


WORLD BANK GROUP

 THE WORLD BANK
IBRD • IDA
IFC International
Finance Corporation
MIGA Multilateral Investment
Guarantee Agency

MAXIMIZING FINANCE FOR DEVELOPMENT (MFD)

About the World Bank Group

The World Bank Group is one of the world's largest sources of funding and development expertise for developing countries. It comprises five closely associated institutions:

- IBRD and IDA, which together form the World Bank;
- IFC;
- MIGA; and
- the International Centre for Settlement of Investment Disputes (ICSID).

Each institution plays a distinct role in pursuing the World Bank Group's mission to fight poverty and improve living standards for people in the developing world.

The World Bank Group is engaged in a crucial effort to redefine our approach to development finance, address the rising aspirations of the poor, and achieve our goals of ending extreme poverty and boosting shared prosperity. Our approach, MFD, entails leveraging the private sector in ways that optimize the use of scarce public resources.

Our aim is to improve the lives of poor people while promoting good governance and helping ensure environmental and social sustainability. While estimates vary, analysts say it could cost up to \$4.5 trillion a year in state spending, investment, and aid to meet the sustainable development goals. Hence, it will be nearly impossible to meet these goals by relying on public funding alone. The private sector can play a much bigger role in socially and environmentally responsible development, both as an investor and as a source of innovation and expertise.

Our client countries will need a broad range of solutions to meet their development goals, to ensure inclusive and sustainable growth without pushing the public sector into unsustainable levels of debt and contingent liabilities. The Hamburg Principles, adopted at the G20 in July 2017, emphasize country ownership in defining investment priorities and the potential of the private sector in providing solutions.

Today, many governments seek the private sector's help to advance development goals, including transformation of sectors that provide essential services or are critical to economic growth. Many businesses offer valuable skills, resources, and access to markets—and many recognize that promoting sustainable development makes good business sense.

The MFD approach builds on substantial experience across the World Bank Group in helping governments crowd in the private sector to help meet development goals. MFD seeks to make this systematic across our institutions and financial instruments. Recent examples of cross-World Bank Group collaboration on private solutions provide some important lessons.

Vision

MFD aligns development efforts into a shared vision, led by client countries with support from the World Bank Group and other multilateral development banks (MDBs), investors, and partners. The private sector plays a substantially bigger role, both as a financier and as a source of knowledge, expertise, and innovation that can yield transformative solutions. The public sector develops legal and regulatory frameworks, works on key policy reforms, engages new partners to achieve development goals, and acts when private solutions are not available.

Strategy

Our member governments are asking for World Bank Group assistance in crowding in private solutions for development. We are working in several countries to implement the MFD approach, focusing on infrastructure and other sectors that benefit economic growth, poverty reduction, human capital, and resilience. These efforts build on ongoing WBG programs that aim to address binding constraints and unlock opportunities for the private sector to play a bigger role in development.

We will closely monitor the impact, particularly how the pilots benefit poor people. Based on lessons learned, the aim is to scale up, geographically and by sector. Lessons will continue to be incorporated as the MFD approach is rolled out more generally.

How MFD works

The Principles for Crowding-in Private Sector Finance for Growth and Sustainable Development provide a common framework for MDBs to increase levels of private investment in support of development.

Based on their experience in working with the private sector, the World Bank Group and the other MDBs have agreed to focus on three main areas:

- Strengthening investment capacity and policy frameworks at national and subnational levels;
- Enhancing private sector involvement and prioritizing commercial sources of financing; and
- Enhancing the catalytic role of MDBs themselves.

In scaling up private-finance mobilization, the aim is to support countries' development goals, in ways that complement and reinforce public resources. With our counterpart MDBs, the World Bank Group can promote private investments that are economically viable and cost-effective, fiscally and commercially sustainable, balanced from a risk-reward perspective, and transparent. We are also well placed to help ensure these investments meet social and environmental safeguards, as well as support commitments to address climate change.

For the World Bank Group, the MFD approach is critical to reach our goals for 2030: ending extreme poverty and boosting shared prosperity.

Given the demand-driven nature of the MDBs' work, client countries are responsible for engaging the MDBs in catalyzing private investment—each MDB will tailor its approach to the opportunities in its member countries as well as its own remit and structure, within the framework established by the principles.

THE MFD APPROACH

WHEN A PROJECT IS PRESENTED, ASK:

"Is there a sustainable private sector solution that limits public debt and contingent liabilities?" If the answer is...

YES

Promote such private solutions

NO

Ask whether it is because of:

- Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
- Risks? If so, assess the risks and see whether WBG instruments can address them.

If you conclude that the project requires public funding, pursue that option.