

G20 High Level Development
Conference

Infrastructure Pillar

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Development and Infrastructure

- Infrastructure is a key pillar of the G 20 Development Agenda
- Huge impact on growth, development, poverty and MDGs
- Both developing country and developed country issue
- Infrastructure and funding gaps more acute in developing countries.



The Big Picture

- Basic difference between public investment in infrastructure and most other kinds of public expenditure. The latter tends to deprive the private sector of resources that could be invested to boost growth, while public investment in infrastructure actually crowds in more private investment by increasing investment opportunities and returns.
- Building ahead of demand justified on account of multiplier, productivity and crowding-in effects of infrastructure investment. Chinese proverb: if you want to go anywhere you need to build a road first.



The Big Picture

- Borrowing for infrastructure justified since it will pay for itself through higher growth and revenues.
- Large but uneven investment in infrastructure in developing countries: big gap with advanced countries that needs to be quickly bridged, especially in urban infrastructure.
- In developed countries several countries need huge investments to upgrade infrastructure

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Cross Border Infrastructure

- Cross border Infrastructure particularly deficient
- Broadly defined to include wholly nationally owned infrastructure with cross border connectivity to contiguous countries
- Since intra- regional trade (especially in Asia) is growing faster than total world trade, the need for greater cross border connectivity is manifest.
- Problem particularly acute in South Asia: least integrated region in the world.



Urban Infrastructure

- Over the next few decades more people would move into urban areas in developing countries than the number residing in cities presently.
- Several trillion dollars of investment needed for orderly and environmentally friendly urbanization.
- A huge demand supply gap waiting to be bridged.



Infrastructure and Rebalancing

- Large infrastructure investments will increase aggregate national income and also make developing country high growth rates more sustainable. This would accelerate the process of global convergence of per capita incomes
- Post global financial crisis, this need is even more manifest on account of the imperative of global demand rebalancing: domestic demand in EMEs set to grow faster.
- International firms investing in developing countries and LICs will need to focus more on becoming cost efficient



Infrastructure and Rebalancing

- Large savings available in the global economy. The problem is to direct these to urban infrastructure in developing countries where there is a big demand.
- Rebalancing through a combination of 'enabling environment' so that savings are spent on infrastructure and not exported, and imports.
- Infrastructure investment has a public investment bias, and fiscal position of EMEs is much better than in advanced countries.



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The Financing Challenge

- Historical experience and current trends indicate that infrastructure investment the most challenging. Cross-border infrastructure even more so.
- Advanced economy budgets in disarray: foreign aid could shrink in real terms.
- Most of accumulated savings with EME Central Banks rather than with governments.
- IFIs scale of financing pales in relation to EME infrastructure needs.
- Bulk of the investment would have to be publicly funded/guaranteed in the best of circumstances.



The Financing Challenge

- Risk thresholds for private investment need to be lowered, and comfort levels raised, through greater political acceptance of levy and collection of user charges to avoid public guarantees
- Private investment likely to be limited (mostly telecom, transport and power), and even then may need to be guaranteed by governments.
- EMEs need greater sophistication in financial intermediation and to move away from financial repression to attract private capital.
- For cross border investments political risks need to be effectively addressed to attract global savings: 'Romerplexes'.



What is the solution?

- Public expenditure patterns must shift from subsidies to allocating more taxpayer funds for infrastructure investment.
- Attract more private savings into infrastructure through public private partnerships.
- Residual private savings may need to be redirected to government debt.
- What level of debt is sustainable? Depends on potential growth (higher in EMEs) and interest rates. *Domar Debt Sustainability equation**

*Interest paid on debt should be less than aggregate GDP growth provided primary balance is nominal.

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What is the solution?

- International Investment Fund? This would entail (a) foreign public debt for domestic expenditure and revenue streams, and/or (b) Sovereign guarantees. Akin to existing MDB financing.
- Too much emphasis is placed on funding, and too little on software aspects that can improve efficiency of use, such as moving from fuel taxes to vehicle area taxes, maintenance and service delivery.
- May need closer political cooperation to enhance level of comfort for cross border projects. This would also facilitate top down coordinated planning for more efficient connectivity.



What Can the G 20 Do?

- Redirect the huge savings available in the global economy towards productive infrastructure investment, especially urban infrastructure.
- MDBs could mop up the savings glut and redirect to infrastructure investment
- Need massive recapitalization of MDBs
- Only a small proportion of this need be paid up, balance call capital



What Can the G 20 Do?

- Political and repayment risk could be addressed through MDB intermediation: governments would be more willing to counter guarantee MDBs than individual countries.
- MDBs need not pass on funds as project finance (would involve huge expansion of MDB staff and capacity) but through national budget programme support.
- Overall global coordination role for the G 20, especially in planning cross border infrastructure



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Thank You

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