

**Сессия**  
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**Президент Центра стратегических разработок Михаил Дмитриев:**

Let me open this session. We have all the speakers on the panel here at the table. My name is Mikhail Dmitriev. I am the President of the Centre for Strategic Research. This is an economic policy think tank of the Russian Federation. We have a distinguished panel of highly experience and professional speakers from all around the world. Our key issue is addressing the same problem from the perspectives of various countries: after the global economic crisis, probably all major economies in the world are facing the same problem. The infrastructure investment demand is enormous. It is being estimated at around USD 60 trillion, which is more or less an equivalent of the global GDP. Not every cent of this money is coming from the public offices any longer. Even countries such as China, which used to finance a substantial amount of current infrastructure needs from public finance instruments, are no longer capable of affording this. For many other countries, the issue is far more straightforward. We now estimate that perhaps only one third of the global infrastructure investments need to come from public funds, while the rest should come from the markets.

All these issues concern pretty expensive and long-term projects and will have to be addressed by various countries in various economic circumstances and at various development stages, provided that we are still facing a period of high volatility and uncertainty. Global economic recovery has not yet become sustainable. Clearly, there is a need for new institutional solutions and new market solutions for the instruments of infrastructure finance, which will have to be addressed. We have a growing and dynamic long-term finance industry all around the world, represented by pension funds, insurance companies. In some developing countries, including Russia, these industries are growing at a very fast pace. However, these institutional

investors have their own preferences. They will not necessarily take up opportunities in infrastructure financing easily. They need solutions that are fitting their own long-term objectives and needs and that will satisfy their own customers, some of them with an emphasis on social demands. Therefore, we are really at a global crossroads. We are here trying to cross-fertilize our domestic national experience with the perspectives of other countries. And this is a great opportunity to do so. I will give the floor to our distinguished panellists, in the sequence given in the reference agenda. However, unfortunately, because we have already lost more than 13 minutes of our precious time – which usually happens at these kinds of events after lunchtime; lunchtime can easily become a conference disaster – I was instructed by the organizers to catch up at any cost. Therefore, we shall conclude at 15:45, as noted in the programme. Unfortunately, this means that I have to ask all the panellists to speak no longer than seven minutes. Otherwise, we will not be able to have even a short follow-up discussion, which will disappoint the session participants. I give the floor first to Jabu Moleketi. Mr. Moleketi is currently the President of the Development Bank of Southern Africa. He has a broad background experience in the Ministry of Finance and he was also an independent Manager-Director of Vodacom. Please, Mr. Moleketi, from the perspective of the BRIC members, what are the infrastructure priorities today?

## **IOAP**

### **The Development Bank of Southern Africa (DBSA)**

#### **Jabu Moleketi, Chairman:**

Thank you. The Development Bank of Southern Africa, as most of us here in the room know, has been in the business of infrastructure funding for more than 50 years. We operate not only in South Africa, but also in the wider region, that is the SADC region. The earlier discussions indicated that developing infrastructure is very important. It is costly, it is long-term, and it imposes a financial barrier, but what is important is that there is an opportunity cost if we do not do that. There is no option that is easy. However, the key thing is that once we deliver infrastructure it

ought to be a commitment, and not just a political commitment but also a resource commitment. My input will focus on the following points: 1) I think we must scan the current environment and look at the current deficiencies and hopefully sight some solution, from the point of view of the Development Bank of Southern Africa, in terms of how we deal with the issues of infrastructure financing going forward. It is important to state at this point that, when it comes to the African continent, the cost of infrastructure backlog is estimated at a weakening GDP of about 2% per annum. So, there is a cost that is attached to issues around lack of infrastructure and infrastructure backlog. It is quite obvious that there is indeed a demand across board; that for us to maintain sustainable levels of investment in infrastructure on a global level, there is an average of about 4-5% of GDP that needs to be spent. However, that percentage differs with various countries and regions. Our focus is on Sub-Saharan Africa and Southeast Asia. In these regions, the contributions ought to be in the magnitude of about 10-12% of GDP per annum. That begins to indicate to us, as it was indicated in the previous contribution, the scale and level of investment that is needed. In terms of that translating into actual prizes, it means that there ought to be a growth from the current levels of USD 0.8 trillion, to up to more than USD 2 trillion by 2020. That begins to indicate the magnitude of the problem. They need to begin to amass these resources.

But let us begin to look at what is happening currently. We now that the financing of infrastructure, particularly in developing countries, is on a budget. The fiscus contributes close to about 60% of this infrastructure spending. The challenges currently confronting the fiscus, however, make it difficult to sustain this level of contribution. And then we must begin to mobilize other forms of financing. We also have the official development assistance, which is grant funding, as well as the private sector. The private sector is estimated to be contributing, according to our own assessment, about 20%. However, even that comes under pressure, as it was outlined in the previous discussions. We have a number of private equity funds, we have a number of instruments that currently exists, but the message that we want to

bring across is that it is important for us to really up our game and look at other instruments.

These are the challenges. They were covered in the previous conversation, but I would like us to start reflecting on some of them. One of the key challenges is that there has been a change in terms of the surplus of savings. It has moved from the developed world into the developing countries. That poses a challenge in terms of what instruments and institutions are needed in those developing and emerging markets to harness and mobilize those funds. The second point, which I think was to a large extent made, is that these significant funds are in the hands of the intermediaries. These intermediaries range from asset managers to institutional managers. And in order to be able to create an environment for them to see infrastructure as an asset class that is worth investing in, we must resolve a whole range of issues – among them the regulatory framework. We have to create institutional instruments that will attract these types of funds and we must create a good balance between risk and reward. The aftermath of the financial crisis has seen, amongst others, the difficulties that the fiscus finds itself in: a number of governments are, to a large extent, confronted with the spectre of a dwindling budget because of relatively weak economic growth. That begins to impact on the point I made earlier, of the 60% that has been funded through the fiscus over a period of time. Weak economic growth means that generally the revenues have also declined. Given this environment, the ability of the public sector to raise capital, has also to a large extent been impacted because of the cost structures of capital. I have seen a number of countries, including my own, being downgraded due to the current difficulties that a number of countries are confronted with. And that begins to increase the cost of financing infrastructure. That is one of the areas that we need to look at. We need to ask ourselves: given this environment, how do we look at other initiatives? One of those initiatives touches on a matter that was raised earlier, of beginning to focus on public–private partnerships. The last point around this is that the current environment that the banks face. I think that was eloquently stated in the previous presentation. There is now a regulatory environment and there are solvency

requirements that constrain the capacity of our commercial institutions to invest in infrastructure. Over and above that, a number of banks are still in the process of trying to rebalance their balance sheets, which were impacted negatively by the financial crisis. That scenario creates a need for institutions as ours to begin to reassess our role as a development financial institution in terms of increasing the capacity of funding infrastructure development.

To cut a long story short, there has never been a shortage of very creative concepts on the table. But there has always been a gap between concepts and bankable projects. And one of the weaknesses in the chain is the need to begin to fund project preparation so that we can develop a mechanism that will create the capacity to bridge the gap between concept and a bankable project. And that needs upfront risk investment. I think this is a point that was made by my colleague from BNDES: without resolving that issue, it will be very difficult even to begin talking about attracting other sources of capital. So that is one of the points we are raising when it comes to challenges of infrastructure funding, the need for us to have resources to bridge the gap around project preparation.

I have stated the challenges. Now I want to discuss the action items. It is important to look at how we can harness and mobilize the savings that are in these developing and emerging markets. We have to come up with instruments and institutions. One such institution that is on the table is a new BRIC development bank, which is a creative way of beginning to harness that. The second way is public-private sector funding. We must attract some of the funds handled by these intermediaries and for this we must create an appropriate regulatory environment. An earlier discussion underlined the need to look at providing incentives to ensure that there is a mechanism for bringing in these private sectors managed funds. I think that is the second thing we need to do. Moreover, we must begin to support project preparation through concessional funding. My last point is that it is very important to understand that you cannot have a generic approach to different projects. We must understand the levels of exposure, the risk-rewards structure of brownfields as opposed to greenfields. And we must be able to come up with

instruments and institutions that speak specifically to this kind of risk. I could say more but I think the time is up. Thank you very much.

## **Мексика**

### **Banco Nacional de Comercio Exterior (BANCOMEXT) Enrique de la Madrid Cordero, Director General (CEO):**

Thank you, Chair. First, I would like to thank the organizers for inviting us to participate in this important forum. Bancomext is an institution that was created in 1937, but nonetheless before the 2008 crisis we were about to disappear, probably as a consequence of an international trend that believed that development banks should disappear. Of course this trend is not so strong anymore. We all remember that that was part of a recommendation that was given by some of the international institutions at the time. It was part of a trend. I usually say that, thanks to the crisis, we survived. Why did we survive? Because of the retreat of the financial sector, but also because in Mexico, with about 75% of our banking system being foreign-owned, we tend to have a view of the global risk assessment that is taking place. Because of that, in 2008 May banks decided to pull out of tourism. Many people were worried because there was no financing. In 2009, we also had a virus crisis, the H1N1. So, because of the economy and because of our health system, which were both in bad shape, no one wanted to go to Cancún anymore. We receive about 23 million foreign tourists every year. So banks pulled out. What did Bancomext do in those days, along with some other development banks? We went into the tourist sector; we financed it and complemented it not only with long-term loans, but also with working capital, which was required for these hotels and for this industry to survive. Today, when things are a little better, banks are coming back into the tourism sector, but we tend to compliment ourselves, because they still do not want to commit too much in the long-term. So what we do is we go in it together; we tend to give 5-10 year long-term loans, while they probably want to give 5-7 year loans, so we do it together. We work as a syndicate or we work out club deals.

The second example I wanted to give is what happened in the ‘maquiladora’ sector, or the outbound sector in Mexico. The same thing happened. There were some international firms financing the creation of industrial parks. This is very important because this is how the maquiladora sector gets into Mexico. They need parks; they need places to work in. But again, in 2008, some of the international firms that were financing this sector pulled out, and Bancomext went in. This is a nice combination, because what the REIFs – the real estate investment funds – essentially do is they develop these industrial parks, they get money from institutional investors. Many of them are foreign-owned, but some of them are already Mexican pension funds. As many other countries, we already have a significant amount of resources that we can put into this industry. And Bancomext in this case also participates with long-term loans. Even though we document these loans as seven-year loans, in fact they are 20-25 year long-term loans. So we are helping this industry work and banks are not lending to this industry yet. What are we achieving? First, we are financing infrastructure. Second, we are incentivizing or facilitating international funds to get into Mexico, as well as pension funds, and we are expecting that hopefully local banks will also become interested in this sector.

I am of the opinion, after listening to this conversation, that we still have a conflict between philosophy and facts. And I think we are also applying an old speech to a new situation. Development banks are said to be only complementary to the commercial banks. We always say that they are only justified if we have market failures. But the fact is that market failures are becoming larger by the day, banks are deleveraging, they are risk-averse, especially to certain sectors and to long-term. There is a big difference of incentives between private shareholders and what is sometimes the national interests. They are not always the same. One of the conclusions would be that, in order to have higher levels of infrastructure investments, many issues have to be improved. We have talked about regulation, especially banking regulations, which do not incentivize long-term investment in infrastructure. This is an unintended consequence of having stronger financial systems. We should also strengthen the legal framework in some countries, and have

better guarantees. However, we should believe and confidently say that there should be a stronger presence of national development banks in the economy. This presence should not be limited to guarantees, but involve giving financial assistance, working on the quality of the projects and lending not only indirectly but also directly. This is one of the things we do at Bancomext. In order to do this, however, we need stronger governance, so that we do not repeat the mistakes of the past. Some of our banks failed to do this in the past. We need to also protect ourselves against political pressures to grant credits, again, so as not to repeat the story of the past. Finally, I think we need more and better qualified human resources. It is easy to demand from us more lending, better ideas, new instruments, but we cannot always do it with the same people who are neither well qualified nor well paid. Our governments will have to invest in us if we want to fulfil our ambitious goals. Thank you very much.

**Заместитель Председателя Внешэкономбанка – член Правления  
Александр Иванов:**

Good afternoon, ladies and gentlemen. First of all, on behalf of VEB, I would like to welcome all the participants in today's and tomorrow's conference. Thank you for finding time to attend this very important event. I would also like to thank the VEB team for organizing the conference and taking care of the logistics.

I will start my speech by describing the situation in Russia. VEB being a development institution working in the Russian Federation, it is naturally more involved with financing infrastructure in our country. A recent estimate by the U.S.-Russia Business Council suggests that the total need of infrastructure investments in Russia amounts to USD 1 trillion. That is one sixteenth of the USD 16 trillion that was previously mentioned by the moderator. Of course, VEB being more or less involved in all large-scale infrastructure projects in our country, it does provide some standard debt financing or project-based financing for large infrastructure-related projects in the country. I will not go into much detail. I will just mention that the total amount of these projects is roughly RUB 1 trillion. Now our commitment is roughly half of that. But, of course, all these resources are not enough because the demand is huge. As was mentioned previously by the distinguished speakers, the



situation in the financial markets in general is quite turbulent. Our country competes for this type of long-term investments in infrastructure with other countries, both developing and developed. We feel that there is a lack of new instruments and new resources to finance infrastructure. I would like to briefly describe some of the latest instruments that have been introduced or are being introduced in our country.

One of them is investing pensions savings of Russian citizens into large-scale infrastructure projects. There was a political decision taken and VEB, being a pension fund manager, has plans to acquire so-called 'infrastructure bonds' amounting to up to RUB 200 billion. These bonds are issued by leading Russian companies that are working on large-scale, nationally important projects, such as Russian railways for example. In the previous panel, there was a discussion that all these instruments like infrastructure bonds are facing serious risks. So the idea of the Russian government is that, in the initial stage, only companies with quasi-sovereign rating will be eligible for this type of financing, so as not to risk the pension savings of Russian citizens. Another instrument that is new for the Russian market – of course it is not new on the global market, in developed countries – is the specialized infrastructure funds specifically set up to bring foreign direct investments into infrastructure. About 3-4 years ago, VEB, among other development financial institutions, became a cornerstone investor in the Macquarie Renaissance Infrastructure Fund. We co-invested, alongside other respected international financial institutions, such as the EBRD, IFC, the Eurasian Development Bank and some private investors such as Macquarie Group and Renaissance Capital, which was at that time a private investment bank in Russia. This fund has already closed five successful transactions and invested in various infrastructure projects here in the country. The model here is that not only governments funds or VEB funds are invested, but leading international investments are brought in the country. This model was then replicated on a bigger scale when we set up the Russian Direct Investment Fund (RDIF), which is a quasi-sovereign investment fund investing within Russia. The business model is very simple: it is a co-investment model. Therefore, each and every time an investment is made, at least an equal amount

should come from leading international investors. A number of projects have been already successfully financed and five deals are in the pipeline. The RDIF has already set up automatic or investment platforms with Chinese investment corporations, JBIC from Japan, and the Qatar Investment Authority.

Nonetheless, these measures are still not enough. The latest initiative by the Russian government and by the Russian President was to utilize part of the national welfare fund and up to RUB 250 billion would be invested into three very important infrastructure-related projects in our country, with VEB being selected as an operator that will provide or extend this type of facilities to end borrowers. To conclude my speech, I would like to say that all these measures are still insufficient because the Russian capital markets is still underdeveloped. We are taking several measures to create a specific class of investor, for example private equity investors and funds. We are currently working with a number of leading, US-based pension funds and some international financial institutions to set up a special fund of funds here, which would later on lend the money to private equity investors. Of course, we also believe that cooperation between national development institutions and international multilateral financial institutions is crucial for facilitating sustainable, long-term investments into infrastructure, not only in Russia but globally. Therefore, we place great importance on today's event and tomorrow's joint communiqué, which will be drafted and hopefully presented for the consideration of the finance ministers and central bankers of all the G20 countries. We think that this communiqué should contain a very clear message to the regulators, to the central bankers, to the governments, to the policy makers of all the G20 countries: that we should further strengthen the role of national development institutions, as these are one of the very few remaining providers of long-term financing and long-term equity into infrastructure. Thank you very much.

**Председатель Правления Евразийского банка развития (ЕАБР) Игорь Финогенов:**

Уважаемые коллеги, друзья, перспективы финансирования инструментов инфраструктуры во многом определяется вялым восстановлением мировой

экономики после кризиса 2008 года. Частные инвесторы ныне проявляют заметно меньший аппетит к риску, чем до кризиса. Возник даже термин «уопгт» - означающий отток капитала в развитые страны, то есть бегство в качестве инвестиций, резкое снижение готовности банков, инвесторов брать на себя кредитный риск. Государственные бюджеты так же в меньшей степени, чем ранее способны нести бремя реализации крупных инфраструктурных проектов. В результате наблюдается снижение, как общего объема новых инфраструктурных проектов, так и проектов с использованием различных форм государственного частного партнерства.

Но с другой стороны картина не так однозначна и не так беспросветна. Почему же мы наблюдаем при этом резкие оригинальные различия в картине инвестиций в инфраструктуру? Если в Восточной Европе и Центральной Восточной Азии за последние 3 года объем сделок ГЧП, то есть, государственного частного партнерства, в инфраструктурных отраслях сократилось в 2, в 3 раза, то в Латинской Америке они выросли на четверть, а в Южной Азии более чем на 75%. Чем вызван этот контраст? Латинская Америка и Южная Азия более активно, чем другие страны развивали законодательство, обеспечивающее эффективное применение новых финансовых инструментов и усилили внимание к ним в последние годы. Это позволило удержать объем вложений в инфраструктуру. Напротив, страны СНГ, в основном страны, на территориях которых мы работаем как банк. Страны СНГ лишь недавно стали лишь недавно использовать новые инструменты финансирования и разрабатывать под них законодательство. Во многих странах СНГ до сих пор нет нормативной базы необходимой для развития ГЧП и рынков инфраструктурных облигаций. Успешное развитие рынков инфраструктурных облигаций мы наблюдаем в странах, где либо государство, либо банки развития берут на себя часть рисков путем предоставления гарантии по облигационным займам. Пример: пилотная программа создания рынка проектных облигаций YES, осуществляемая с 2009 года европейским инвестиционным банком. Позитивный опыт такого рода есть

и в Латинской Америке. Напротив, в регионе СНГ такие механизмы снижения рисков как гарантии и кредитное усиление – малоразвиты. Налоговые льготы для инвесторов по доходам от проектных облигаций остаются на стадии обсуждения, а сами потенциальные инвесторы обременены регуляторными ограничениями. Несмотря на то это, в последние годы в России прошло несколько успешных облигационных выпусков, что говорит о наличии серьезного спроса на проектные облигации. С не меньшей надеждой мы смотрим на перспективы финансирования инфраструктуры в ведущих валютах нашего региона. Тому есть как минимум, четыре причины:

Во-первых – углубляющиеся интеграционные процессы. Евразийский экономический союз открывает новые перспективы для всех стран, которые войдут в него. Особенно позитивно расширение общего рынка скажется на небольших экономиках.

Во-вторых – государства Евразийского экономического союза обязались проводить согласованную и предсказуемую макроэкономическую политику и предпринимать шаги по интеграции финансовых рынков и гармонизации их регулирования. Это создает дополнительный стимул для финансирования проектов в национальной валюте.

В-третьих – растет роль российского рубля и казахстанского тенге, как региональных резервных расчетных валют.

И в-четвертых – идущие в нашем регионе реформы пенсионных систем способствуют формированию источника «длинных» денег, которые аккумулируются в национальных валютах.

Опыт последних лет свидетельствует, что инструменты финансирования инфраструктуры могут развиваться и в контексте вот этой самой новой нормы – «you-post», которую я упоминал в начале вступления, но для этого нужны благоприятная регулятивная и законодательная среда и формирование «трубы» по-настоящему качественных проектов. Межгосударственные банки развития могут сыграть здесь роль локомотива, поскольку располагают особым статусом, включающим международную правоспособность,

имущественные и судебные иммунитеты, налоговые и таможенные освобождения и так далее. Это позволяет консорциумам, в которых участвуют межгосударственные банки развития, снижать риски, связанные с возможным изменением законодательного и регулятивного режима у государств-участников.

На практике банки развития в разной степени способны играть роль лидера в таких консорциумах. Недавний обзор деятельности около сотни банков развития проведенный Всемирным банком называет важнейшими условиями успеха нацеленность на решение небольшого числа ключевых задач развития и способность сформировать трубу жизнеспособных проектов.

Миссия Евразийского банка развития четко определена как содействие региональной экономической интеграции. Реализуется она, прежде всего путем инвестиций в крупные проекты, в том числе межгосударственные.

Инфраструктура стран СНГ за последние 20 лет получала совершенно недостаточные средства для развития. Вот только один пример того, как EABR восполняет дефицит финансирования инфраструктуры государству частников.

Центральная Азия располагает впечатляющим энергетическим потенциалом, но его эффективное использование требует тесной координации работы водно-энергетического комплекса всех пяти стран-регионов. В советское время это обеспечивало центрально-азиатское энергетическое кольцо. Ныне не все страны страны-региона поддерживают режим совместной эксплуатации энергосистем. Потеря, вследствие изолированной работы национальных энергосистем, значительна. При этом в регионе уже сейчас ощущается острый дефицит электроэнергии и прогнозы говорят о том, что этот дефицит будет только возрастать. Отвечая на этот вызов, Евразийский банк развития активно участвует в модернизации генерирующих мощностей и сетевого хозяйства Казахстана и России. Мы рассмотрим проекты так же в Таджикистане и в Киргизии.

У нас есть опыт участия в крупных инфраструктурных проектах ГЧП – это аэропорт Пулково и Западный Скоростной Диаметр. Эти проекты, которые

являются, как мне кажется, первыми ласточками и очень хорошим примером реализации ГЧП-проектов на территории Российской Федерации, отличается тщательной проработкой, внесением изменений в законодательство, необходимые для того, чтобы они могли реализоваться и системная поддержка со стороны местных властей и федеральных властей. Это явилось, я думаю, одним из основных залогов успешности запуска таких проектов.

На мой взгляд, выводы очевидны; нет и не может быть волшебной палочки, которая способна снизить риск финансирования инфраструктурных проектов до приемлемого уровня и многократно увеличить приток капитала в этой отрасли. Для этого нужны: кропотливая разработка эффективного специализированного законодательства, тщательный отбор и проработка каждого инфраструктурного проекта, создание дифференцированных проектных синдикатов, эффективно распределяющих риск между всеми заинтересованными сторонами и широким рынком. Банки развития способны возглавить эту деятельность и вывести объемы финансирования инфраструктуры на уровень необходимый для устойчивого развития экономик наших стран.

Спасибо за внимание.

## **Турция**

### **Industrial Development Bank of Turkey (TSKB) Orhan Beskok, Senior Executive Vice President:**

Thank you very much, Chair. I would like to start by thanking Vnesheconombank for organizing this event and for giving me the opportunity to address such a distinguished audience. I have been asked to share my experience in financing energy renewal and energy efficiency projects in Turkey. Before doing that, however, I would like to give you some insights into the situation of the power generation and energy efficiency industry in Turkey. The first point I would like to stress is the close relationship between GNP and power consumption growth, as you can see from the graph. There is almost a perfect correlation between the two

factors. Moreover, as Turkey is expected to grow in the future, we expect the demand for electricity to grow as well. One interesting issue is the shares for fuels in electricity generation. As you can see, natural gas has the largest share, about 44-45% and fossil-based fuels account for almost three quarters of the electricity produced. Renewables have a share of about 24-27%, which is quite high by world standards, but there is still a need to increase the share of renewable energy and power generation.

Turkey has a balance of payments deficit – I hope this is not sustainable but the past experience shows that we have been having balance of payments current account deficits for a number of years. Energy imports are the main reason for our current account deficit. As you can see from the graph, we do have some years when there is a surplus and no energy deficit. So we need to increase the power produced from renewable sources and we need more energy efficiency. Turkey is green as emissions are on the rise and have increased by 125% between 1990 and 2011 and energy consumption and production accounts for approximately 70% of emissions. So we have to produce more energy from renewable sources and we need to use energy more efficiently. Turkey, unfortunately, does not make very efficient use of energy, as you can see from this table. Although the energy of turkey is a bit lower than the world standard, it is almost 50% than the OECD average and three times as high as that of Japan. This means that we are currently spending three times more energy than Japan to produce the equivalent amount in national income. So we need to increase our energy efficiency. The potential for energy savings has been outlined in a study carried out by the World Bank. There is huge potential, both in industry and the housing sector. The housing sector is also a very inefficient user of energy. Potential savings are in the region of 50 million toe per annum. There is a substantial potential there.

What the government has done to address this issue is they have successfully increased the share of the private sector in both power generation and distribution. The share of the private sector was only 10% in the early 1990s, but currently it is slightly over 50%. The private sector is actively encouraged to participate in power

generation and distribution and they do have a renewable energy loan in Turkey, which guarantees minimum guaranteed prices for certain types of generation from renewable sources. Distribution companies are required to purchase a certain percentage of their energy from companies producing energy using renewable sources. This has helped the increase of private sector participation in the sector. The private sector is currently investing around USD 4 billion per year in power production, and they do have quite substantial investments going on in the region of 7,000 megawatts.

Very briefly, I will describe what we are doing at TSKB to address these issues. TSKB is a unique bank in the sense that it is privately owned. We have two commercial banks as our shareholders. Türkiye İş Bankası is the largest commercial bank in Turkey and it accounts for about 50% of our shareholding. According to the Istanbul Stock Exchange, about 42% of our shares are free-float. So we see ourselves as a privately owned development bank with public missions. We have three major core business activities: corporate banking, investment banking, and treasury activities. Within the scope of corporate banking, we do Apex banking where we act as a wholesale bank and we channel funds through commercial banks and leasing companies. We do project financing, corporate loans, and trade finance as well. As a development bank, we are not allowed to collect deposits, so we work with major financial institutions internationally. We borrow with or without the guarantee of the Turkish treasury. We work with the World Bank, the European Investment Bank, the Council of Europe Development Bank, KfW, the French Development Agency, IFC, EBRD and Islamic Development Bank. We only lend to the private sector and all our loan exposure is to the private sector of Turkey. Currently, 33% of our loan portfolio is in electricity production, and this is predominantly renewables. Another 6% is electricity and gas distribution. One sector that you do not see here is energy efficiency, because this is evenly distributed throughout the sectors. Currently, energy efficiency exposure is about 8%. So if you add all these up, close to 50% of our loan exposure is to energy production, preservation, or distribution.



We are very much involved with renewables in Turkey and we have financed 99 projects, with an installed capacity of almost 3,500 megawatts. We have financed hydro power plants, wind power plants, geothermal, biomass, and we have recently financed our first ever solar energy project, which was not previously feasible in Turkey. It is just now becoming feasible, mostly due to the decreasing cost of technology. Currently, projects financed by TSKB account for about 15% of Turkey's installed capacity in renewables. Most of the projects we have financed are currently in production. We are also very much involved with energy efficiency. We started funding energy efficiency three years ago; this is a new concept in Turkey. We have financed about 56 projects in various subsectors of the economy. These are mostly medium-to-large enterprises. We estimate that Turkey's emissions will be reduced by 1 million CO<sub>2</sub>equivalent tons when these projects are completed. Currently 8% of our loan portfolio is in energy efficiency. The energy saved corresponds to approximately the energy consumption of 200,000 households. I believe I have used my time quite efficiently, Chair. Thank you very much for your attention.

**Global Head of Public Sector in the Global Corporate Bank, Phil Bennett:**

Thank you very much, Mikhail. Thank you to VEB as well for hosting this very important conference. EBRD is active across 34 countries in this region, which includes Eastern Europe, Russia, Central Asia, and now the Middle East and North Africa. However, my comments today will mostly be focused on Russia and what we have been able to do here. I will mention some of the features that could be perhaps enhanced in order to move things forward.

So far, EBRD has been one of the largest investors in infrastructure across Eastern Europe and the source of the largest investment by an IFI in Russian infrastructure, where we have been investing already about USD 1 billion a year over the last few years. In Russia alone, EBRD has financed over 40 municipal infrastructure projects in more than 20 regions. In the transport sector in Russia, we have financed more than USD 3.2 billion for 40 Russian projects – roads, railways,

airports, etc. – and in the power sector here EBRD has financed more than 19 projects worth more than USD 2 billion. So already we have been very active. We have had a long experience. We have had, I think, the best experience in the area of PPPs, and I will come back to that in a second. Clearly, the bulk of infrastructure growth over the next five years is expected in emerging markets: China, Brazil, India, Indonesia, Russia, Turkey, etc. However, these countries will have to compete with each other for private capital. Global private capital is limited and private investors can choose where to go and where to invest. In Russia alone, the demand for infrastructure investments is estimated to be as high as USD 100 billion per year. I think we heard USD 1 trillion from VEB directly. The Ministry of Transport of Russia expects USD 400 billion to be invested in transport between now and 2020. We have heard many other big numbers today: 1 trillion, 25 trillion, 50 trillion. The fact is that those numbers are somewhat irrelevant. It will all come down to what the yield is from those numbers. We will not know that until we look back. If the recent history is a good example, it is not looking very good. We are not going to be able to do very much with those big numbers unless we get our act together. Russia will simply have to be more attractive than the other markets to be able to get access to the private capital it desperately needs. This applies to Turkey as well. Turkey is also the other largest country of operation for the EBRD after Russia and we are certainly aware that they have projects amounting to USD 300-350 billion scheduled for the next decade. We have been working with them for some time and have worked on several PPPs there and I hate to say this but Turkey is ahead of Russia from the point of view of a legal PPP framework and from the point of view of being able to extract yield from those big numbers. Russia has some work to do in that regard.

To attract more funds to infrastructure, the role of the private sector in infrastructure needs to be increased; there is no doubt about it. This can be done by strengthening existing private operators and increasing further private sector participation, including through PPPs or joint ventures. Where possible, the privatization of state-owned companies and their subsidiaries can also help achieve this. Similarly, but importantly, there is a general need in Russia in particular to

increase competition in infrastructure through sector liberalization and reducing the remaining price subsidies and removing distortions in tariff setting. All of these aspects fall firmly within the unique regional mandate of the EBRD. That mandate is to foster private sectors development and to be the catalyst that mobilizes private capital for investment in this region.

One of the key instruments to attract private sector capital is the PPP. What we see in PPPs is a fundamental problem. It is not so much about a lack private sector financing; we have heard that. It is definitely a lack of properly structured PPP projects produced by the public sector. What is needed most in order to most infrastructure project financing possible is enhanced project preparation by the public sponsors. Fumio Hoshi from JBIC talked about the five Ps. I am going to talk about the two Ps: project preparation. The top three requirements – first, second, and third – are project preparation. So think in terms of PP3. More well-structured infrastructure projects mean more bankable projects. This will boost private investment in this sector. In this respect, the EBRD fully supports the proposal of the B20 to establish a global fund for PPP project preparation. In Russia, we are particularly pleased to see that the future is coming. We see a number of road infrastructure PPPs in preparation. One was laid out at a road show just yesterday here in Moscow. A good pipeline of PPPs is starting to emerge. What is important and encouraging is that this is the first time that the PPP is being presented as a product, not as an opportunistic one-off event. I think that is the kind of PPP product framework that more countries need and that Russia is developing. However, that is at the federal level. There is still a lack in Russia, certainly, of properly prepared PPPs at the regional level. It is important for regional authorities to allocate necessary budgets for preparations of bankable PPPs and for the federal authorities to encourage this. Practical measures that are needed include further improvements in the legal framework for PPPs here, a reform of the pledge legislation in particular, and the launch of project bonds, which were referenced a little earlier. And in that context, it is crucial to develop capital markets more broadly. Project bonds are crucial. I will say that we are focused on impending project bonds coming out of

Turkey in the very near future, but we are also very glad to see that there are also impending, though not quite as imminent, out of Russia.

One thing that we have not talked about, which is a really a key aspect of mobilizing private capital for infrastructure, is the issue of local currency availability. While it is not a question of financing availability for the most part, it is definitely a question of local currency availability. We need to create credible local currency delivery mechanisms. At the moment, these are missing. For example, in Turkey, the combined total of the local pension funds is equivalent to the estimated capital expenditure of just one of their large infrastructure projects, that being the new airport in Istanbul, costing EUR 6 billion. That ties into the overall need to develop local capital markets more broadly and to develop capital formation, which is a longer-term process. If the local currency is not available, we have a major constraint from the point of view of what we can deliver in many of these places.

There is, as we have said, no simple sweeping solution. Hard work, at the basic level and the micro-level is crucial. Cooperation and sharing of best practice with government and public authorities is essential as well. In that context, EBRD is pleased to be working with the Russian authorities: with RDIF, with the Ministry of Transport, with the Ministry of Economy and the State Duma to support efforts to improve the PPP framework in Russia. There is not just one player in this; there are many players. We are also pleased to see, out of that progress and cooperation, already a fair amount of project delivery. For example, ERDB has been pleased to work with our host, VEB, on a number of deals in Russia. Jointly with VEB, IFC, NIIB, the Black Sea Trade and Development Bank and the Eurasian Development Bank, EBRD has been involved in the first two major PPP projects in Russia, both of which have a very high profile – namely, the Pulkova-3 airport and the Western High Speed Diameter Road. So IFIs have a crucial role to play in the area of private sector mobilization: long-term funding on their own, public sector reforms from the point of view of enhancing the framework, PPP legal-type frameworks that we can enhance and share expertise and best practice for all the countries and, as a part of all that, facilitate private sector entities that will come along with us when they see us in

the deal. So we are very conscious that IFIs play a crucial role in this. And this will increase even more when state pension funds and sovereign wealth funds start to really focus on this, as they will need that really good housekeeping seal of approval on the structures in order to get involved, as they are risking and investing taxpayers' money, money for the future generations. They will have a very high focus on the way deals are structured and they will need that IFI support.

In closing, EBRD is ready and willing to increase its long-terming financing in infrastructure across the region and in Russia in particular. We would love to do more than EUR 1 billion in infrastructure in Russia. We would love to be doing more than we do elsewhere. But all of this has to be in the context of increased mobilization of private capital and in conjunction with our partners. It all depends on the existence of projects that are bankable and attractive to investors. It is a competitive market out there. Russia needs to do more to be an attractive destination in that competitive market. Thank you.

**Dimitris Vice President of Eastern and Southern Europe, Middle East and North Africa at IFC – the International Finance Corporation Dimitris Tsitsiragos:**

I would also like to thank Vnesheconombank for organizing this conference and inviting us here today, and for putting the spotlight on long-term finance. I will continue, as is the trend on this panel, to focus on the private sector and the role of the private sector in infrastructure. As you all well know, the World Bank Group has ambitious goals to end extreme poverty by 2030 and to promote shared prosperity. We see infrastructure as an essential foundation of development and we feel that we cannot meet these development goals without the private sector working in cooperation with the public sector to develop an investment infrastructure.

Infrastructure is a critical area of focus for IFC. In the fiscal year that just ended we invested over USD 5 billion in infrastructure, about USD 3.5 billion of which was from our own account and the rest mobilized. Our view is that investing in infrastructure today is more critical than ever. We see that there is a strong link between infrastructure services and economic growth. The World Bank estimates

that a 1% increase in investment stock in one country is associated usually with at least 1% increase in GDP growth.

Demand for infrastructure is huge; you have heard the various figures. I can only quote the McKinsey figures that say you need between USD 57-67 trillion over the next 18 years to meet infrastructure needs. What is interesting is that this number represents the total value of infrastructure in the world today. In this context, what we see is that the role of the private sector in infrastructure is critical and is growing. Public sector spending on infrastructure services, financed through taxes and other revenue sources, remains the primary instrument for financing infrastructure today. However, fiscal constraints and a growing appreciation of the benefits of competitive markets mean the role of the private sector will increase. Why? First, when government budgets are stretched, opening infrastructure to private investors becomes an attractive alternative. Second, private investors make the issue of financial viability and sustainability more immediate. Third, there is a huge source of untapped funds. The global investment industry is sitting today on assets worth about USD 100 trillion, in the form of pension funds, sovereign wealth funds and other types of funds. Currently, private sector financing in infrastructure is underutilized. It is directed to a limited number of countries and a few sectors. It is also very vulnerable to financial crises, as we have seen in recent years and we have heard earlier today. Gross capital flows to private infrastructure in developing countries have not developed in the post-crisis period. Low-income countries, as well as lower middle-income countries, with the greatest investment needs, have little access to private infrastructure financing today.

In terms of sector, project finance flows are directed mainly to two areas: power and telecoms. There is also a third one: transport. However, there are areas that are also in need and that are important for development and the quality of service as well as health, areas such as water and sanitation. These do not get much investment today. So what needs to be done to increase and make better use of private sector funding for infrastructure? First and foremost, as you have heard from others, an enabling environment and effective financial mechanisms need to be

created to facilitate sustainable private sector financing of infrastructure. We are talking about standards for environmental and social sustainability, which some of us have established, but we need to continue establishing and promoting. The good thing is that, in this area, countries and multilateral development agencies work together in developing and promoting these standards. That is a plus. Secondly – you heard it earlier from Phil and many others – what we need to do is to develop domestic capital markets, so that they become new source of long-term finance for infrastructure. The development of local capital markets and provision of local currency financing is key, we find, to enabling sustainable private sector investment. Local capital markets represent a significant source of long-term financing for infrastructure. Local-currency bond markets reduce vulnerability to capital reversals and currency risks for investors, especially for sectors where the primary revenue generation is in local currency, sectors such as infrastructure. Local authorities and market participants should focus on developing local capital markets to enable countries to harness domestic savings for domestic private investment. This way, you do not only finance infrastructure but you also promote growth.

I think there are a few good examples, but there is still much to be done. In Turkey, for example, we have seen recent developments regarding the covered bond markets – there is the securitization market that someone earlier today talked about – as well as the use of bond markets to finance PPPs in areas such as transport infrastructure. PPPs is another topic that keeps coming up. Everyone talks about PPPs and we all see great potential there. The truth is that a lot has happened. If you look at the statistics for the last ten years, you will see that the total amount of PPPs in developing countries has gone up from about 30 billion to about 79 billion. You have about 134 countries around the world that have developed PPP models. However, there is still more that can be done in this area. To continue with the same message and theme that we heard from others, I think the number one focus should be project preparation. Project fundamentals have to be sustainable. We all talk about PPPs but we need to see what is behind them. The other thing that I think is very important and I think it is key in project preparation is building the public

sector's capacity. I think this is one of the big challenges. You need a public sector that is able to deal with PPPs, that is able to regulate PPPs. And you need a public sector that is sophisticated enough to develop the policy framework and to assess the financial risks, having a partial transaction advisory at hand to make PPPs bankable and sustainable. You need high-level government commitment for PPPs to be successful. Last but not least, transparency throughout the process is critical. Risk mitigation facilities provided by development institutions should also be leveraged to mobilize private sector financing for viable infrastructure projects. I think one of the results of the crisis is that we see the multilateral agencies working much closer together, and doing this across the world, in developing and financing projects across all areas and in particular in infrastructure. As multilateral development banks, I would say we have an advantage over the private sector because of our official status and financial status we can absorb more risk. But we can also be the source for mobilizing more financing from the private sector. In this area, partial credit guarantees that Mahmoud Mohieldin talked about today or political risk insurance guarantees are other instruments that one can bring to the table.

In conclusion, I would like to stress again that the private sector participation in infrastructure is key to providing people in business access to markets, jobs, and basic services. It is essential for increasing the effectiveness of infrastructure, to support sustainable GDP growth and achieve development goals. Thank you.

**President and Chief Executive of CAF, Enrique Garcia:**

Thank you very much, Chair. One of the best things about being the last one on the panel is that all the relevant things have already been said and you can steal ideas from others and package them and repeat them. First of all, let me tell you the CAF Development Bank was initially born as a subregional bank in five countries. But in the last 20 years, it has become a regional bank with 18 countries with once characteristic that I think is very important: we are one of the few regional banks in the world that is owned by emerging countries. We do not have the concept of donor countries and borrowing countries. How has this been possible? Infrastructure is a



crucial element. In fact, there were two elements that were key to having other countries joining us: Brazil, Uruguay, Panama, Argentina, etc. One was that we were of the view that since in the World Bank Group and the IDB in the early 1990s priorities were given to the social sectors – for good reasons – there was a great window of opportunity to get involved in that sector. However, this was not sufficient. You had to get into capital markets and have ratings. Today, to cut the story short, we have become the main multilateral lending and operating with infrastructure in Latin America. We are also an AA level investment grade institution.

Going back to infrastructure, why is it so important? I think that the gap that exists is terrific. I will mention the case of Latin America. Latin America is investing approximately 3% of GDP in infrastructure. According to our figures, it has to invest at least double. That is very important. The second point, which has been mentioned by several of the speakers, is that there is also a lack of long-term finance. The central issue then in infrastructure is that the private sector and the public sector have to work together. Let me give you five or six points that I think, according to our experience, are crucial elements. First, you have to have good sectoral studies in infrastructure, and these have to be done by the governments. They cannot be done by the private sector. You have to have a systemic way to do that. Secondly, it is crucial that there is a high quality of feasibility studies. This is not an issue having to do with engineers. In the past, we were very satisfied with roads and similar projects when the engineers were working on them, when we had a very clear picture on the economic and financial side and, finally. Only as a very last consideration, at the last-minute, we would remember that we have to protect the environment. We called the experts to make an assessment and try to correct the mistakes. That is bad. You have to include the environmental issues from the very beginning, from the pre-feasibility study stage. Thirdly, if you want to really reach the levels of investment that you need, you have to get the private sector involved. And to get the private sector, you require, as has been mentioned, a good institutional setting, the rules of

the game and to have clear possibilities to undertake these public–private endeavours in different ways, with risk mitigation mechanisms in line.

Those are things the aspects that we think are very important. Moreover, in the case of development banks, money is important but it is not the essential thing. There are other elements that I think we should be working on and that we at CAF emphasize a great deal, which are: institutional building and technical cooperation with regard to all the elements I just mentioned. Now, I will mention specifically the couple of things that we are doing and that we want to do. We of course lend to the government for public works with sovereign guarantees, and so forth. But we also go do private or mixed corporations, which in many of the cases are dealing with telecommunications and other sectors that are related to infrastructure. The crucial question is: how do you structure project finance mechanisms, and innovative criteria and mechanisms to undertake those projects? It has been mentioned that local financing is a crucial element. In the case of Latin America, we see that there a great development in pension funds and other instruments. However, they were very risk adverse. They do not want to go to beyond 5-6 years. So one of the things we are doing is providing partial guarantees, so that with a partial guarantee we can ensure that a bond that is issued and is taken by a pension fund, instead of going to 5-6 years, we can go farther to 10-12-14 years. Another scheme we are using is to try to combine with the private sector banks or financial institutions so that we make an arrangement that will take all the payments, the maturities, after, let us say, the 7th year, until the 15th year.

Fourthly, there is equity participation. We are using many special vehicles. Sometimes we invest in special funds for infrastructure and we put some equity. Of course, that fund is managed by professionals, but we are leveraging a lot by doing that. Right now we are studying the possibility of creating thematic vehicles, specialized vehicles, so that we are able to attract more private sector institutions to work with us. To give you an idea of the level of operations that we manage, in the last five years CAF has approved a total of USD 50 billion, out of which more than half is in infrastructure. This means that the catalytic role – we are talking about

investments of over USD 100 billion. I think the future role of our institutions is not only direct financing. We need to ask ourselves how we can leverage this to be catalytic. And for that you need to be creative and imaginative, you have to have good institutions, and you have to have good quality projects that are well-structured and well-studied and good risk management, so that you ensure that they will be successful. Finally, I think one of the areas where infrastructure becomes very crucial is procurement. One of the serious issues in many countries is that there is not sufficient transparency in the procurement process. Our institutions have to be careful about that. They must have rules of the game that ensure that you are working with transparent procedures. The environmental element is one that also remains crucial.

One element of our work that I would like to mention, that we do a lot, is co-financing. We have tried to join forces with many of the institutions here present – for example JBIC, IFC, the World Bank Group, IDB – in order to try to put together projects. One good example of that is the expansion of the Panama Canal, which was a huge project that cost over USD 4 billion and which we co-financed. It was a miracle to have a joint effort with so many institutions. JBIC, IFC, IDB, the European Investment Bank, ourselves all co-financed it. This shows that it is possible if you have the right type of project. So I look forward to the future and hope that we will have a further relationship not only with the banks that are closer to Latin America, but also that we will learn from the experiences of other parts of the world. Thank you very much, Chair.