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Financing for Development

at the World Bank Group

Our support to the Financing for Development (FFD) agenda

WORLD BANK GROUP

2018

Financing for Development: New Approach, New Commitment

Financing for Development entered a new era in July 2015, when the global community agreed to the Addis Ababa Action Agenda, a framework and set of commitments for financing the Sustainable Development Goals. Since this will require far more funding than aid can provide, the World Bank Group, together with other multilateral development banks and the IMF, committed to use billions in investment funding, aid, and grants, in innovative ways to catalyze trillions in financing of all kinds. In Hamburg in 2017, the G20 reinforced the MDBs' role in catalyzing development finance.

Key enablers of the Financing for Development agenda:

- **Mobilizing all sources of finance and increasing their combined impact.** Integrative thinking and creative approaches are needed to mobilize finance, make it complementary and increase its impact.
- **Leveraging public finance.** Scarce public finance, both international and domestic, must be used where they have greatest impact and to catalyze other sources of finance. The capacity for domestic resource mobilization could be improved in many countries.
- **Crowding in the private sector in financing development.** As the largest potential source of finance, the private sector can play a larger role by investing, driving innovation, and improving delivery.
- **Strengthening MDBs' capacity to catalyze finance.** Multilateral development banks will use their balance sheets and platforms to increase private capital and other financial flows.
- **Harnessing technology and disruptive business models.** Technology and innovative business models offer unprecedented opportunities to redefine and accelerate paths to development. They make possible a world with universal access to government services, financial services, and global markets.
- **Improving investment data.** Better data, including big data, and diagnostic tools are needed to assess investment risks and returns in emerging market and developing economies.
- **Creating development finance partnerships and building multi-stakeholder platforms.** A new level of collaboration is needed across a range of stakeholders to meet financing challenges.

Financing for Development at the World Bank Group

Vision

The World Bank Group has adopted a new approach to financing for development, one that aligns with the Addis Ababa Action Agenda commitments to support the SDGs and our own twin goals to end extreme poverty and boost shared prosperity.

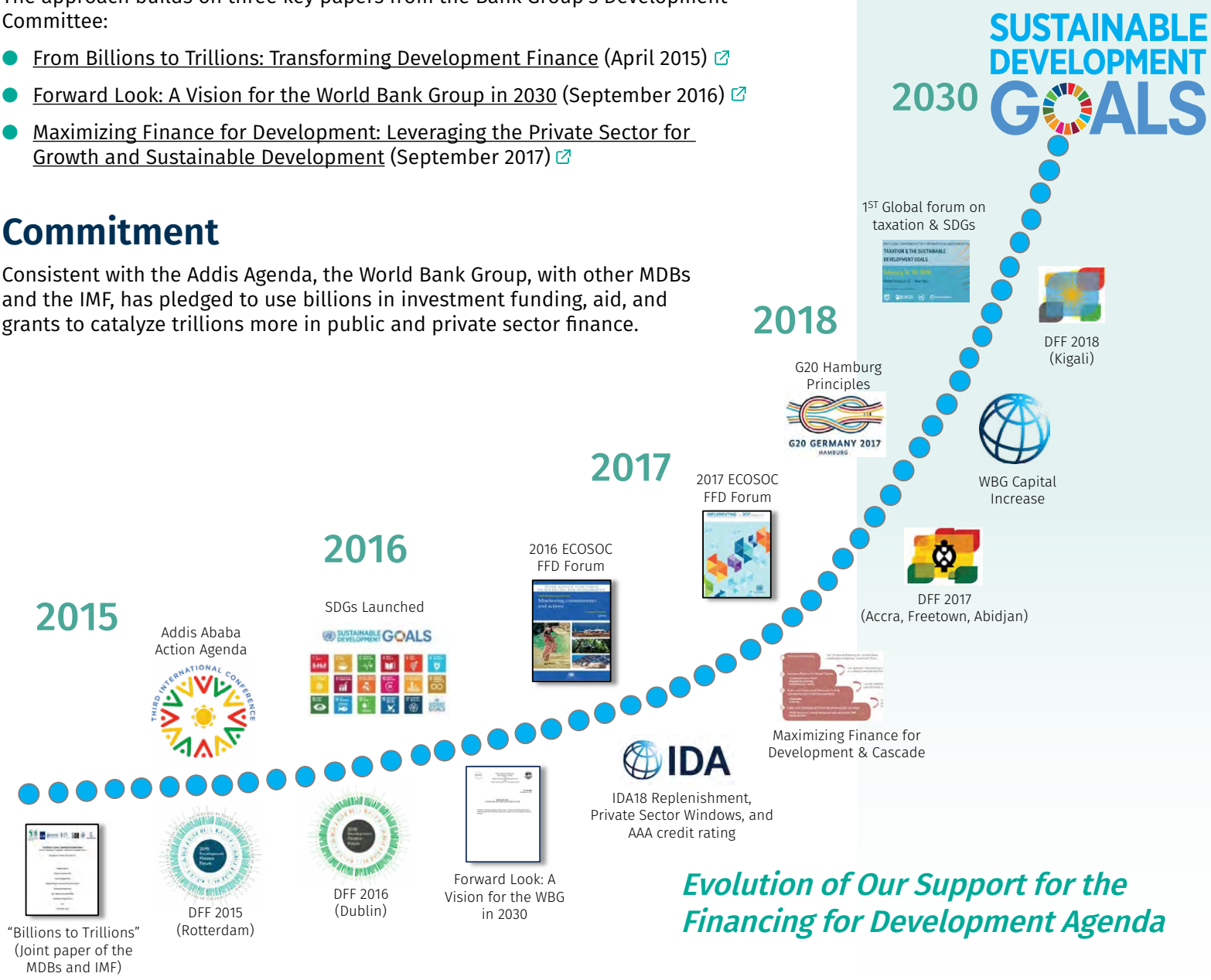
Road Map

The approach builds on three key papers from the Bank Group's Development Committee:

- From Billions to Trillions: Transforming Development Finance (April 2015)
- Forward Look: A Vision for the World Bank Group in 2030 (September 2016)
- Maximizing Finance for Development: Leveraging the Private Sector for Growth and Sustainable Development (September 2017)

Commitment

Consistent with the Addis Agenda, the World Bank Group, with other MDBs and the IMF, has pledged to use billions in investment funding, aid, and grants to catalyze trillions more in public and private sector finance.

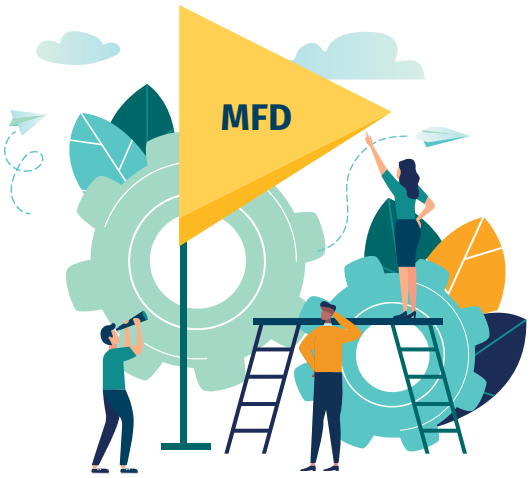


Evolution of Our Support for the Financing for Development Agenda

Mobilizing the **Private Sector and Investors**

The SDGs cannot be achieved by 2030 without the private sector, particularly investors with significant resources and willingness to focus on the medium to long term. Private investment and expertise are critical to both finance and implement business solutions that help end poverty and reach the SDGs.

Through our five institutions—IBRD, IDA, IFC, MIGA, and ICSID—the World Bank Group is helping channel private investment to developing countries. Our ambition—which lies at the heart of the Forward Look, our strategy for 2030—is to become not just a *provider* but a *facilitator* of capital.



Maximizing Finance for Development (MFD).
We have adopted an approach to pursuing private-sector solutions where they can help achieve development goals, reserving scarce public and concessional finance for where they are needed most. Our teams first evaluate and advise clients whether a project is best delivered through sustainable private-sector solutions, with limited public liabilities. If that is not feasible, teams consider whether Bank Group support—for an improved investment environment, improved credit worthiness or risk mitigation—could help. If neither option is viable, then and only then is the use of public and concessional finance encouraged.

IFC expertise with mobilizing private finance.
IFC has 60 years of experience in mobilizing private-sector finance and has a strategy to create markets delivering sustainable development impact. Key examples are its syndicated loan program, the oldest and largest of its kind, and its Asset Management Company, which enables institutional investors to make equity investments alongside IFC in developing countries. Another IFC investment platform that mobilizes third-party investors alongside IFC is the Managed Co-Lending Portfolio Program (MCPP) which creates loan portfolios that mimic segments of IFC's own future portfolio, like an index fund. Eight facilities have been created raising over $7bn, each has been crafted to meet the individual needs of investors, addressing the business challenges and regulatory hurdles they face.

MIGA support through risk insurance. Through political risk insurance and credit enhancement products, MIGA has helped drive private capital to critical projects in developing countries. As of February 2018, it has supported $19.3 billion worth of investments, double that of five years ago, to support developmentally sound investments that meet high social and environmental standards.

ICSID support for foreign direct investment.
ICSID facilitates foreign direct investment by reducing risks faced by foreign investors. Because of ICSID, international investment is more secure and predictable, and investors are more likely to invest and expand operations abroad. To date, 153 states have ratified the ICSID Convention, and ICSID has managed the majority of international investment disputes.

World Bank guarantees to mobilize commercial financing.
Like MIGA, World Bank guarantees help mobilize commercial finance for development. As of FY2018, 48 guarantee transactions using $7.4 billion in IBRD/IDA commitments supported mobilization of $30.2 billion of commercial financing plus $20 billion of public financing. Another 13 guarantee transactions using $1.7 billion in IBRD/IDA commitments are in final negotiations with private financiers and are expected to mobilize $5.9 billion in commercial financing.

Supporting infrastructure finance and delivery, built upon strong analytics. The World Bank Group helps shape the national, regional and global policy dialogue on infrastructure finance and development, including private participation and Public-Private Partnerships (PPPs). We assist countries with the design and delivery of sustainable, resilient and efficient infrastructure projects and programs. We strengthen the viability of infrastructure investments, including through guidance on funding and financing mechanisms, building capacity, creating tools and providing advisory services on legal, regulatory and institutional reforms.

Creating markets while encouraging adoption of ESG principles. Creating Markets is IFC's approach to enable the development of new markets or systemic changes to existing markets to deliver sustainable development impact. Sustainable, inclusive and integrated markets are created by:

- Putting in place frameworks that enable markets to function.
- Promoting competition, causing other market players to up their game.
- Leveraging demonstration effects, replication, and the general spillover of ideas and creation of new productive networks.
- Building capacity and skills that open new market opportunities.
- Focus on climate and gender-smart investments.

IFC's efforts to create markets are based on analytical rigor and are considered within country and sectoral contexts.

Blended Concessional Finance. At IFC, Blended Finance refers to a financing package comprised of concessional funding provided by development partners, along with commercial funds from IFC's own resources and from the private sector. Blended Finance helps IFC create markets and move deals over the finish line by: (1) Mitigating early-entrant costs or project risks, (2) Helping re-balance risk-reward profiles for pioneering investments, and (3) Crowding-in private sector financing.

Between FY2010–2017, IFC has deployed more than $700 million in Blended Finance, alongside $2.4 billion of its own funds, and leveraged around $4.9 billion from other private sources. IFC relies on a strong governance framework in the use of Blended Finance to minimize the risk for market distortion. To this end, IFC has chaired the DFI Blended Concessional Finance Working Group to develop *Enhanced Principles of Blended Concessional Finance for Private Sector.*

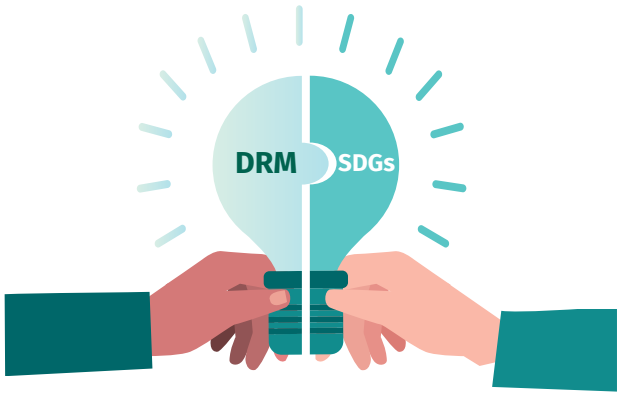
Building capital markets in emerging markets and developing economies. Deep local capital markets increase access to long-term finance for the private sector, and defend against overreliance on foreign debt. To foster well-regulated local capital markets with liquid, diverse, long-tenor financing, in 2017 the Bank Group established the Joint Capital Markets Program initiative. It covers all aspects of capital markets development to help attract additional private-sector engagement in infrastructure, housing, real sector financing, and other sectors.

Accelerating project preparation. The World Bank Group has developed several approaches to accelerate infrastructure projects, and make them bankable and market-ready, meeting the requirements and demands of governments, investors, and service users:

- The Global Infrastructure Facility supports project/investment program preparation with private-sector participation.
- The Public Private Infrastructure Advisory Facility (PPIAF) strengthens the policy, regulatory and institutional underpinnings of private sector investment in infrastructure in emerging markets and developing countries.
- IFC's Scaling Solar provides a one-stop shop for solar power projects.

Increasing **Domestic Resource Mobilization**

The Addis Agenda recommended increasing domestic resource mobilization (DRM) as a source of financing for the SDGs. Today, 42 percent of the world's poorest countries and 64 percent of those with situations of fragility, conflict, and violence (FCV) do not reach the minimum threshold of 15 percent tax-to-GDP ratio needed to fund basic state functions.



Increasing tax-to-GDP ratios. The World Bank Group has committed under IDA18 to help at least a third of IDA countries increase their tax-to-GDP ratio by broadening and deepening the tax base; building fair, equitable, transparent, and accountable taxation systems; and implementing international taxation standards. A new mechanism, the Medium-Term Revenue Strategy, is being piloted.

WBG support for increasing DRM. We are helping 59 countries improve their DRM through advisory services and lending, including development policy financing (DPF), investment projects, and Program for Result operations.

Tackling illicit financial flows. Our National Risk Assessment on Money Laundering and Terrorism Financing helps countries identify and tackle sources of illicit funds. In FY18, 15 new country engagements delivering the assessment were initiated (bringing the total to over 100). In December 2017, the inaugural Global Forum on Asset Recovery focused on reclaiming proceeds of corruption from financial centers around the world. We are also helping clients strengthen their legal frameworks to tackle illicit flows.

Leveraging **World Bank Group Financial Resources**

Leveraging the Bank Group's capital. Our financial structure and financing capabilities enable us to leverage capital to provide finance in many forms—grants, concessional finance, loans, guarantees, and equity investment. Our non-concessional institutions and windows are funded efficiently by small amounts of paid-in capital, in many cases backed by callable capital. By leveraging these amounts, we can borrow substantial funds in the capital markets at low interest rates, which we pass on to clients as loans to support their development goals.

Increased lending capacity. The recent capital increase for IBRD and IFC signals strong endorsement by shareholders of our critical role and strategy in achieving the 2030 Agenda. The combined financing arms of the Bank Group are expected to reach an average annual financing capacity of nearly $100 billion between FY19 and FY30, benefiting all members across the income spectrum.

IDA's new financing model. Responding to heightened global ambitions and escalating risks, IDA18 represents

a paradigm shift in mobilizing finance to help clients of the IDA. The IDA18 replenishment, the largest in its 56-year history, introduced a hybrid financing model that leverages IDA's large accumulated equity to raise funds in the capital markets and significantly scale up its financing for the world's poorest countries.

Innovative **Financing Tools for Development**

Bonds. The World Bank Group mobilizes private investment for development through the capital markets, developing customized financial instruments to engage investors. These are often an entry point for investors seeking opportunities to have a positive impact or those integrating environmental, social and governance (ESG) criteria in their investment decisions.

- **Sustainable Development Bonds.** The World Bank (IBRD) issues around $50 billion annually to finance sustainable development. In 2017, this included the first bonds linked to an equity index of companies that promote the SDGs. Increasingly IBRD is issuing bonds to raise awareness for specific development challenges. In January 2018, we issued a bond to support women's and girls' empowerment, and in June, we issued a series of bonds to promote needed investments in the health and nutrition of women, children and adolescents.
- **IDA Bonds.** On April 17, 2018, IDA launched its inaugural bond, raising $1.5 billion from investors around the world as part of transformation of IDA's financing model agreed during IDA18 replenishment. Access to capital markets allows IDA to significantly scale up financing to IDA countries, supplementing IDA's traditional sources of funding.
- **Catastrophe Bonds.** In February 2018, IBRD issued the first-ever multi-country catastrophe bonds, providing $1.4 billion in earthquake protection to members of the Pacific Alliance (Colombia, Chile, Mexico, and Peru).
- **Green Bonds.** IBRD and IFC are major issuers of green bonds and global leaders in issuing green bonds in emerging markets, totaling $17.5 billion in 225 bonds as of June 2018. The $2 billion Green Cornerstone Bond Fund in partnership with Amundi is a pivotal instrument for developing the green bond market in emerging economies. To further develop this market and create new markets in the process, IFC helps clients issue green bonds, including by being an anchor investor (e.g. Green Cornerstone Bond Fund).
- **Social Bonds.** In March 2017, IFC launched its Social Bond program and became a leader in this space. IFC has issued nearly $1 billion to support low income individuals and women-owned businesses.

Crisis Financing. We are expanding our innovative financing solutions and analytical capacities to address crisis risks. These include catastrophe bonds, insurance products developed by the Global Facility for Disaster Reduction and Recovery and the examples below.

- **IDA Crisis Response Window.** IDA18 allocates $3 billion to respond to natural disasters, public health emergencies and economic shocks, health, and natural shocks. Allocations in FY18 include $80 million for economic recovery in Mongolia, $200 million to combat cholera outbreak in Yemen, and $50million for recovery from Hurricane Maria in Dominica and $20 million for Tropical Cyclone Gita in Tonga.
- **Pandemic Emergency Financing Facility.** The PEF will provide over $500 million to cover developing countries including a $425 million insurance window to mitigate outbreaks of six diseases likely to cause major epidemics. The PEF approach will be emulated for famine and other crises.
- **Refugee Financing.** The IDA18 regional sub-window for refugees and host communities provides $2 billion of dedicated funding to help low-income countries hosting large numbers of refugees.

IDA18 Private Sector Window. The new $2.5 billion financing facility, a close partnership between IDA, IFC, and MIGA, supports private-sector mobilization to create markets in low-income countries and fragile and conflict-affected countries.

Climate Finance. Over the next 15 years, the world will require $90 trillion in new climate-resilient infrastructure—most of it in developing and middle-income countries. To help countries meet their climate commitments: (1) In FY18, the WBG is projected to deliver $15.5 billion of climate-related finance, which accounts for 26% of the total lending volume. This will be an increase from 22% (or $12.8 billion) in FY17; (2) Carbon pricing initiatives have tripled in the past decade.

Women Entrepreneurs Finance Initiative. We-Fi helps public and private sectors to expand finance and market access for women entrepreneurs across the developing world. With funding of over $340 million from 14 governments, this partnership is working to unlock more than $1 billion for women entrepreneurs, including at least 50% in fragile and low-income markets.

Building Partnerships and Platforms

The World Bank Group plays an important convening and thought leadership role when bringing together and facilitating collaboration across MDBs, the UN, governments, the private sector, civil society, academia, and public policy institutions. Through partnership platforms and direct engagement, we have helped shape the policy agenda on development finance by leading or actively contributing to the following.

- **Development Finance Forum.** The Bank Group's annual flagship policy event, the forum brings together investors, policymakers, and thought leaders from around the world to forge partnerships and identify actions to increase private sector investment and job creation in low-income countries.
- **Global Infrastructure Forum.** The forum is a collaborative platform helping MDBs and investors scale up infrastructure financing in support of the SDGs.
- **Inter-agency Task Force on Financing for Development.** We are one of five major institutional stakeholders of the UN task force which is monitoring implementation of the Addis Agenda.
- **Joint MDB action and thought leadership.** Shared standards for MDB reporting on mobilization of private sector resources ; enhanced MDB/DFI principles for blended finance ; and a global toolbox of all MDB instruments were produced through close MDB collaboration.
- **Knowledge and data platforms for investors.** Lack of information at project and country levels constrains investment. The World Bank Group addresses this through platforms and publications such as the PPP Investment Database, the *Doing Business* report, and the *Procuring Infrastructure Public-Private Partnerships* report.
- **Massive Open Online Courses.** The Bank Group has delivered two MOOCs on Financing for Development, with 49,000 registered participants from client and donor governments, international organizations, the private sector, and NGOs. These covered key concepts and approaches, encouraging efforts to scale up development finance in participants' country and sector contexts.

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