of a project you can see close to 8–10 % of the total cost to be dedicated to preparation. This kind of discrepancy is of great deal of concern to potential investors and it has something to do with regulations, with high transaction costs and missing the pipelines of projects.

The third aspect I would like to mention is about the policy additionality. Some of the speakers already talked about the issues related to the investment climate. Here, in the paper, which is available on the G20 website, we listed – based on surveys and views from investors – more than a dozen of impediments facing the projects in developed and developing countries, from problems related to tax systems, to restrictions on foreign direct investments, to issues related to the quality and strength of legal protection. The PPP frameworks have been mentioned but there are many issues of concern related to the contractual arrangements and the protection of the rights of investors, poor accountability and performance, and again, as I mentioned at the very beginning, no financial solutions could really solve these issues related to the policy, regulatory frameworks, and investment climate issues.

The fourth thing is basically about the demonstration additionality. Even without direct involvement by the World Bank or other MDBs, if a project is conducted in a good way, attracted good private sector investment, that could be replicated and repeated and scaled up elsewhere.

And finally, the issues related to the selection additionality with the constraints of funding and the requirements by governments to get involved in a variety of sectors. There is an issue of selectivity that needs to be dealt with and here I think the work of the World Bank could be of help, here and other multilateral development agencies.

Here I list very quickly the kind of activities, services that multilateral development banks could be of help: from the investment and project loans to equity investments, to loan syndications, and to risk mitigation and guarantees. And this forth point is very important given the high political risks that we are seeing in different countries. There is a huge demand for the activities and services by the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, and we are doing more in order to provide a bundle of projects with risk mitigation and guarantees with the package. We also provide policy advice, technical assistance at the project level, and we do support for the capital market development, especially for local currency bond markets; and an institution like the World Bank is known for its keen support of developing safeguards and standards without impeding the pace of the projects as we wish them to happen. So this is a quick update on the state of the markets and of what we can do to help the private sector through leveraging to get the infrastructure finance needed for development. Thank you so much for your attention.