

G20 Work Program on Long Term Finance for Growth and Development

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Origins of G20 Work Program on Long-Term Finance

- Los Cabos Summit mandate to “intensify efforts to create a more conducive environment for development, including supporting infrastructure investment”
- IFA WG asked World Bank to draft a Concept Note on possible issues for discussion to propose a work program for IOs assessing the extent to which systemic developments in the international monetary and financial system had affected the demand for, and supply of, long-term investment financing.

September 2012 Deputies' Meeting

- ...welcomed the concept note prepared by World Bank staff on “The Availability of Affordable Long-Term Investment Financing for Growth and Development”.
- Endorsed a “step-by-step” approach...Deputies acknowledged that initial diagnosis will be a key input into the Ministers and Governors’ deliberations on “whether, and in which work stream, the G20 should undertake further work on this issue in 2013 under the Russian Presidency”.

Why Might We Expect a Problem?

- Advanced economies, where financial sector shock was concentrated, dominate capital markets and bank lending, the main channels for cross border capital flows.
- Potential mismatch between time horizon of investors and that of borrowers could be a potential source of vulnerability and disincentive to growth.
- Deleveraging, particularly by European banks
- Basel III regulations.

Why Might We Expect a Problem? (2)

- Reduced risk appetite of investors
- Safe haven attraction of some major reserve currencies and exchange rate volatility may contribute to vulnerability of many borrowers.
- Net private capital flows had become more volatile
- Potential demand for investments in EMDEs growing because of low yields in advanced economies.

Trends in Demand for Long Term Finance -- Infrastructure

- Infrastructure needs expected to increase significantly given pressures from:
 - economic growth
 - population growth
 - climate change
 - increasingly costly natural disasters.
- Infrastructure needs are vast, both to build and maintain infrastructure in EMDEs and rehabilitate and upgrade infrastructure in advanced economies.

November 2012 Meeting of G20 FMCBGs

- “We acknowledge the importance of long term financing, particularly for infrastructure investment, recognizing that work on this subject will foster an environment more conducive to long-term investment, effectively helping to boost jobs and growth.”
- “We ask that the World Bank, IMF, OECD, FSB, UN and relevant IOs undertake further diagnostic work to assess factors affecting long-term investment financing including its availability. We look forward to receiving this work in early 2013 to provide a sound basis for any future G20 work.”

G20 Work Program on Long Term Financing for Growth and Development

1. Supply of Long Term Investment Financing
2. Impact of crisis-related systemic developments
3. Demand for long-term investment financing

1. Supply of Long Term Investment Financing

- International capital markets (including bank flows) and FDI--*IMF (lead), OECD, World Bank, UNCTAD*
- Institutional investors, corporate finance and commercial banks--*OECD (lead), UN, UNCTAD, World Bank*
- Local currency bond markets--*World Bank (lead), OECD, UN*
- Official sources of non-concessional financing--*World Bank (lead), UN*

2. Impact of crisis-related systemic developments

- Changes in *average maturities*, by region, level of development, sector/activity, public versus private, currency of issue--*World Bank (lead), OECD*
- Impact of deleveraging by European banks--*World Bank (lead), OECD*
- Impact of regulatory reforms--*FSB (lead), OECD, World Bank*
- Structural impediments to long-term financing--*OECD (lead), World Bank*
- Non-financial factors undermining willingness of long-term investors to finance projects, particularly in infrastructure--*World Bank (lead), OECD, UNCTAD, UN*

3. Demand for long-term investment financing

- Recent trends in major sources of demand for long-term financing--by region, by sector and by level of development -- *World Bank (lead, infrastructure), UN (lead, sustainable development financing demands), OECD*

Complementarity with other G20 Work

- Intention to complement work underway in other G20 work streams, with the infrastructure pillar of the Development Working Group focusing on the specific challenges faced by LICs, and the Framework addressing constraints to growth over the medium to long term

Key Messages:
Umbrella Paper on
Long-Term Financing for
Investment

Key Messages: Crisis Impact

- All major categories of LT financing affected, but to different degrees for different types of financing.

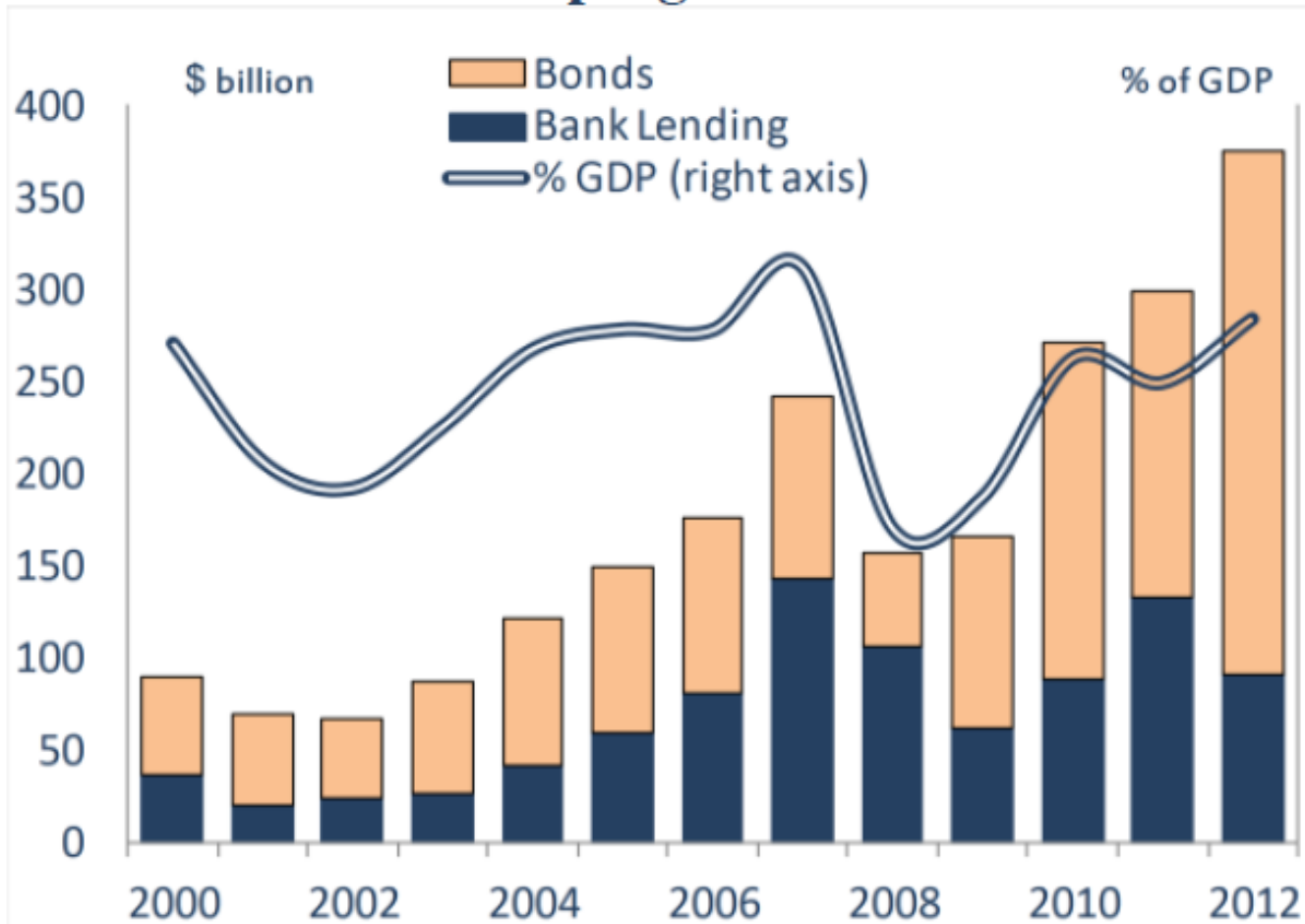
Table 1: Net International Capital Flows to Developing Countries (USDs billion)

	2008	2009	2010	2011	2012
Financial Flows					
Current account balance	412.9	240.5	187.5	152.1	12.6
Capital Inflows	812.6	701.7	1,219.1	1,112.4	1,007.2
Private inflows, net	782.2	620.7	1,145.9	1,082.4	993.1
Equity Inflows, net	583.3	542.0	710.8	647.8	644.5
FDI inflows	636.9	427.9	582.7	638.8	600.1
Portfolio equity inflows	-53.6	114.2	128.2	8.9	44.4
Bonds	-8.6	61.0	129.7	123.8	143.3
Banks	223.3	-11.9	37.2	108.2	71.5
Short-term debt flows	-17.1	17.8	257.6	189.3	126.7
Other private	1.3	11.7	10.7	13.3	7.1
Official inflows, net	30.4	81.0	73.2	30.0	14.1
World Bank	7.2	18.3	22.4	6.6	4.6
IMF	10.8	26.8	13.8	0.5	-3.9
Other official	12.4	35.9	36.9	22.8	13.4

Key Messages: Crisis Impact

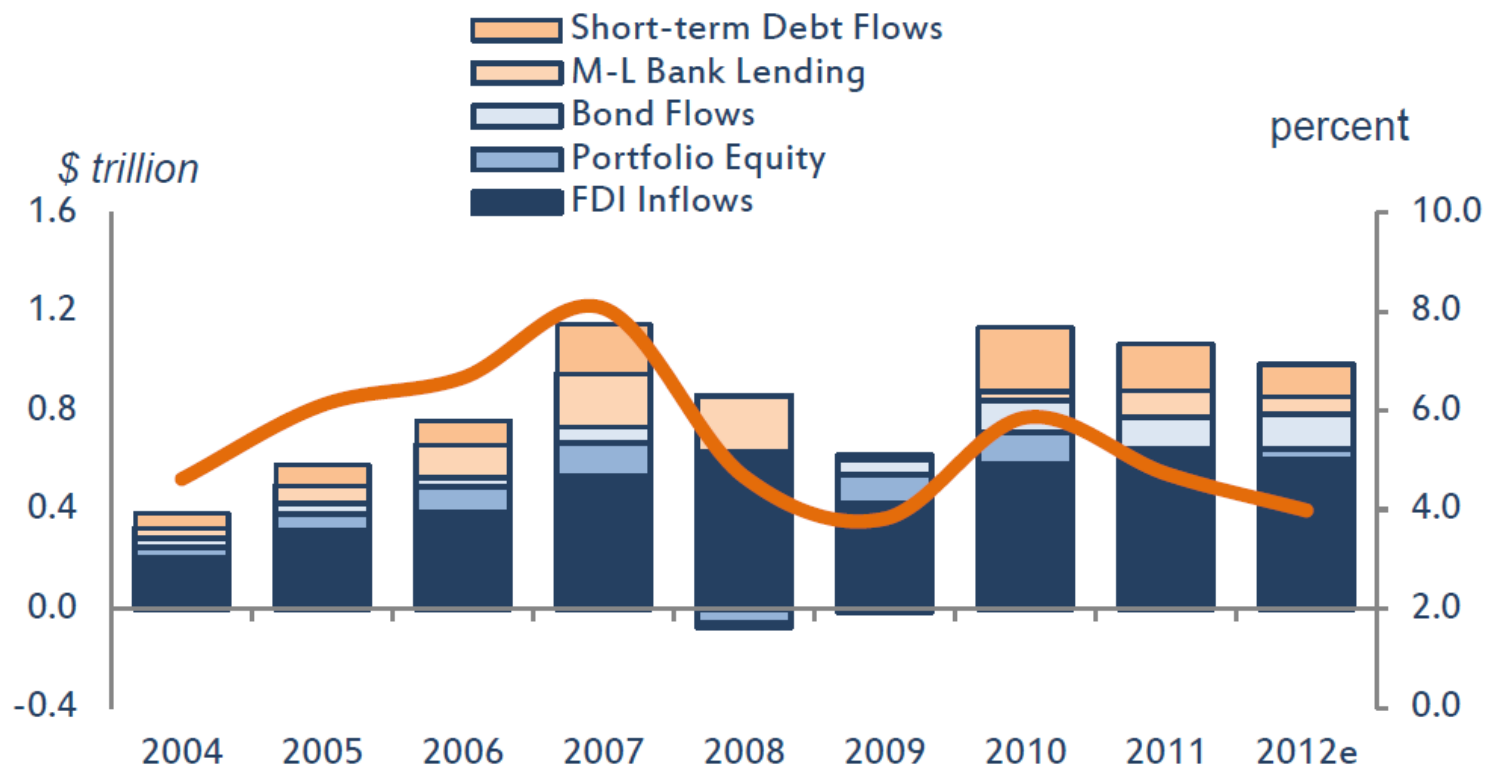
- Shift in composition of LT financing has implications for particular borrowers and sectors, with disproportionate impact on infrastructure sector.
 - Infrastructure financing for projects in EMDEs relies heavily on bank financing, particularly from advanced (i.e., European) economies. Deal volumes in 2012 at historical low. Challenges particularly acute for low-carbon infrastructure projects which often face higher risks.
- Little tangible evidence that global regulatory reforms have contributed to LT financing concerns.
 - Implementation at an early stage; monitoring is necessary

Figure 1. International long-term private debt to developing countries



Source: Dealogic and the World Bank

Figure 3: Net Private International Capital Inflows to Developing Countries



Source: Development Prospects Group, World Bank

Key Messages:

Country Specific Factors Matter

- There is much individual countries can do to attract LT finance.
 - More effective use of existing resources as a catalyst for attracting additional resources.
 - Improving project quality, selection, design and management is essential
 - Importance of reforms to build investor confidence and improve environment for private-sector investment.

Key Messages – Leveraging is Essential

- With fiscally-constrained governments and private-sector risk aversion, catalytic role of MDBs becomes more important.
- Several sources of LT financing have potential to play a greater role:
 - Local Currency Bond Markets (LCBMs), domestic capital markets, institutional investors
- All require sound and stable underlying conditions.

Financing for Investment – Next Steps

- Study Group co-chaired by Germany and Indonesia established to consider findings of Umbrella report
- Draft Terms of Reference under discussion
- World Bank, OECD, FSB, IMF, UN and UNCTAD requested to continue to support this work.
- MDBs asked to consider:
 - modalities for enhancing lending capacity and expanding catalytic role.
 - ways of improving project design and preparation to enhance impact of infrastructure investment.

Thank you