Session 14
New Deals Require New Paradigm
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The dawning of a new financing paradigm brings with it an opportunity to address many of the impediments to economic growth. Gone are the days when public funding and overseas development aid can meet the demand for infrastructure development. When faced with an estimated US$1.5 trillion plus annual gap until 2020 for emerging markets and developing economies alone, it is time to face reality, bring in new players and build a new market.

The paradigm we have known since 1971, with the end of the gold standard and the opening of new markets in the late 1980s, has been severely challenged by the 2008 global financial crisis. Global banks, particularly in Europe, have undergone significant balance sheet restructuring and strong deleveraging. Moreover, the usual business model for the majority of banks is likely to continue transforming significantly due to a new regulation framework and market pressures. Banks will tend to move from long to short-term opportunities, high risk to low risk, on balance sheet to off, with a stronger domestic focus than an international one. Costs of intermediation will continue to increase and the availability of capital in certain areas will continue to decrease.

Diversifying sources of funding to minimize the negative impact of deleveraging is, therefore, imperative. There is growth in domestic savings in emerging markets and developing economies, and capital in advanced economies is looking for productive outlets.

Attracting more of that capital into new markets requires action on different fronts and by different groups.
– First, of course, investors look for a strong pipeline of bankable assets. Therefore, efforts must be made to improve the project selection, design and delivery. The World Bank Group and other multilateral development banks have a significant role to play in guiding countries in their macro policy development and infrastructure strategy. Coordinating improvements with appropriate policies cannot be neglected in the determination to find financing.

– Second, and in parallel with the first, it is necessary to enhance the investment environment, so that infrastructure assets can be mainstreamed for institutional investors. It is time to structure transactions, conceivably along the construction continuum, whereby public funds cover the initial financing, but private can take over when the construction is complete -- in fact, the sooner in the process, the better. Transferability from bank to non-bank markets would require a new set of guidelines to ensure loans have portable guarantees, standard terms and documentation, and suitable credit ratings. Risk mitigation tools must be adapted to redress institutional investors' perceived risks in emerging market infrastructure projects.

Third is the need to build expertise to handle this new asset class. Both public and private sector professionals will require specialized knowledge in developing, managing and financing such projects. Insurers will need to develop the risk management expertise required for long-term investment financing in emerging markets. However, we should not stop there. Engineers, urbanists and architects should increase their awareness of their project's impact on a country's economy. Academia should increasingly open the eyes of students in those fields to the connectivity between infrastructure development and economic growth.

Lastly, of course, is the need for financing. One area of focus is to stretch limited funding by lowering the costs of infrastructure development, making different choices around materials, design simplification, project scale and its management. However, today's demand for infrastructure is so high that fiscal responsibility is not enough – we must look at mobilizing additional financing.

The World Bank Group is in a unique position to take action on each of these fronts, as we collaborate with client countries and engage with the private sector. Boosting infrastructure and, consequently, job creation will help us achieve our goal of ending extreme poverty by 2030. An important step for us this year was to double the World Bank's annual lending to middle-income countries from $15 billion to as much as $28 billion a year. This means that, over the next decade, the Bank's lending capacity will increase from $200 billion to roughly $300 billion.

But it's more than the money. We want to use all the tools at the World Bank Group's disposal – global and local knowledge, technical expertise, risk mitigation and funding -- to encourage infrastructure financing from both equity and debt perspectives. And, our new Global Infrastructure Facility (GIF) is aimed at spearheading that effort.

The GIF, as an open platform for emerging markets, will provide space where international expertise and resources can come together to address regulatory, project design and financing issues. More importantly, it will offer an all-inclusive approach to infrastructure development: building internationally agreed standards to help the market exist, sharing technical expertise and knowledge, using Bank Group social and environmental safeguards, and catalyzing and incentivizing private capital.

Collective action for economic growth –a simple statement, but undoubtedly a challenging proposition

Public funding, overseas development aid and private capital must forge a new alliance to strengthen this new financing paradigm and support tomorrow's new infrastructure deals. Without this, there is little chance of seeing increased investment flows into emerging markets or reducing the number of those living in extreme poverty.