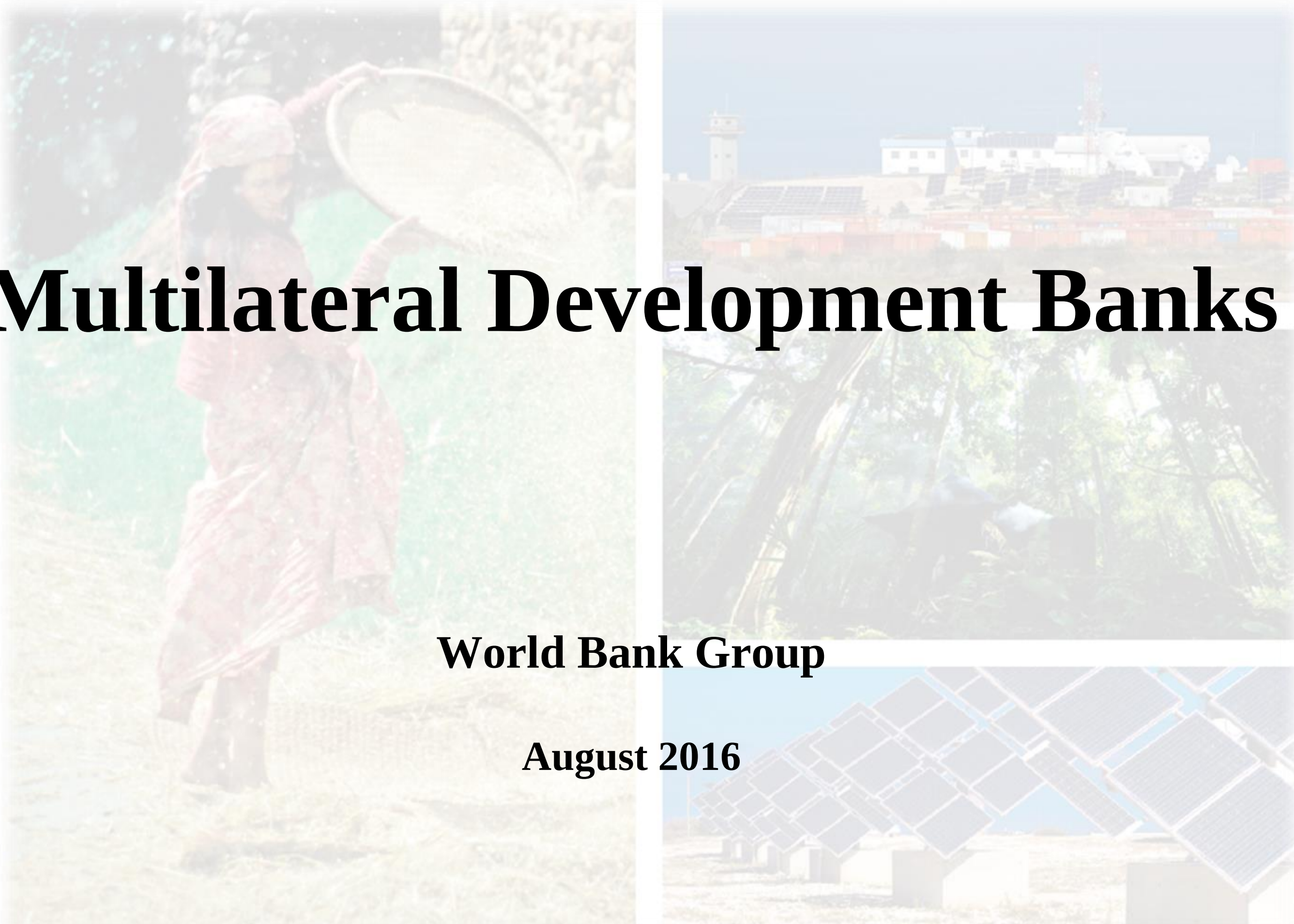
INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series



Multilateral Development Banks

World Bank Group

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More Information
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1. Introduction

The Addis Ababa Action Agenda (AAAA) recognizes the significant potential of MDBs and the International Monetary Fund (IMF) to support the 2030 Agenda.[1]

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 the MDBs work is using their 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[2], is complemented by the quality of their fiduciary oversight. In addition, MDBs and IMF 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. MDB business models are well suited to help move the international community from billions of dollars in Official Development Assistance (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 their respective mandates and in support of the Addis Ababa Action Agenda on Financing for Development, MDBs are stepping up efforts to:

- Make the best possible use of their respective business models;
- Enhance the leverage and multiplier effect of our financing, technical assistance, and knowledge; and
- Provide policy solutions and innovative financing to respond to the specific needs of each country, each partner, each investor – and each global challenge.

2. Stocktaking

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

[1] The MDB "group" here referenced includes: Asian Development Bank (ADB); African Development Bank (AfDB); European Bank for Reconstruction and Development (EBRD); European Investment Bank (EIB), Inter-American Development Bank (IADB); and the World Bank Group (WBG – IDA/IBRD/IFC/MIGA).
[2] The IMF has a fundamentally different business model and funding mechanism, based on members contributions to a central pool of funds.

MDBs are working to continue increasing the level of financing available to support 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, MDBs aim to continue to use capital and resources at their disposal as efficiently as possible.

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. MDB policy support loans and IMF-supported programs help countries meet budgetary and balance of payments needs, and support 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.

3. Moving forward

A number of collective and individual initiatives have been taken by the MDBs in support of the AAAA. Annex 1 provides an overview of ongoing activities (to be by updated by MDBs yearly).

Individually, MDBs 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, as well as combining financial windows.

For example:

- AfDB is opening its non-concessional window to the poorest countries;
- (ii) AsDB is combining the Asian Development Fund loan portfolio with its balance sheet;
- (iii) WBG's "margins for maneuver" initiative is leveraging IBRD's balance sheet and the IDA18 replenishment is discussing ways to leverage its capital for non-concessional loans through a private sector set aside window.
- The IFC is 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) IDB 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.

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 MDBs traditional portfolio of products for infrastructure development such as non-sovereign financing windows, guarantees and other co-financing and risk-mitigation instruments, and 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. The MDBs are strengthening the infrastructure pipeline through project preparation facilities (PPFs). These include IDB 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.

The recently established Global Infrastructure Forum (April 2016) aims to enhance coordination among multilateral development banks and their development partners to better develop sustainable, accessible, resilient, and quality infrastructure for developing countries, and focuses on how governments and their working partners can attract more resources for infrastructure. The forum is jointly organized by the multilateral development banks (MDBs): African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, Islamic Development Bank, New Development Bank BRICS, and the World Bank Group, in close partnership with the United Nations (UN).

SCALING UP TO HELP COUNTRIES MAXIMIZE IMPACT OF THEIR OWN RESOURCES

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

MDBs will improve their coordination in policy guidance and capacity-building activities at the country level; support policy networks at the sub-regional, regional and global levels; share their experience and good practices; and scale up guidance and toolkits in key areas, including Illicit Financial Flows. Examples of increased efforts in these areas include a new IMF-WBG partnership on tax diagnostics[3], and AfDB's increased budget support for domestic resource mobilization and public financial management.

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 their 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 the MDBs core work, but – with a view to supporting and increasing private sector engagement and investment in support of the SDGs – MDBs are committed to scaling up their 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.

MDBs are deepening their 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. This work includes: technical and policy advice on institutions and regulations; financing market infrastructure development; strengthening effective

[3] The institutions plan to strengthen their diagnostic tools, developing new methodologies where needed, to enable member countries to identify priority tax reforms and design the requisite support for their implementation. This effort would complement the launch of the Tax Administration Diagnostic Assessment Tool (TADAT) in November.

regulatory capacity; providing credit enhancement, structured finance and hedging solutions to increase the attractiveness of bond offerings, including local currency bonds.. Where applicable, MDBs can help deepen domestic bond markets and develop regional capital markets, including regional bond funds to increase operating scale for greater efficiency and risk diversification.

MDBs 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.

SCALING UP WORK WITH THE PRIVATE SECTOR, EXPANDING THEIR 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, MDBs stand 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 costs, mobilizing additional investors through syndications and other pooled funding structures. This finance, along with accompanying 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.

MDB direct private sector investments increased fourfold during the MDG period. Looking ahead to the SDG period, MDBs will be further reinforcing and scaling up their private sector capabilities. MDBs will also increase their efforts to attract private sector investors to partner countries in support of the SDGs by:

- Stepping up 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 risks - 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 possibility 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.

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.

Going forward, MDBs plan to scale up financing for demand-driven climate action – for clean and sustainable energy solutions, sustainable transport, urban development, climate smart agriculture and forestry. MDBs 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).

Annex 1. Addis Ababa Action Agenda – WBG/MDB commitments to FFD

In July 2015, world leaders came together in Addis Ababa, Ethiopia to adopt the Addis Ababa Action Agenda (AAAA) at the Third International Conference on Financing for Development. The WBG and MDBs made a number of commitments which dovetail with specific actions that are highlighted in the AAAA, as reflected in the matrix below.

Key AAAA statements referring to MDB/IFIs	*WBG action*
As a key pillar to meet the sustainable development goals, we call for **the establishment of a global infrastructure forum building on existing multilateral collaboration mechanisms, led by the multilateral development banks.** This forum will meet periodically to improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, United Nations agencies, and national institutions, development partners and the private sector (AAAA, p. 8)	*Global Infrastructure Forum launched 2016 Spring Meetings by MDB heads*
We will work to **improve the fairness, transparency, efficiency and effectiveness of our tax systems**, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances. In this regard, we will strengthen international cooperation to support efforts to build capacity in developing countries, including through enhanced official development assistance (AAA, p.11)	*Joint WBG-IMF Tax Initiative launched at the 2015 Annual Meetings* *Progress?*
To help **combat illicit flows**, we invite the International Monetary Fund (IMF), the World Bank and the United Nations to assist both source and destination countries. We also invite appropriate international institutions and regional organizations to publish estimates of the volume and composition of illicit financial flows (AAAA, p.12)	*WBG Board paper "A Stock-Taking of the World Bank Group's response to Illicit Financial Flows: Past, Present, and Future"* presented to the Board, March 2016
We invite the multilateral development banks and other international development banks to continue providing both concessional and non-concessional stable, long-term development finance by leveraging contributions and capital, and by mobilizing resources from capital markets. **We stress that development banks should make optimal use of their resources and balance sheets, consistent with maintaining their financial integrity, and should update and develop their policies in support of the post-2015 development agenda, including the sustainable development goals**. We encourage the multilateral development finance institutions to establish a process to examine their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda (AAAA, p.33)	*IDA deputies endorsed the proposal to create a US$2.5 billion IFC-MIGA Private Sector Window (PSW) in IDA18 on a pilot basis, to further promote private sector development in IDA-only countries, with a focus on FCS. The PSW will draw on IFC's and MIGA's long-standing experience in emerging markets where overall investment and guarantee underwriting experience.* *Margins for Maneuver* *MDB Heads meetings (Zurich papers discussed – Balance Sheet Optimization; Displacement ;Infrastructure; and Climate Change)*

Development banks can play a particularly important role in alleviating constraints on financing development, including quality infrastructure investment, including for sub-sovereign loans. We welcome efforts by new development banks to develop safeguard systems in open consultation with stakeholders on the basis of established international standards, and encourage all development banks to establish or maintain social and environmental safeguards systems, including on human rights, gender equality and women's empowerment, that are transparent, effective, efficient and time-sensitive. ***We encourage multilateral development banks to further develop instruments to channel the resources of long-term investors towards sustainable development, including through long-term infrastructure and green bonds****.* We underline that regional investments in key priority sectors require the expansion of new financing mechanisms, and call upon multilateral and regional development finance institutions to support regional and subregional organizations and programmes.(AAAA, p.35)	*USD400 billion lending for 2016-18 joint MDB and IMF announcement in Addis.* *IFC's financing and overall mobilization (which includes AMC, syndications and other portfolios) is projected to have annual growth of 8-10 percent in long term commitment volume through FY18; while MIGA is aiming to achieve a 50% increase in new guarantees by FY17.* *WBG mobilization task force* *WBG Executive Directors Forward Look: Operationalizing FFD across the WBG – Connecting the B2T vision to the WBG operational frontlines* *WBG Steering Committee on use of Guarantees launched Q3 2016.* *WBG sponsored Development Finance Forum*
Multi-stakeholder partnerships, **such as the Global Alliance for Vaccines and Immunization (Gavi) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, have also achieved results in the field of health**. We encourage a better alignment between such initiatives, and encourage them to improve their contribution to strengthening health systems.	*The WBG sponsored Pandemic Emergency Fund (PEF)*
To ensure a strengthened follow-up process at the global level, we encourage the **Secretary-General to convene an inter-agency task force, including the major institutional stakeholders and the United Nations system, including funds and programs and specialized agencies whose mandates are related to the follow-up, building on the experience of the Millennium Development Goals Gap Task Force.** The inter-agency task force will report annually on progress in implementing the financing for development outcomes and the means of implementation of the post2015 development agenda and advise the intergovernmental follow-up thereto on progress, implementation gaps and recommendations for corrective action, while taking into consideration the national and regional dimensions (AAAA, p. 61)	*WBG major institutional stakeholder of the IATF (together with IMF, UNCTAD, UNDP and WTO). Providing substantive inputs from across the WBG to the inaugural IATF progress report from across the WBG.*