ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

JUNE 21 – 23, 2012

Securing the Future

COMBATING GLOBAL FINANCIAL INSTABILITY: INNOVATIVE FORMS OF STATE ECONOMIC STIMULUS

Panel Discussion

JUNE 22, 2012 — 12:00 – 13:15, Pavilion 8, Hall 8.3

St. Petersburg, Russia

2012

Vnesheconombank (VEB) Session

<u>Moderator</u>:

Basil Moftah, Managing Director Emerging Markets, Thomson Reuters

<u>Panelists</u>:

Erik Berglöf, Chief Economist, Special Adviser to the President, European Bank for Reconstruction and Development

Prabhakar Dalal, Executive Director, Export-Import Bank of India

Vladimir Dmitriev, Chairman, Bank for Development and Foreign Economic Affairs (Vnesheconombank) state corporation

João Carlos Ferraz, Vice-President, Brazilian Development Bank (BNDES)

Fred P. Hochberg, Chairman, President, Export-Import Bank of the United States

Nurlan Kussainov, Chairman of the Management Board, Kazakhstan Development Bank JSC

Thomas Scott, Chief Economist, Development Bank of Southern Africa

Helen Teplitskaia, President, American-Russian Chamber of Commerce and Industry; Managing Partner, Imnex International Inc.

B. Moftah:

Good afternoon everybody. It is a pleasure to be with you here this afternoon. I should start off by saying that this is really a moderator's nightmare; of course, I mean to have such a strong and distinguished panel with us, that is this large. I want to make sure that we have a great session that is very interactive. For those of you who know me, I do not do introductions and I do not do a very long starting phase. I actually want us to get to the Q&A part, which means I will ask this panel a lot of questions, but I also hope the audience will be able to join me a little bit later on.

Today's topic is probably one of those topics which are spoken about both in front of the media and behind the scenes. It is one of those topics which I think everybody has been looking at for the last few years, trying to understand what the real model is, or what the right or wrong model is. As I am sure everybody here knows, considering the type of audience and the panel, there is no one model in particular that can be applied. Especially when we look at the BRIC nations, the role of the government and the role of the development banks in those countries has been formidable. In fact, their roles, which were looked at as something backwards maybe a decade ago, are now looked at as something that has been really helpful to the world economy and especially to the BRIC economies. The BRICs have been doing well, but we are starting to also see that the economies of those BRIC nations are having challenges – maybe because they are so linked to the developed world, but also because there are structural issues around infrastructure or around jobs and unemployment, inflation, and so on. We know India is facing more a challenging environment, and recently the downgrade or the outlook from Standard & Poor's on India is quite challenging. Brazil has also seen numbers in the last quarter that they were probably not expecting and that the world economy was definitely not expecting.

I think there are a lot of things we can learn from the BRICs about how they manage their economies, and hopefully the panelists today will talk a little bit about that. I suppose we also want to explore the way forward and the way that we can move with it. I would like to start off by calling on Mr. Vladimir Dmitriev from the Vnesheconombank to talk a little bit about what the role of his institution in Russia has been, and what are the ways that we can move forward with a sustainable economy.

V. Dmitriev:

Thank you, Moderator.

To start my presentation, I would like to inform you that our development institution, the Bank for Development and Foreign Economic Affairs (Vnesheconombank) is currently celebrating its five-year anniversary. Our organization is rather young, but since it was founded on the basis of Vnesheconombank USSR, which traces its history back to 1924, it is quite a mature development institution. Over our entire period of operation, we have been involved specifically in development: we have attracted investments, supported Soviet industrial exports, created new jobs, increased tax revenues, and in general implemented projects inherent to development institutions.

Of course, our mission has changed over these five years, not only because we became specifically oriented towards the development of our country, towards the support of key sectors of the economy, the support of industrial exports, and the creation of jobs in small and medium-sized businesses, but also because the challenges have changed.

I think we need to discuss these challenges. Our moderator set the tone, speaking about the challenges, which are primarily associated with sustainable development, responsible financing, and the corporate and social responsibility on which banks and their corporate clients base their operations. The issue of sustainable development must be addressed primarily by those who work in the real sectors of the economy. The mission of financial development institutions is to provide leadership in the banking sphere in promoting sustainable development in the corporate environment and the banking sector.

Sustainable development does not only refer to the environment, which is under threat in our country and elsewhere, but also corporate social responsibility and responsible financing. In contrast to commercial banks, in our debt and lending policies, we take a chance on projects with long recoupment periods and very low interest rates. These projects carry a higher risk, but they are critically important for our nation's economy. This category includes projects aimed at sustainable development and the support and development of social and corporate responsibility.

Commercial banks, with rare exceptions (and I do not know of any such exceptions here in Russia) are focused on totally different approaches and a different mission. I do not think this is an exclusively Russian phenomenon. The objective of a commercial bank is to generate profit and implement projects that can bring profit and revenue in the short term rather than the long term. Their policy is tied to the necessary standards and regulations that naturally apply to their corporate clients. It is difficult to imagine that any bank would extend credit for a project to produce, for example, sulphuric acid that would leak from a pipe, be dispersed across the surrounding area, and cause catastrophic environmental damage. Rostekhnadzor and other organizations exist to prevent this, and they keep close track of compliance with environmental standards. However, this is not enough. We know of a vast number of examples of companies, financed by banks, who are polluting the environment, not creating new jobs, and recreating old problems. The mission of development institutions is to provide leadership and somehow show, by promoting sustainable development, that it is possible to extend credit to the economy of the nation, create infrastructure, and improve the quality of manufactured products, without polluting the environment while doing so.

I am pleased to inform you that several projects that were recently financed by Vnesheconombank have led the field in nominations for awards from very authoritative European publications such as *Trade Finance* and *Corporate Finance*. Russian projects won first place in their categories for the first time in the history of the awards. Projects implemented in Russia by Vnesheconombank came ahead of projects from countries throughout Central and Eastern Europe to take first place.

These projects included the Khabarovsk Oil Refinery: by introducing modern technologies, the petroleum refinement level was increased to 96% and emissions of harmful substances were reduced several fold.

There is one more project, Tobolsk-Polymer, where they have not only introduced technology to process associated petroleum gas, but have also established a modern facility to use the gas to produce polymer materials. These materials are needed by Russian industry, but they are usually purchased abroad. This project made it possible to create new jobs, it uses environmentally friendly technologies, and promotes the integrated development of regions where previously there was nothing but grazing deer and primitive manufacturing facilities. Tobolsk-Polymer represents not simply an associated petroleum gas processing facility, but hundreds and thousands of new jobs for small and medium-sized businesses.

It is important for me that these views, ideas, and approaches are shared by our partners. I have in mind the major banks and development institutions, both from the BRICS and from the Shanghai Cooperation Organization nations, in which there is a combined pool of development banks. The SCO summit was held in Beijing recently, in early June, and there the SCO development banks signed several documents, including a document that obligates us to proceed from principles of sustainable development, responsible financing, and corporate and social responsibility in our bilateral and multilateral cooperation.

I will reiterate this: bearing in mind Vnesheconombank's role in the development of the economy of our nation, we are prepared to provide leadership in encouraging other financial institutions to follow these principles in their credit and investment policies.

B. Moftah:

Thank you very much, Mr. Dmitriev. If I could just also very quickly remind the audience that right after the panel today, Mr. Dmitriev will be giving a short presentation about the awards that his bank will be providing, starting next year, to small and medium corporations. If I could go to Mr. Berglöf just for a second and ask simply: can we really afford the sustainable development investments that Mr. Dmitriev is talking about? Are the governments and development banks today not really focused on stimulating jobs and bringing the economy back to life? Or are these ideas just simply nice ideas? Erik?

E. Berglöf:

I think sustainability is the key to what development banks do. It is about sustainability in terms of putting practices in place that make the private sector work on its own. Sustainability, the way you talked about it just now, is about the environment and dependence on energy and so on. Development banks have a very important role in promoting all of those things. What I think is key, though, is that in doing so it is very important that we follow certain rules. We have been part of developing rules for the international financial institutions when we deal with the private sector. We should make sure that we are not crowding out the private sector. We should make sure that we are trying to promote sustainability when we intervene. After some time we should be able to leave, and it will work on its own. I think in that sense sustainability is absolutely key to the operations of development banks. Development banks want to move from issue to issue, addressing them and then letting them work on their own.

B. Moftah:

Mr. Ferraz, if I can just come to you and ask you a little about Brazil and the experiences and learning from Brazil. I think the economy in Brazil has grown tremendously, but it now seems to be faltering a bit. The last numbers on economic growth are not so great. We are talking about sustainable development here. What can the Brazilian Development Bank do in this situation? What should it do, or what should the Brazilian Government do?

J. C. Ferraz:

Sustainable development, as Mr. Dmitriev was saying, encompasses not only the issues of environment, but also job creation. Then you have an economy that grows on a stable growth path. We have to have that comprehensive notion of sustainable development. As Mr. Dmitriev was saying, congratulations on your 50th. We are the 60th and your team was in Brazil this week, and there was a discussion among a small group of development banks to go deeper into the agenda of sustainable development.

To give you an idea, our 15 institutions last year dispersed around USD 90 billion for green, sustainable development-related investments in Brazil. Brazil is facing the challenges of quality and, at the same time, unbalanced growth. Our challenges are to deal with a growth process that faces the challenges of this unstable world on the one side and, on the other, the bottlenecks of the growth process. The slow trend that we are observing now is that we see it as a cautious moment when the economic agents are placing themselves in a very uncertain world. At this moment, there are no signs of any brakes; the investment prospects are still there and our economic horizon is relatively good. What we did have is slow growth compared to the past. There were a lot of concerns about inflation, which has now come down, so I think the economic prospects are fairly good. I think the challenge for Brazil is to go for quality growth rather than quantitative growth; to sort out the competency, to sort out the infrastructure challenges, to keep on with the inclusion process. And BNDES has a role to play as one of the main financiers of investment. We are behind something like 20% of the total investment, and contrary to what Mr. Berglöf was saying, our challenge now is not crowding out; our challenge is crowding in. Given the economic horizon that we have, the private finance industry has to crowd in long-term financing; it is not an issue of crowding out.

B. Moftah:

It strikes me when I look at all the different BRIC nations that South Africa in particular, Mr. Scott, has been one that has managed to weather the storm quite well, and has had quite interesting policies. What have the South African Government and the Development Bank that you represent done, and what are the policies that others could maybe learn from in terms of how to deal with the current crisis? You have been through this before a number of times in South Africa.

T. Scott:

Thank you. I think we certainly feel a little bit like a lot of other countries at the moment – riding a bicycle in a fairly strong wind that is not necessarily coming from the front; it is heading from side to side. Certainly, as developments in the world economy change and the direction of the wind changes it raises a lot of concerns. I think we do feel, and have felt for some time, that we are at the front of an experiment and a mission to create and build a society with social cohesion, where poverty is addressed, inequality is addressed, and constraints in economic growth are released.

One of the keys to that is getting the economy growing in such a way that it absorbs labour. The South African Government accepted in cabinet a strategy framework in 2010 which really targeted those three areas, and then the National Planning Commission was tasked with and has come up with a draft framework and strategy which picks a number of axes through which to address these things. At the heart of that is infrastructure development. Infrastructure development is our core mandate as the Development Bank of South Africa.

So in many ways the Bank has been playing and is expected to play a central role in addressing the intermediation of finance for the development of infrastructure, not just in South Africa but in the region. We feel very strongly that the prosperity of South Africa and the region are interlinked, so there is a very large programme in infrastructure development both in South Africa and the region under development. In Africa the programmes that we are interested in are being built through the African Union – major infrastructural corridor development – and in South Africa, the recently formed Presidential Infrastructure Coordinating Commission is currently coordinating 17 major strategic spatially-integrated infrastructure development programmes. Our role in that is addressing market failure in finance, as well as intermediating and facilitating the mediation in finance and drawing other partners into that process.

I think one of the critical things that we find as an institution is that infrastructure development is not just about finance; it is about capable government and functional institutions. The process of infrastructure development is complex, and we see one of our core roles as helping to smooth out and address bottlenecks in that.

B. Moftah:

Thank you. Following on about the role of government and infrastructure, I would like to talk about India. I guess, Mr. Dalal, I would ask you – we are all looking at what is happening in India and may be a little shocked, surprised or worried, I do not know what the right term is – do you think India will be able to come out of the current challenges it has, and in particular, do you think the development banks should focus on improving India's infrastructure as a way to lead out of the crisis?

P. Dalal:

Thank you. There are no major causes for concern. India continues to be one of the fastest growing economies in the world. After growing at 8.5-9% for more than five years, it has slowed down a little, with 6.5% expected for this year. There are a number of reasons. Some are external; the eurozone crisis and the slowdown in other parts of the world. There are some internal expectations also; for example, certain economic reform measures which failed to be rolled out or have been stalled for a variety of reasons, but we do believe that these will be rolled out, and the government is fully committed to doing so. Once the presidential election, which is scheduled for July, has passed, more measures will be introduced.

Currently we are going through what one economist has called a dispersed parallel; one piece of bad news after another. That creates an atmosphere that something is amiss and things are not going the right way. As far as infrastructure development is concerned, in the 2012 five-year plan beginning this year, 2012–2017, the government is required to spend USD 1 trillion, which is USD 200 billion per year, on investment in infrastructure. This investment will come not only from the public sector, but also from the private sector through public–private partnerships, as well as from foreign direct investment. Despite certain negative developments, in the financial year 2011–2012, foreign direct investment into India was one of the highest in the world at USD 48 billion, so things are not really that bad, and I am very sure that they will improve sooner rather than later.

B. Moftah:

Mr. Hochberg, can I come over to you for a second and say: is the investment climate in emerging markets still that attractive? Is it still something that you should put money into, or are the environments getting so challenging and unpredictable now that it actually does not make sense to continue with those types of investments?

F. P. Hochberg:

Thank you. We at the Export–Import Bank of the United States are really in the finance of exports, not on the investment side, but I had two thoughts listening to the panel so far. In sustainable development, one of the things that we can do as an export credit agency is have up to 18-year terms on loans. We lent money to build a wind farm in Honduras. It is on an 18-year term. A Spanish company is actually constructing the equipment in the United States, so we can finance it because they are creating U.S. jobs, and it turned out that the lowest cost form of energy in Honduras was actually wind, because the alternatives were oil or kerosene, which are much more expensive. In that case, sustainable development was also the low-cost solution.

In India, we were the largest single financier of solar power last year. To give you one example, Azure Power, in Rajasthan, purchased U.S. equipment on an 18-year term. The important thing there is that it also created 600 jobs in India while they constructed the solar power plant, and 200 on going jobs to maintain it. Not only is this sustainable development, and creating renewable energy, at the same time it is creating good jobs in the formal economy in India, which is a vital part of many emerging economies.

In Brazil, we have just financed a methane gas treatment that is going to take what is essentially landfill, take the methane gas from this, turn it into energy and then sell that gas to Petrobras using American technologies. So in that case it is sustainable – taking something that is waste and creating a biofuel out of it – and it also creates jobs on both sides of the equation. The 18-year financing makes a lot of this very sustainable and is a vital part. Certainly most of the work we do at the Export–Import Bank is in the emerging economies. We do not do a lot of work in Europe; we do much more work in the emerging economies.

B. Moftah:

And when you look at these emerging markets, just to follow up quickly, are there any ones that you see as more attractive in the coming environment than others?

F. P. Hochberg:

One of the fastest growing for us has been India. It was very fast growing in the last year; it was the second largest and is now our second largest portfolio globally. We will see what happens with the slowdown that has been talked about with India, but in terms of power, infrastructure and aircraft, things have been very strong in India. Turkey has also been very strong. We actually financed 18–20% of all U.S. exports to Turkey, a similar amount to India, so those two have been particularly strong. We signed a MoU in Nigeria last year for USD 1.5 billion worth of power. We are going to see some of that coming into play. I do not know if you would call it an emerging economy, but Colombia was actually the fastest growing part of our portfolio last year, and we financed about a third of all U.S. exports to Colombia last year. This is mostly because we built a refinery, which again created 20,000–25,000 jobs in the United States and about 8,000 construction jobs in Cartagena. So in that case, again, the point of the infrastructure and of this kind of development is creating jobs in both countries – the exporting country and the importing country.

E. Berglöf:

What Mr. Hochberg and Mr. Dmitriev said is very important. In the current uncertain world, I wish we had more institutions that can provide finance for the long term – 18, 20, 25 years – with an eye on sustainability. Development banks are not high-profile institutions, but a recent World Bank survey of 90 institutions of this kind in 60 countries showed that they have USD 2 trillion in assets, so the economic power of these institutions is very high.

B. Moftah:

Building on that point, is this just something for the big BRIC economies like India and Brazil, or is it also for smaller emerging market countries like Kazakhstan, given that they are getting investors and interest? Can you also find core investors in this market?

F. P. Hochberg:

In Kazakhstan in the last year, we financed the purchase of GE locomotives: a USD 425 million direct loan from the Export–Import Bank for a term of 12 years. I am not sure if you want to count Honduras, but my point is that we were able to provide, in that case, a 15–18 year loan to build a wind farm. Those are the markets we operate in. That is where I spend more of my time, in Asia and Latin America; I have been to Sub-Saharan Africa twice in this job, and I have been to Latin America seven or eight times in the last three years. That is where we see a lot of the opportunity. We are trying to lead exporters in there by providing that kind of stable long-term financing. In this environment particularly, I have yet to find a banker who is excited to make a 12-year loan.

B. Moftah:

Very rare, I guess. Mr. Kussainov, how do you see it from your perspective?

N. Kussainov:

Thank you. In our country, as you mentioned we are rather small and development institutes cannot play such a big role. What happened in the beginning of the 2000s and the end of the 1990s was that we privatized most of our companies and banks, and I think the private sector played a great role in making infrastructure reforms and bringing other things to a very high speed of economic growth.

What happened during the crisis and after the crisis – and our banks were among the first to suffer the crisis, even before Europe, even before many other emerging markets, and we were closed to getting funds from London or New York – is that the Development Bank of Kazakhstan and other development institutes in Kazakhstan started to play the crucial role, first of all, of refinancing those enterprises which were still good, but were running into problems because commercial banks were too greedy and too short term-oriented. We got additional capitalization from the government, and the government played a very strong role in finding proper, transparent instruments to support those businesses. The Government of Kazakhstan under the leadership of the President introduced a long-term vision called the Industrial Innovation Strategic Plan. This is a really ambitious task, and of course, it would not be possible to even talk about it without the Development Bank of Kazakhstan. Now the Development Bank of Kazakhstan is playing an important role. We call ourselves icebreakers for commercial banks: our commercial banks are still frozen because they cannot go and borrow money abroad easily, so we do stimulate this part of the economy.

We try to be very careful because we are learning. We are learning from the BRIC countries, we are learning from the developed world, we know all the pros and cons and we know that government is not the best solution for capital-intensive private projects, but still, someone has to do it, and the Development Bank of Kazakhstan is increasing its volume. We are trying to introduce new instruments like project financing, and we are learning a lot from the Middle East, where project financing was successfully adopted. I am talking about real classical project financing with strong uptake contracts in industries like petrochemicals and power generation. This year, we have already started to invest in a big petrochemical plant and a big refinery in Western Kazakhstan, and we are using advanced instruments which will implement it across the board. This is another role that the Development Bank of Kazakhstan has.

We try to not just be a financial organization, but also to increase our responsibilities. Mr. Dmitriev said that we have to be very responsible with our investments. We are teaching responsibility to our clients in both private and state companies. Even in a smaller economy like Kazakhstan, development issues have to play a bigger role considering the current circumstances.

B. Moftah:

I will go back to Mr. Dmitriev for a second and ask about the role of government in the current environment. We are talking about development banks and government at the same time. How do they partner together, especially in Russia? What can the government do to be able to make a better climate for investment?

V. Dmitriev:

Since everybody speaks English, I will stick to this language as well. Our activity and the activities of each and every institution for development are inevitably linked to government policy. First of all, if we are talking about development banks or Ex–Im banks or ECAs, we are the financial vehicle for the government to achieve particular goals and promote policies in particular directions of economic development. We are like a family; we have a government, who is a mother or a father, and we are their children, but we are also grown up. Russia is a sort of phenomenon in this regard. If we are talking about other financial institutions for development, institutions to attract investments, institutions to support and promote industrial export, in Russia, all these structures are linked not to the government directly, but to Vnesheconombank. The phenomenon is that Vnesheconombank

100% owns the Ex–Im Bank of Russia. The phenomenon is that Vnesheconombank is the 100% owner of the Russian Direct Investment Fund. The phenomenon is that Vnesheconombank is the 100% owner of Russian ECAs, and we have other institutions which play a role as institutions for development within the framework of Vnesheconombank's activity.

But our own activity is very much dedicated to governmental policy. To prove that, you just have to look at the Supervisory Board of the VEB, which is headed by law by the Prime Minister, and we have the First Deputy Prime Minister, deputy prime ministers and key ministers in our Supervisory Board, which is, of course, the virtual evidence that the government plays and should play an exclusive role in determining the activity of the institutions for development. But I wish governmental policy were really targeted at particular directions in the development of our economy. It is not a must that the projects we finance be projects which are mandatory and imposed on us, in the sense of supporting one industry or another. We would like to have a more comprehensive approach from the government to lead institutions for development in particular spheres of our mission and our responsibility. To cut a long story short: yes, the government and the institutions for development are structures which are very much linked to each other, and of course, they exist to lead particular policies, and to be drivers of the development of particular sectors of the economy.

B. Moftah:

Great, thank you. It strikes me that there are other forms in Russia, like the American–Russian Chamber of Commerce, so if I can go to you, Helen, for a second to talk about the strong link between government and development banks. What role does an institution like a chamber of commerce play, and how can it further sustainable development?

H. Teplitskaia:

If I may, I would like to go on record as correcting that the American–Russian Chamber of Commerce and Industry is actually an American organization. It is registered in the United States but it is bilateral. It was founded in 1992 and it is really symbolic.

I was born in St Petersburg and came to the States in the 90s and was invited by the Mayor of St. Petersburg, Mr. Sobchak, to become the first Chairman of the American–Russian Chamber of Commerce and Industry, and had the honour and privilege to work and interface personally with President Putin, who at the time was the Deputy Mayor of St. Petersburg and Chairman of Foreign Economic Relations. When you fly to St. Petersburg or drive towards the centre of the city, you can see two of the babies that actually emerged as a result of this partnership between the city and the American–Russian Chamber of Commerce and Industry: the Gillette plant and Wrigley. Every time I drive by, I have a fantastic feeling of achievement because a lot of what we do is intangible and you never know about it, and this is something that I really am incredibly proud of. As well, when we talk about infrastructure and foreign direct investments, of course communication is key.

The American–Russian Chamber of Commerce and Industry actually originated the meeting between the Mayor of St. Petersburg's office and Motorola, and then Mr. Putin chaired the very first joint venture in Russia between Motorola and the administration of St. Petersburg, and it resulted in Motorola not just selling phones, but investing in the infrastructure. So the first mobile phones working in St. Petersburg resulted from this connection.

But if I may, I waited for a while to have a say. I am here not to promote the American–Russian Chamber of Commerce and Industry. It is actually a non-profit organization that I founded but I do not work for it per se. I am one of the major backers and supporters, but I am a business practitioner, and in 1991, when I co-founded a company called Inmex International, I did so with the purpose of helping both multinationals and smaller companies to directly invest. As President Putin stressed yesterday in his speech, direct investment is something that anchors the relationship between our countries, and direct investment is long-term investment. It is much more sustainable.

I would like to take this opportunity to thank Mr. Dmitriev and Vnesheconombank for being a flagship of foreign economic activity in the Russian Federation. Come to think of it, it is astounding to think that Vnesheconombank as a development bank is just five years old. When you think about their achievements, it is really incomprehensible. It is just in 2005, from what I recall, that they started doing these government partnerships, which really laid the foundation. When we think about which model among the BRICs economies works, I would say there is no panacea, but the Russian model, although very new and young, integrates best practices from around the world.

What is particularly important, I think, is that when they think about big projects and infrastructure, they have an equal emphasis on small and medium-sized businesses. I am somebody who used to really try to focus attention on multinationals because that is how I make most of my revenue, but lately, I have started paying more and more attention to small and medium-sized businesses. I am very honoured that one of the companies that I work with helped VEB to organize training for bankers and small and medium-sized owners, with participation from Brazilian trainers. This is really BRICs in action; when we exercise the multilateral approach and we take back best practices from each BRICs country, because each country has so much to offer: India and Brazil and China, the world's largest construction site.

But when we think about these private–government partnerships, we need to think not just about federal government partnering, but the regional and local governments, and contracts between the government and private business have to be fair. When countries come to invest; for example, China has a fantastic project which is called, I think, Infrastructure for Resources (I for R), and it really helped South Africa to develop. I would suggest that maybe the African Government and Chinese investors have come up with a fair distribution, and this relates to all other countries. It has to be fair, transparent, and it has to benefit all participating countries.

Sometimes the best is the long-forgotten past. When we think about models, I would take the liberty of reminding you of Roosevelt's New Deal during the Great Depression. I am not idealizing it; many aspects of it were highly controversial and too liberal, maybe, for the market economy, but the seeds of what was done can be very well utilized for the developing economies now, and their construction in 2009 after this crisis, I think, supports this idea.

B. Moftah:

I think that is a very interesting idea and if I could just come to you, Mr. Berglöf, quickly; when you look at all the different emerging markets, is there one type of model that you think is more sustainable, or better in the current crisis or current environment? China, Brazil and India are all dealing with this in a different way. How would you compare them?

E. Berglöf:

That is a big question. I think, first of all, they are very different and there need to be different solutions because these are different systems. Looking at Russia, I think Russia actually responded very well to the crisis, and I think there were some fundamental weaknesses that came out in Russia in the crisis: weaknesses in the financial system, weaknesses in infrastructure, and so on. I think the VEB also played a very important role in trying to look at these weaknesses, working with the financial sector, and working with us to have an exchange of experience and trying to, as someone said, crowd in the private sector into investment; that is very important. I think Russia cannot do what China did, India definitely cannot do what China did, but China, on the other hand, probably needs to learn quite a bit from both the Indian and the Russian experience.

B. Moftah:

Great. Thank you. If we turn our attention to more recent events, in particular what is happening in Europe and so on, Mr. Rop, how does the European Investment Bank plan to help combat that and its impact on infrastructure financing in general?

A. Rop:

Thank you very much. First of all, the EIB is an EU bank. We provide between EUR 50–60 billion inside and outside of the EU, and about 80% of that inside the EU. As an EU bank, we should face the problems of the EU and should be part of the solutions. The EU is preparing right now and talks are going on. We expect that at the end of this month the European Council will decide about a few very important measures: what to do and how to challenge the problems of the EU and economic growth.

If you take a look at the latest economic forecast figures, you will see that for 2012, estimations for the eurozone are -0.7%, for the EU it is -0.4%, and worldwide economic growth at that time should be 2.2%. Obviously, the EU and Europe have a very serious problem with economic growth and have to fight to go further on. We all agree that, obviously, there are the basic challenges of how to deal with austerity measures on one side and, on the other side, how to deal with the measures for economic growth, which is not as simple as it was at the beginning of the economic crisis in 2008–2009. There was space for states inside the fiscal area; now there is no place for that. There are very serious talks to increase the EIB's activities through capital increase. That decision is in the hands of the heads of state, but we think that we can add, for instance, EUR 10 billion additional capital to about EUR 60 billion. Together with a catalytic effect and crowding in private capital, we can go up to EUR 180 billion inside the EU, which is very important.

The second part, which we are talking about and is a very serious project that we are doing, is that we are talking about EU project bonds. Not EU bonds but project bonds. That is a special tool we use in the field of the so-called TEN-T projects (trans-European transport network projects). They are EU-accepted and provided with guarantees from the EU Commission and the EIB, and the tool with which we could manage EUR 5 billion of additional guarantees from the EU Commission, which is about ten times more private investment. So the basic challenge at this time is how to attract private capital and private savings into the final investment. I would like to tell you some very interesting figures for the EU: in 2008, private investment went down about 7% and in 2009, an additional 13%, so in two years we were facing in Europe, at the beginning of the financial crisis, almost 25% downward movement in private investment. At that time, the governments inside the EU struggled to keep the level of investment from the government at the same level. Obviously, investments are a very important obstacle that we have to fight and challenge.

The third area where we think we can do substantial work and hope to find a good solution is with the structure of funds at an EU level. There is quite a high level of unused structural funds; according to some calculations, there is a possibility to find an additional EUR 55 billion and blend those activities with the EIB to boost the economy on an EU-wide level. There are different kinds of priorities. I do not have time to discuss them now, but infrastructure is one of the areas we would like to work in, and in line with some talks I had with ministers of finance across EU countries, there is really huge interest, especially in project bonds, to attract private capital. We have liquidity in European banks and we have the potential for investment, but we have to find the tools to speed up the process, to secure this private capital, to increase confidence, to go in and to be part of economic growth. Those challenges are really quite serious and we hope to go forward quite fast.

So the first challenge in the EU and worldwide is discovering how to attract private capital and private savings into projects; to leverage private savings and capital and be part of economic growth. Otherwise, I cannot see solutions for higher economic growth. Without higher economic growth we cannot find a solution for how to get out of the crisis.

B. Moftah:

Great. Thank you. Mr. Hochberg, I guess the crisis in Europe is clearly impacting everybody. How does that change your perspective about financing trade, how does that change your perspective about looking at the global economy as this crisis continues to happen?

F. P. Hochberg:

Well, I think that a number of infrastructure projects have a life and a longer lead time, and perhaps it is impolitic but this may be an opportunity and a time that U.S. companies can pick up some market share, because it is harder to finance things out of Europe right now than it has been in the past. There has been some shift in some of the larger infrastructure projects to source out of the U.S. whereby we can finance that on a 12-year basis, as there is a little more uncertainty as to whether they can finance those exports outside of Europe. That is coupled with Basel III, and on top of that there is generally a reluctance to make long-term loans, so that export credit agency loans and development bank loans become much more critical in getting projects done. We still have a facility: President Obama and the National Export Initiative looked at double exports, and we are halfway through that programme. He proposed to increase our lending cap up to USD 140 billion, and signed that legislation less than 30 days ago, so we can have a portfolio as large as USD 140 billion. Currently they are at USD 100 billion, so I see that, while regrettable, we could pick up some of that slack. It is good for American exporters. Although I am concerned globally, we are able to pick up some of that slack in financing whereby some of that may not be coming into Europe right now.

B. Moftah:

Okay, can I come back to you, Mr. Ferraz, for a second and ask you what the challenges are facing development banks now? It sounds like everything is great and running really well, we are painting a great picture – but it cannot be all that rosy, right?

J. C. Ferraz:

No, it is not. I think that there are two or three components or challenges that development banks must continue to face and engage in. One is, and Mr. Rop gave a hint about this, that all of us have a strong role to play in terms of systemic stability. This is very important, and we can contribute to the macroeconomy of different countries in the system as a whole. The second, and many mentioned this, is to correct market failures. I think there is a third point, which is that if we are public institutions we have to be efficient in order to provide dividends to society and to the state, because it is public funds that come to us.

Mr. Dmitriev, I think, touched on the point that it probably encompasses the challenge that development banks have, which is sustainable development in its full meaning. He mentioned sustainable development in terms of responsible finance. We could be instruments to induce or foster or support better governance in economic agencies. Secondly, all the issues associated with the infrastructure and the negative externalities that are associated with infrastructure. When we support a hydroelectric plant, think how difficult it is if we take a systemic look and bring in roads, schools, safety, and sewage. And this means probably negotiating, in Brazilian terms, with two states, five municipalities, seven ministries, ten NGOs. To have all these people rowing and moving in the same direction demands a lot of effort from institutions, using the skills that probably most of us have developed of weaving agreements in order to have people going in the same direction.

The final one, which is probably less important for Mr. Hochberg given the country he comes from, is the issues associated with supporting innovation for developing nations. There is no sustainable development if we do not have innovation-intensive countries with lots of competence. We have to learn this and all the capacities that they have from the U.S. We are much further behind. To finance innovation or to finance sustainable development means financing intangible things, going beyond taking a guarantee of physical things; you know, cover each other 130% or whatever, and trying to develop methodologies that value your competence, which is not put in quantitative terms. To change our procedures in order to value intangibles and to be better able to analyse projects on the future prospects in terms of sustainability, I think is a challenge. I do not know how my colleagues see that.

B. Moftah:

Let us ask Mr. Scott. Are development banks living up to those intangibles? Can they? Should they?

J. C. Ferraz:

I think they can and they are going to.

B. Moftah:

Let us ask Mr. Scott, right next to you, and see what he thinks.

T. Scott:

I would agree with that. They certainly should be living up to a very broad concept of facilitation of development. The kinds of problems we have just mentioned now around coordinating multiple parties and the complexity of dealing with different jurisdictions, whether they be cross-border or within a country with different role players and different levels of government, are huge. One of the things that we find to be a critical competency, as well, is managing and attempting to guide and facilitate that process of taking a large project from a concept stage through the various stages to the ultimate point of being bankable. That is a political skill, a financing skill, and when one is dealing with mega-projects it gets very complicated. One of the things that we have found is the skill of coordinating different pools of funds on to different stages of project development, particularly when you are looking at attracting different types of concessional funding and mixing it with commercial funding.

B. Moftah:

Mr. Dalal, do you believe the same values apply to export–import banks as well?

P. Dalal:

Yes. India has a very unique model. We have developed finance institutions for those key sectors of the economy. For example, the Export–Import Bank of India was established 30 years ago to finance, promote, and facilitate India's external trade. Now we are also promoting investment by Indian entities into foreign countries as well as investment into India. We also finance the exports of companies in India in order that they can produce goods and services for the international markets. Likewise we have a bank called SIDBI (Small Industries Development Bank of India) for small and medium enterprises. We have 32 million jobs in this sector, and it is a very important sector for us. Besides providing employment opportunities and contributing to the GDP of India, one third of India's exports of USD 300 billion comes from this sector. So we have the Small Industries Development Bank of India, we have what we call the National Agriculture and Rural Development Bank. Fifty percent of our population depends on this sector. We have the NARDB and the Ex-Im Bank. These are our development finance institutions and they have done a wonderful job since India gained independence in 1947, 65 years ago. They have done a wonderful job, and we are very happy with what they have achieved so far.

B. Moftah:

Great. As we come towards the end of the session, I want to just take a couple of questions from the audience for our panelists. So if there are any questions please raise your hand and we will be able to pass you a microphone.

I. Nikitchuk:

Thank you.

I am Ivan Nikitchuk, a deputy of the State Duma.

I want to ask Mr. Dmitriev a question. You provided several examples of new technologies that are yielding a positive result from the environmental viewpoint.

We have a huge problem with waste. Roughly 90 trillion tonnes of industrial and domestic waste have been accumulated in this country, some of which are very hazardous to public health. Could you tell us whether the bank's portfolio includes any plans to solve this problem, which is extremely important for Russia?

V. Dmitriev:

Thank you.

Yes, our portfolio includes a number of projects focused on waste disposal – not only for solid household waste, but also industrial waste: medical, chemical, and so forth. In asking this question, you touched on a subject on which I focused when I answered the question about relations between the government and development institutions. You will agree that it would be strange if Vnesheconombank or the Development Bank of Kazakhstan or the Export–Import Bank of the United States went around their countries with Geiger counters, detected domestic waste, and then analysed business plans, constructed financial models, and conducted feasibility studies on how to combat and dispose of this waste. The government must accept this mission itself. It must appoint the waste disposal operators and instruct the development bank to support these operators with long-term, cheap financing. For example, the government has identified a landfill site near Izhevsk in Udmurtia, where there is a large amount of industrial waste which is hazardous to the environment and public health. The government appointed an operator, and instructed Vnesheconombank to support it with funds sufficient to dispose of this waste. That is what should be done throughout the entire nation.

This does not apply to waste alone. We must have a clear feedback mechanism between the bank and the government. In many cases, especially when we are dealing with structural reforms, it is not enough to declare areas of activity: supercomputers, pharmacology, medical equipment, information technology… It is important for the development institutions to understand with whom and on what projects they are working, and which of these projects have priority.

Your question hit the nail on the head. The closest possible relationship between the government and the development institutions must be ensured here. Thank you.

B. Moftah:

Thank you. Let me take one more question from the audience. Are there any more questions? Thank you very much to the panelists, and then again a quick reminder that Mr. Dmitriev will be talking a little bit about this too. We can do it now, actually, if you do not mind.

V. Dmitriev:

Yes, thank you.

I will just say a few words, and then one of the directors of our bank will make a detailed presentation for those wishing to learn about development prizes in detail. The Vnesheconombank Supervisory Board decided to establish an annual National Development Prize. This prize does not involve money; it is an acknowledgement of the contribution of a company to the development of the nation's economy. It will be awarded annually by the President of the Russian Federation during the St. Petersburg International Economic Forum on the recommendation of the Vnesheconombank Supervisory Board, which is chaired by the Prime Minister of the Russian Federation.

The prize will be established in several categories: best infrastructure project, best projects in various branches of industry, best comprehensive regional development project, and best investment development projects aimed at supporting small and medium-sized businesses. I call upon my Russian and foreign colleagues working here in Russia to visit the Vnesheconombank website, where the regulations of this prize will be available to view, and to enter the competition for these prizes, so that they might become a nominee at next year's St. Petersburg International Economic Forum and possibly receive the prize directly from the President of the Russian Federation.

Thank you.

B. Moftah:

Great. Thank you very much everybody.

From the floor:

I would like to thank my friends and my colleagues from the national, supranational and international institutions for development for participating in our seminar, for coming to St. Petersburg not only to represent your views, but to have communication with us, to exchange views, to share opinions, which is crucial for institutions for development working in national and international environments. Thank you.