G20 Finance Ministers and Central Bank Governors Meeting
11 April 2014
Session 3: Investment
INTERVENTION BY SECRETARY DEA

Dear Colleagues,

Financing for SMEs:

1. One of the major issues in the Investment and Infrastructure Working Group (IIWG), is to discuss and share experiences on how to optimize investment expenditure in the area of Small and Medium Enterprises (SMEs) and infrastructure projects.

2. By clubbing these two sectors, the unique and specific features of respective sectors may lose relevance. For example, there is no doubt that SMEs represent a significant source of jobs and growth for economies. However, SME sector may involve comparatively smaller financing needs for short term or medium term funding. Incentives for this sector are mostly domestic issues in form of tax incentives or the cheaper finance from the domestic financial institutions. Direct MDB funding or international funding may not be very relevant for this sector. Hence, while discussions on this sector may not warrant the time or effort of G-20 in terms of financing, the focus may be on employment generation through SMEs and how financing can incentivize this, even if domestic.

Financing for infrastructure:

3. Infrastructure financing needs are long term funding needs at a reasonable cost. Further the amount involved is very large. For example, in the case of India, we plan to invest about USD one trillion during the period 2012-2017. Domestic banks/financial institutions alone cannot meet the financing requirements of this scale.

4. The Government realizes the importance of public-private partnerships to bridge the gap between demand and supply and their role in accelerating infrastructure development in the country. Over the past decade, several PPP models have been developed to meet the growing need to spend billions of rupees to create roads and bridges, airports, and other utilities, to create a viable alternative to increase access to private capital as a welcome complement to traditional infrastructure financing. However, whilst PPPs incentivize use of private capital in the infrastructure development space, infrastructure financing needs of the emerging economies, both public and private, continue to be a major challenge.

5. Therefore, IIWG should look beyond the conventional solutions like Public Private Partnerships and infrastructure investment funds. India has ventured into new and innovative financing structures and avenues of raising capital like Infrastructure

Debt Funds and Investment Business Trusts for pooled investment, which are mainly aimed at attracting investments from Pension funds and other cash-rich wealth funds. This aspect may be discussed including the strategy of Pension/Sovereign Funds and the experiences of other members of G20, both as investors and investees.

Financing by MDBs:

6. Multilateral Development Banks (MDBs) financing and technical support in infrastructure financing can play a very significant role. G20 Leaders at the Los Cabos Summit in 2012 had requested the Finance Ministers and Central Bank Governors to consider ways in which the G20 can foster investment in infrastructure and ensure the availability of sufficient funding for infrastructure projects, including Multilateral Development Banks (MDBs) financing and technical support.

7. Uncertainty in the credit markets is impacting the ability of infrastructure developers to raise finance for infrastructure projects and undermining confidence in private finance models. These ongoing liquidity issues are likely to increase financing costs associated with certain delivery models. Therefore, it is imperative that MDBs are channeled towards funding in emerging economies.

8. One of the IIWG work streams is about the new approaches to optimize Multilateral Development Banks (MDB's) involvement. This aspect is very critical as the procedures followed by MDBs are complex, and costly formalities are required to avail funding. This acts as deterrent for the companies in the developing world. These procedures need to be simplified.

9. Further, a major issue faced by India in this regard and perhaps by other emerging economies as well is that the private finance is exaggerating the risks involved leading to under investment. This is a vicious circle, where sovereign rating has over-riding impact on determination of the credit rating of an organization, irrespective of its inherent strengths or efficiencies. This not only makes the raising of funds very difficult especially for new organizations or SMEs, but also makes funds very costly and in process effecting the viability of many of these projects. Therefore, excessive reliance on sovereign credit rating is one of the major impediments in raising of funds for the infrastructure development in the emerging economies, which needs to be de-bottlenecked.

10. This is the reason why we have been insisting for a greater involvement of the MDBs in infrastructure financing to help catalyze private sector flows into the sector. This does not mean that we are seeking any concessional finance. We are merely requesting for level playing in the area of infrastructure development. This will not only play a significant role in sustaining the global recovery and re-balancing, but will also contribute to a much needed global demand in the short run. In this regard, we urge that the proposed Global Infrastructure Facility at the World Bank must have a

more sophisticated design and reflects truly the full commitment of the member countries, including the industrialized countries.

Need to expedite global financial regulatory reforms:

11. The Umbrella Paper of February 2013 regarding the Long-Term Investment Financing for Growth and Development had contemplated that there is a need to ensure that the catalytic role and potential of multilateral development banks (MDBs) in mobilizing long-term investment financing (through financial engagement or advisory and other support) is fully utilized.

12. However, Internationally-agreed financial regulatory reforms are still in the process of policy development or at an early stage of implementation. While the reforms do not specifically target long-term finance, they do alter the incentives of different types of financial institutions to participate in this market as well as the costs of different types of transactions. As the balance of incentives changes, other providers of long-term finance in the financial system may need to play a greater role in this market. To date, there is little tangible evidence to suggest that global financial regulatory reforms have significantly contributed to current long-term financing concerns. In fact, if anything, long term infrastructure financing is likely to be adversely impacted by stricter provisioning norms for riskier asset classes. Therefore, these reforms should be monitored on an ongoing basis to identify any regulatory factors that may materially affect the provision of long-term finance so that they can be addressed.

Need for more effective tax information exchange:

13. I would also like to reiterate India's strong support to the work being done on taxation. Although it is not on the agenda in this meeting, the issue of data sharing is becoming very critical for the developing countries. The continuing reluctance of some of the industrialized countries for parting with information under administrative assistance requests is contrary to the spirit of the move towards automatic tax information exchange. We would like this to be considered in our next meeting so that jurisdictions are urged to do so in accordance with their treaty obligations.

Thank you

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