DEVELOPMENT COMMITTEE
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of the
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on the
Transfer of Real Resources to Developing Countries)

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FROM BILLIONS TO TRILLIONS: TRANSFORMING DEVELOPMENT FINANCE POST-2015 FINANCING FOR DEVELOPMENT: MULTILATERAL DEVELOPMENT FINANCE

Attached is a document entitled "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance" prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group for the April 18, 2015 Development Committee meeting.

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From Billions to Trillions: Transforming Development Finance

Post-2015 Financing for Development: Multilateral Development Finance

Development Committee Discussion Note

Prepared jointly by

African Development Bank

Asian Development Bank

European Bank for Reconstruction and Development

European Investment Bank

Inter-American Development Bank

International Monetary Fund

and

World Bank Group

<u>From Billions to Trillions: Transforming Development Finance</u>

To meet the investment needs of the Sustainable Development Goals, the global community needs to move the discussion from "Billions" in ODA to "Trillions" in investments of all kinds: public and private, national and global, in both capital and capacity.

Globally, achieving the proposed SDGs will require the best possible use of each grant dollar, beginning with some US$ 135 billion in ODA. Yet flows for development include philanthropy, remittances, South-South flows and other official assistance, and foreign direct investment—together these sources amount to nearly US$ 1 trillion that needs to be used just as effectively. The most substantial development spending happens at the national level in the form of public resources, while the largest potential is from private sector business, finance and investment. This is the trajectory from billions to trillions, which each country and the global community must support together to finance and achieve the transformative vision of the SDGs.

"Billions to trillions" is shorthand for the realization that achieving the SDGs will require more than money. It needs a global change of mindsets, approaches and accountabilities to reflect and transform the new reality of a developing world with highly varied country contexts.

This Development Committee Discussion Note is the joint product of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and World Bank Group. In this critical year for development, we have come together to explore and confirm what we can do, within our respective institutional mandates, to support, and in particular finance, the eventual achievement of the proposed post-2015 Sustainable Development Goals (SDGs). We are financial institutions committed to eradicate poverty and inequality, able to leverage and catalyze public and private development finance as well as to provide technical assistance, learning opportunities and policy advice to our clients.

The Third International Conference on Financing for Development in Addis Ababa in July[1] *will be an important milestone in the post-2015 global effort to achieve universal and sustainable development, underpinning the expected adoption of the SDGs at the UN Special Summit for Sustainable Development in New York in September. This trajectory will continue with the World Bank Group—International Monetary Fund Annual Meetings in Lima in October, and with the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change in Paris in December, which seeks a new international agreement on climate change. In short, 2015 will create a platform to support global development aspirations for the next 15 years.*

This note proposes a preliminary vision for the collective role of our institutions looking toward the Addis Financing for Development Conference and beyond. Guidance is sought from Development Committee members, who include shareholders from each of our institutions, on how the Multilateral Development Banks (MDBs) and the International Monetary Fund (IMF) might best cooperate with respect to our individual and shared responsibilities and activities to support country clients in financing the Sustainable Development Goals.

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[1] The Zero Draft of the Outcome Document for the Third International Conference on Financing for Development may be found at http://www.un.org/esa/ffd/wp-content/uploads/2015/03/1ds-zero-draft-outcome.pdf .

1. **The proposed SDGs are ambitious.** They aim to meet the dual challenge of overcoming poverty and protecting the planet. They will build on the experience acquired in pursuing the Millennium Development Goals (MDGs) and pick up the unfinished agenda,[2] but they go further, highlighting a comprehensive vision of sustainable development that embraces economic, social and environmental dimensions. The financing resources needed to achieve the SDGs will surpass current development financial flows.

2. **More financial resources are available globally,** but channeling them to support the SDGs will be a challenge. In principle, humanity has the resources to achieve the SDGs. Reflecting developments in the global economy over the last decade, large amounts of investable resources, mostly private, are available in advanced and emerging economies. In addition, domestic public resources, even in low-income countries, can be increased. However, not all available public and private resources will automatically be allocated and used effectively to support the SDGs. Nor are they programmable by—or responsive to—policy making bodies or conferences.

3. **A paradigm shift on how development will be financed is required to unlock the resources needed to achieve the SDGs.** The world needs intelligent development finance that goes well beyond filling financing gaps and that can be used strategically to unlock, leverage, and catalyze private flows and domestic resources. Official Development Assistance (ODA) will remain an important source of external public financing. ODA levels can and should rise as developed countries increase assistance levels – and all available grant funding is critical and should be used as effectively as possible. Yet ODA flows are only a small part of development flows. In the future, ODA must be targeted increasingly to crowd in other funding sources: (i) for Low-Income Countries (LICs), on the basis of poverty, vulnerability, and limited fiscal capacity; and (ii) for Middle-Income Countries (MICs), by playing an increasing role to leverage and catalyze public and private sources of financing.

4. To help generate the needed flows—domestic public resources and private finance—**MDBs and the IMF have two primary functions**: **providing policy guidance, and development finance and financial support to clients.** The business models of the MDBs and the IMF reflect shared attributes including:

1) **Financial leverage**: The financial structure and financing capabilities of the MDBs and the IMF enable them to leverage their capital to provide finance in many forms (from grants to "blended" concessional finance to loans to guarantees to equity investment) and purposes. The non-concessional institutions/windows of the MDBs are funded efficiently by small amounts of paid-in capital, in many cases backed by callable capital.[3] Leveraging these amounts, the banking model of the MDBs mobilizes substantial resources from the capital markets at interest rates reflecting their strong financial structure and high ratings. In addition, grant and concessional funding from shareholders and other development partners supports concessional financing for the poorest, fragile and conflict-affected states. The MDBs received inflows from their shareholders of around US$ 38 billion in 2012.[4] These flows allowed the MDBs to make public and private disbursements of US$ 99 billion in developing countries in 2013, and to approve new commitments for US$ 173 billion.[5]

[2] World Bank Group, "Global Monitoring Report 2014/2015: Ending Poverty and Sharing Prosperity," 2015
[3] The MDBs provide non-concessional financial assistance to MICs and some creditworthy LICs on market-based terms. They also provide concessional assistance to LICs, including grants and loans at below-market interest rates.
[4] OECD DAC report "What do we know about multilateral aid?" page 3, 2012
[5] Disbursement and commitment figures taken from 2013 Annual Reports of respective MDBs and IMF.

2) **Policy guidance and technical assistance**: In their direct engagements with shareholder client countries, MDBs help to design and implement demand-based, country-driven, cross-sectoral technical and financial development solutions; while the IMF provides macroeconomic and financial sector policy advice and customized technical assistance. Working with developing countries through national policy dialogue and financial support, the MDBs support investment in systems, institutions, markets and capacity that underpin development interventions, and provide a collaboration platform for development partners to come in behind country-owned programs and priorities; IMF financing supports government economic programs to maintain or restore macroeconomic stability and growth.

3) **Private finance and investment**: Private resources move in directions determined by risk-reward considerations, which in turn are driven by public policies in both host and source countries. Shifting the allocation of investable funds to better meet development needs is thus an issue of "getting policies right" – whether at the national or international level. Much of the work of the MDBs engaged in policy-based lending, and of the IMF in its country engagement, focuses on getting domestic policies right. In addition, MDBs are innovators, intermediaries and co-investors, acting as honest brokers between public and private actors and able to leverage and crowd in essential private finance and investment and to support the efforts of governments to strengthen investment climates. Several MDBs have specific mandates focused on private sector engagement, others have private sector "windows" and work streams that demonstrate that private investments in developing economies can be profitable, and that incentivize and build market solutions. MDB investment and financing attracts and mobilizes private capital to invest alongside the MDBs themselves.

4) **Global/regional development issues**: The entire international community is involved in global development issues. The primary role of the MDBs and the IMF is to provide financing and technical support to countries both directly and, for MDBs, through global programs they administer and implement. For climate change, MDBs have put in place a wide range of innovative national and global approaches to adaptation and mitigation. The IMF supports the workings of the international monetary system and, more widely, promotes the cooperation across countries needed to ensure global economic and financial stability; this has included the provision of a global financial safety net, supported by credit lines from its financially strongest members.

5. **The MDBs and the IMF will work with clients and development partners to help translate the SDGs into country level targets, policies and programs and to finance their implementation, committing to**:

1) **Explore increasing available financial resources**: Each of the MDBs can explore how to make best use of its specific financial model and circumstances to increase available funds, including by supplementing scarce concessional assistance to the Lower Middle Income Countries (LMICs) with additional development financing at non-concessional terms. MDBs can explore new or different uses of their balance sheets, such as leveraging the concessional windows in innovative ways; assessing whether any existing financial capacity could be re-deployed; freeing up financial capacity by mitigating risks (including increasing analysis of concentration risks and how they are managed); or adjusting or exchanging existing exposure to increase "headroom" capacity for countries where lending is currently limited. In due course and in response to client demand, additional capital would allow these institutions to do more.

2) **Expand policy guidance and technical assistance for domestic resource mobilization and spending**: In the critical area of increasing domestic resources for development, the MDBs and the IMF can deepen their capacity and commitment to provide advice, build capacity, and help client countries at both the national and subnational levels increase tax revenues, improve the quality of expenditures, and manage risks.

3) **Promote and catalyze private investment**: Equity investment in developing country enterprises is fundamental. In the context of the withdrawal of investment interest in many development countries from multinational banks, MDBs can provide new and expanded channels to address risk and uncertainty, and thus mobilize resources and co-investment from both existing and non-traditional sources of capital such as pension funds, sovereign wealth funds, and insurance companies. MDBs also provide support for well-designed risk-taking to encourage and enhance innovation. Through their investment, engagement and policy guidance, MDBs can help countries establish a supportive investment climate to mobilize private capital for investment in development. MDBs can also intensify work on financial arrangements that catalyze and leverage traditional as well as private sources of financing.

4) **Support international action on global/regional development issues**: MDBs can help design and coordinate approaches relating to core global and regional development issues such as gender equality, youth and excluded populations, trade and integration. The IMF, through its multilateral surveillance and related policy work, supports international efforts to ensure global macroeconomic and financial stability. For climate change in particular, MDBs can support the collective financing ambition that needs to be agreed in 2015, as well as demonstrate ways in which development objectives and climate finance complement each other and reinforce their respective impacts. Working with country clients, MDBs can help design and implement climate actions that generate multiple local health, agricultural, employment and resilience benefits. The IMF and some MDBs can also provide policy advice and technical assistance on environmentally-linked tax measures, notably on fossil fuels.

5) **Further improve coordination and alignment**: The MDBs and the IMF can work together more closely to support implementation of the post-2015 development agenda. The MDBs already coordinate with each other through many working groups that tackle practical issues across the development landscape, and they support and engage in partnerships and platforms for South-South and broader cooperation across multilateral, regional, national, and bilateral development institutions and civil society organizations. The MDBs and the IMF commit to continue to improve coordination and to strengthen working relationships with each other, particularly in providing financial and non-financial support at the regional, country, and subnational levels. Continued joint work on infrastructure project preparation and financing, where the needs are vast, can benefit from even greater coordination and information exchange to improve design and reduce the burden on countries. Joint efforts to shape the post-2015 data agenda, mobilize technical and financial support, and foster coherent methodologies and data management will be enhanced.[6] The MDBs are working together with bilateral development banks to build effective ways to mainstream climate change into development, including developing joint principles to track mitigation and adaptation finance and to measure leverage in the lead-up to COP 21.

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[6] MDBs, IMF and the UN signed a Memorandum of Understanding to strengthen inter-agency sharing and collaboration on issues related to data and statistical capacity building, October 2013

6. **The MDBs use development financing solutions** beyond traditional loans that can be grouped into four broad categories: (1) *adding*, *pooling* and *enabling* instruments to generate new flows, or more results for the same money; (2) *debt-based/right-timing* instruments that match flows to when cash is needed; (3) *risk management* instruments to manage or reduce risk for investors (correcting market failures, reducing regulatory risk) or consumers (e.g., weather insurance for farmers, local currency matching for micro, small and medium-sized enterprises (MSMEs)); and (4) *results-based financing* where payments are made specifically for desired results. Specific financing solutions can be customized to solve specific issues, or designed to be replicated or taken to scale. A catalogue of financing solutions will be made available online in due course.

7. The framing of this Discussion Note reflects the approach to financing for development taken in UN documents going back to the 2002 Monterrey Consensus, with its emphasis on public and private, domestic and international financing to support countries—each of which has primary responsibility for its own economic and social development. **Section I** of this paper provides a snapshot of the current global financial development landscape. **Section II** reviews public and private sector roles in financing the development agenda, including on delivering global and regional public goods that are critical to development. **Section III** briefly categorizes development financing solutions deployed by the MDBs to increase leverage and crowd in private and public financial flows towards sustainable development initiatives.

[7] Brazil, Russia, India, China and South Africa.
[8] OECD DAC Definition of ODA at http://www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf