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WORLD BANK GROUP



## FROM BILLIONS TO TRILLIONS: MDB Contributions to Financing for Development

In 2015, the international community is due to agree on a new set of comprehensive and universal sustainable development goals (SDGs) that bring together economic, social and environmental priorities. These goals are ambitious, and they demand equal ambition in using the “billions” in ODA and in available development resources to attract, leverage, and mobilize “trillions” in investments of all kinds: public and private, national and global, in both capital and capacity. This will require making the best possible use of each dollar from every source, drawing in and increasing available public resources as well as private sector finance and investment. In every country, regionally and at the global level, we must work together to generate the resources needed to realize the transformative vision of the proposed SDGs.

In April 2015, the African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDBG), and the World Bank Group (WBG), together known as the MDBs, and the International Monetary Fund (IMF) presented a joint vision of what we can do, within our respective institutional mandates, to support and finance achievement of the SDGs. We are now demonstrating what that vision means in practice as the MDBs and the IMF, collectively and individually, are committed to build upon and scale up financial support, technical assistance and policy advice to enhance the total contribution that we can make to global development.

**IDEAS TO ACTION:** Through collective and individual actions, initiatives and additional steps to enhance extensive work already underway in our organizations, the MDBs and the IMF will help countries, partners, investors, and the global community move from billions to trillions as we take up the challenge of achieving the SDGs.

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The MDBs and the IMF support partner countries in achieving their development goals by working on the ground through financial support, technical assistance, and policy advice. Central to our work is using our capital base to multiply funds several times and to put them to use for development – so **“a dollar in” managed by MDBs results in more than “a dollar out” in financing for development**, maximizing the impact of scarce resources. The value of this financial leverage, characteristic of the MDBs<sup>1</sup>, is complemented by the quality of our fiduciary oversight. In addition, our policy advice helps countries generate, attract, and manage additional flows to support sustainable development – from increased domestic resource mobilization through to private sector activities and investment. Our business models are well suited to help move the international community from billions of dollars in ODA and other official assistance to trillions in finance for development from all sources – public and private, national and global.

To help meet the challenge of the SDGs, within our respective mandates we are stepping up our efforts to:

- make the best possible use of our respective business models;
- enhance the leverage and the multiplier effect of our financing, technical assistance, and knowledge; and
- provide policy solutions and innovative financing responding to the specific needs of each country, each partner, each investor – and each global challenge.

At the same time, we are building up MDB cooperation across the SDG agenda by partnering on initiatives, projects and knowledge sharing to increase our impact and service to clients, and maximize the efficiency of our efforts as well as our development impact.

## THE MDBS AND THE IMF ARE ENGINES OF FINANCING FOR DEVELOPMENT

As financial institutions, the MDBs and the IMF multiply the capital, subscriptions and contributions invested with us to provide a range of financial support and products to our partner countries. On average, **when our shareholders invest 1 dollar once, MDBs are able to commit 2-5 dollars in new financing every year.**

During the 15-year effort to reach the Millennium Development Goals (MDGs), **MDB support has grown from \$50 billion to \$127 billion annually** in grants, concessional and non-concessional loans, risk-sharing instruments, guarantees and equity investment. As public institutions with a mandate to support development over the medium and long term, we also play a critical countercyclical role. At the peak of the most recent global economic crisis, the MDBs and the IMF were able to quickly ramp up our annual financial support by 30-50%.

Going forward, the MDBs are working to continue increasing the level of financing available to support our partner country efforts to achieve the SDGs. **During the first three years of the SDG period (2016 to 2018), the MDBs plan financial support of over \$400 billion.** Beyond these three-year plans, we aim to continue to use capital and resources at our disposal as efficiently as possible. We are also ready to put any additional resources allocated to us to multiply MDB efforts even further.

**Catalyzing, mobilizing and crowding in:** Even more important than the direct financial assistance provided by MDBs is how this assistance is used to catalyze, mobilize and crowd in both public and private sources of funds for development. **Through policy advice, technical assistance and capacity building, MDBs and the IMF support government efforts to increase available resources and spend them effectively;** through MDB policy support loans and IMF-supported programs, the institutions help countries meet budgetary and balance of payments needs, supporting macroeconomic stability and growth. This includes domestic public resource mobilization, deepening of local financial and capital markets, and creating a conducive climate for private investment, both local and international. MDB investments and IMF loans also directly catalyze private sector flows.

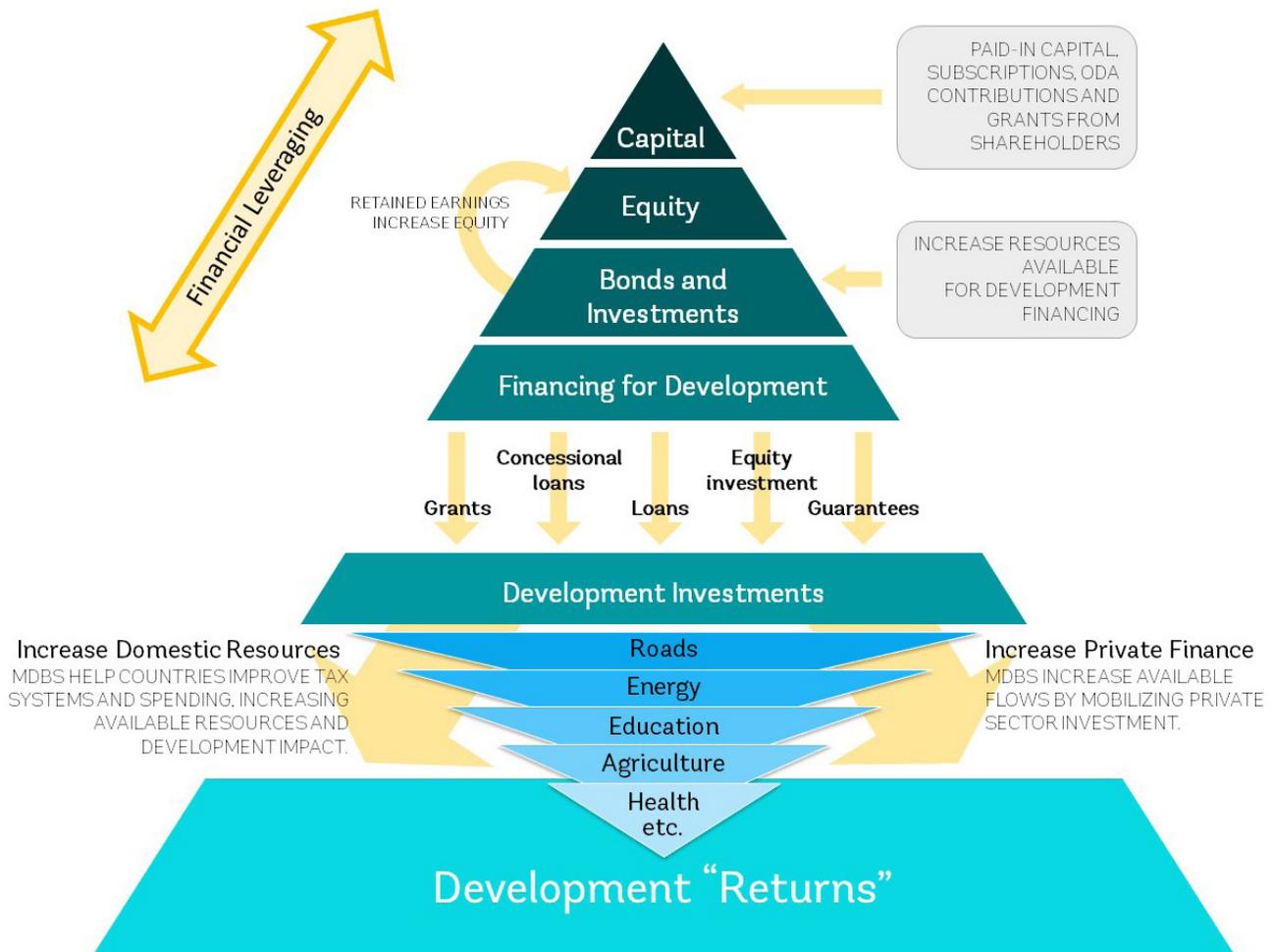
The multiplier effect of MDB financing on domestic public resource mobilization is significant but difficult to measure. With respect to direct private sector investment, **for every 1 dollar invested directly by MDBs in private sector operations, some 2-5 dollars are mobilized in additional private investment.** This adds an estimated \$40 to \$100 billion to development flows every year.

Catalyzing and channeling additional and new types of private flows to support development efforts will be a specific focus of the MDBs going forward. **MDBs have long acted as a bridge between the public and private sectors, able to convene a variety of actors around important development issues** – and so are well placed to deliver on this challenge.

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<sup>1</sup> The IMF has a fundamentally different business model and funding mechanism, based on members contributions to a central pool of funds.

## MDBS LEVERAGE AND MULTIPLY DEVELOPMENT RESOURCES AND IMPACT



## WE ARE EACH EXPLORING AND INNOVATING TO INCREASE AVAILABLE RESOURCES

Having adopted measures to increase our financing in the near term, the MDBs have a number of collective and individual initiatives under way, leading to more efficient use of our capital and resources to scale up financing to achieve the SDGs.

A key example is **exposure exchange agreements**, under which MDBs free up space for additional lending to country clients currently at their maximum limit in one MDB, by spreading the risk exposure across other MDBs. The WBG has tested this solution with the International Bank for Reconstruction and Development (IBRD) and the Multilateral Investment Guarantee Agency of the WBG, releasing resources for additional investment in Brazil and Panama. Scaling up this approach among the MDBs is now within reach.

Individually, we are looking to find new and different ways to deploy existing financial capacity more effectively. This includes **expanding access to traditional financing for the poorest countries, leveraging concessional windows in innovative ways without reducing funding for the poorest countries, and combining financial windows**. For example: (i) AfDB is opening its non-concessional window to the poorest countries; (ii) AsDB is combining the Asian Development Fund with its balance sheet; (iii) WBG’s “margins for maneuver” initiative is leveraging IBRD’s

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## STEPPING UP OUR COOPERATION

### Opening up the project pipeline in infrastructure

MDBs have a strong record of cooperation on infrastructure, working together to design programs and practical tools to help countries attract private investors. The MDBs' active networks bring together in-depth and global expertise on infrastructure policy and design, as well as practitioners engaged in the business of structuring, financing and implementing projects. The MDB infrastructure working group is building harmonized approaches to project preparation, procurement, supervision, monitoring and reporting. Yet the challenge for infrastructure in the developing world is not limited to the availability of finance alone — there is also the bottleneck of a lack of investable projects.

Therefore, in addition to our traditional portfolio of products for infrastructure development such as non-sovereign financing windows, guarantees and other co-financing and risk-mitigation instruments, and to creating new specialized project preparation, the MDBs have come together to support the **G20 Global Infrastructure Hub** and the **WBG-hosted Global Infrastructure Facility**, which will support greater collaboration in preparing and structuring complex infrastructure projects to attract long-term financing from private investors. And all the MDBs are strengthening the infrastructure pipeline through project preparation facilities (PPFs). These include *IDBG's InfraFund*, *AfDB's NEPAD Infrastructure PPF*, *EIB-hosted initiatives such as the Arab Financing Facility Technical Assistance Fund* (co-managed by Islamic Development Bank and IFC); *EBRD's Infrastructure PPF*; *AsDB's Asia Pacific PPF*, as well as *AfDB's Africa50 Initiative*, which will focus on both project preparation and project finance.

**Going forward**, we will enhance our cooperation with each other and with existing and new institutions. We will ensure that our support and financing on the ground are effective and complementary, and promote developing country leadership and ownership. We will lead the infrastructure forum proposed in the Addis Action Agenda, working to identify and address infrastructure and capacity gaps in poor countries, and to highlight opportunities for investment, alignment and coordination.

balance sheet and IDA is discussing ways to leverage its capital for non-concessional loans. IFC is also expanding its Asset Management Company and syndications platforms to mobilize more third party capital; (iv) EIB is further enhancing its use of risk-sharing instruments, blending concessional and non-concessional resources to bring projects to a credit level acceptable to private investors; (v) EBRD is establishing new vehicles to allow institutional investors to participate in its investments; (vi) IDBG is consolidating its private sector activities, supported by a \$2 billion capital increase and a proposal to establish an asset management company to channel institutional investor funds; and (vii) the IMF has increased access to IMF loans for low-income countries by 50%, with a similar increase in access to fast-disbursing loans for countries hit by disasters or conflict situations.

These efforts to use our resources more efficiently, and expand our financial support, will contribute to growth in investment for sustainable development.

## WE ARE SCALING UP OUR WORK TO HELP COUNTRIES MAXIMIZE THEIR OWN RESOURCES

In the critical area of increasing domestic resources for development, we will deepen our ability and commitment to provide sound and tailor-made advice. We will work with our client countries at national and sub-national levels to increase available public funds for sustainable development, including raising tax revenues, improving the quality of expenditures, and managing risks.

We will also improve our coordination in policy guidance and capacity-building activities at the country level; support policy networks at the sub-regional, regional and global levels; share our experience and good practices; and scale up guidance and toolkits in key areas. Examples of our increased efforts in these areas include a new IMF-WBG partnership on tax diagnostics, and AfDB's increased budget support for domestic resource mobilization and public financial management.

## WE CONTINUE TO INVEST IN HELPING COUNTRIES DEVELOP THE POLICY ENVIRONMENTS TO ATTRACT AND MANAGE GREATER FINANCING FLOWS

Increasing external resource flows to developing countries for investment is essential to achieve the SDGs — but these flows will materialize only when countries have coherent development strategies consistent with maintaining macroeconomic stability and are able to ensure the delivery of key public sector services and a business environment supportive of growth. Through **policy advice and technical assistance**, **the MDBs and IMF support countries in designing economic policies** to achieve these objectives; through MDB development policy loans and IMF-supported programs, we provide general financial support towards meeting budgetary and balance of payments needs.

Within our respective institutional mandates, MDBs work in all countries and across all sectoral areas to support partner countries in developing sound regulatory frameworks and investment climates that can attract additional private investment. This area has been integral to our work for many years, but — with a view to supporting and increasing private sector engagement and investment in support of the SDGs — we are scaling up our efforts and developing new instruments where needed. Examples include the EBRD's Investment Climate and Governance Initiative as part of a broader program of enhanced policy dialogue and the IDBG's Institutional Capacity Strengthening Fund.

We are deepening our efforts to **strengthen local financial and capital markets**, which are sources of stable and sustainable finance for the real economy and key to countries' ability to finance their own development. Work includes: technical and policy advice on institutions and regulations; financing market infrastructure development; strengthening effective regulatory capacity; providing credit enhancement, structured finance and hedging solutions to increase the attractiveness of bond offerings, including local currency bonds; and better leveraging our own resources. Where applicable, we will help **deepen domestic bond markets and develop regional capital markets**, including regional bond funds to increase operating scale for greater efficiency and risk diversification.

We will also work to deepen and **expand local banking and other domestic finance** through capacity building to expand domestic investor bases, support financial inclusion through micro, small- and medium-sized enterprises (MSMEs), **enhance financial infrastructure to encourage lending to underserved parts of the economy**, conduct dialogue with financial regulators to promote responsible growth in financial markets, work with MSMEs to help them attract private finance, and design policies and make investments to promote financial inclusion and access to finance.

## WE ARE SCALING UP OUR WORK WITH THE PRIVATE SECTOR, EXPANDING OUR ROLE AS INTERMEDIARIES AND INVESTORS, DRAWING PRIVATE SECTOR FINANCE TO DEVELOPMENT

**Drawing in private sector business and investment** will be key to reaching the trillions needed to achieve the SDGs. At the interface of the public and private sectors, we are ready to play a catalytic role to unlock the potential of private finance.

By design, **MDB private sector operations leverage other sources of finance, particularly private sector co-investment**. MDBs generally finance only a share of total project cost, mobilizing additional investors through syndications and other pooled funding structures. This finance, along with the accompanying structuring, advice and risk mitigation, helps crowd in additional project finance. When MDBs invest in new areas or in high-risk environments there is an important demonstration effect that can lead to additional projects and new investors.

**Our direct private sector investments have increased fourfold during the MDG period**. Looking ahead to the SDG period, we are further reinforcing and scaling up our private sector capabilities. We will also increase our efforts to attract private sector investors to partner countries in support of the SDGs by:

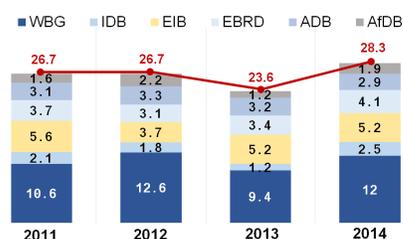
- stepping up our efforts to build up a pipeline of viable projects attractive to private sector investors through our dedicated Project Preparation Facilities; and
- working together to find ways to mobilize private sector activity and investment in a more systematic fashion than on a project-by-project basis through: (i) exploring effective ways to address risk, setting up individual or joint mechanisms to provide guarantees, risk insurance, blended finance, and other risk mitigation measures (e.g., structured finance); (ii) exploring the possibilities of structuring pooled vehicles or co-investment platforms at national, regional or multilateral levels to reduce individual investor costs for project preparation and execution; and (iii) providing credit enhancement, allowing risks to be shared with official entities.

## STEPPING UP OUR COOPERATION

### Delivering climate finance

The MDBs play a key role in helping turn government and ODA resources into much larger – and long-term – private investments that support a low-carbon, resilient economy. In 2013, MDBs committed over \$28 billion for climate action in developing and emerging economies, bringing total commitments over the past four years to over \$100 billion.

Total Climate Financing By MDB  
2011-2014 (USD Billions)



Note: EIB numbers for all four years are restricted to developing and emerging economies in transition, therefore excludes EU-15 countries where EIB is also active. EIB numbers for 2011 were amended (from that in the 2011 reports) to include EU-13 climate finance numbers, allowing for full geographical comparability among all four years.

*Going forward*, we will scale up financing for demand-driven climate action – for clean and sustainable energy solutions, sustainable transport, urban development, climate smart agriculture and forestry. We will continue to work together and in complementary ways as implementing agencies for the Global Environment Facility, the Climate Investment Funds, the Green Climate Fund and others, and as partners in global initiatives like Sustainable Energy for All (SE4ALL).

## OUR COLLECTIVE EFFORTS WILL HELP MULTIPLY BILLIONS INTO TRILLIONS TO END POVERTY AND BUILD LONG-TERM PROSPERITY



*Even more important than the direct financing provided by MDBs is how this financial assistance is used to catalyze, mobilize and crowd in both public and private sources of funds for development.*



The SDGs are ambitious and achieving them will require collective action and partnership. Countries must be in the driver's seat, leading the development process and building strong enabling environments for development. With our extensive expertise, the MDBs and IMF have been engines of finance for the global development community, with business models that empower us not only to provide much needed policy advice but to play a catalytic role in mobilizing and leveraging funds from varied sources – moving forward from traditional “development finance” to a wider and more comprehensive approach to “financing for development.”

As the world begins implementing the SDG agenda, the MDBs and the IMF recognize that we can and should be doing more. For this reason, we are significantly stepping up collaboration and innovation in order to support its partner countries' efforts to help achieve this ambitious set of goals.

By assisting government efforts to scale up domestic resource mobilization; by helping develop the private sector and deepen domestic financial markets; by creating platforms for identifying, structuring and financing infrastructure and other projects and for bringing in additional sources of financing; and by innovating to support global public goods, the “billions” of dollars of MDB and IMF shareholder capital and contributions can multiply to support the “trillions” needed for financing development.

### STEPPING UP OUR COOPERATION

#### Building better data for development

Timely, accessible, reliable data are essential for good development policy and decision-making – and the raw material for accountability. We work according to a common set of principles to guide our technical and financial collaboration on data challenges.

*Going forward*, we will help to develop a global consensus on principles and standards for development data, and we will pursue smart domestic, global and innovative approaches to support the needs of both producers and users of data.

### STEPPING UP OUR COOPERATION

#### Measuring climate finance

MDBs are committed to a harmonized, transparent and robust approach to tracking and reporting climate mitigation and adaptation finance. The MDBs and the International Development Finance Club of national and sub-regional development banks have developed harmonized principles for tracking both mitigation and adaptation finance. These principles can underpin objective, non-contentious assessment of climate finance efforts, encouraging engagement and increasing flows.

*Going forward*, we will foster wider adoption of these mitigation and adaptation finance tracking principles, and develop joint principles for measuring the amount of public and private finance we leverage, drawing on our collective experience and good practice.