

MOBILIZATION OF PRIVATE FINANCE BY MULTILATERAL DEVELOPMENT BANKS

2016 Joint Report

APRIL 2017



This report was written by a group of multilateral development banks (MDBs), composed of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC), the Islamic Corporation for the Development of the Private Sector (ICD), the International Finance Corporation (IFC), the Islamic Development Bank (IsDB), the Multilateral Investment Guarantee Agency (MIGA), the New Development Bank (NDB) and the World Bank (WB). The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the official views of the MDBs' Boards of Executive Directors, or the governments they represent.

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Introduction

In 2015, the global community adopted the 2030 Sustainable Development Agenda and the Sustainable Development Goals (SDGs) that underpin it, as well as actions needed to fulfill the commitments made at the 21st Conference of the Parties to the UN Framework Convention on Climate Change.

As we highlighted at the Third International Conference on Financing for Development in July 2015, the financial resources needed to achieve the SDGs far exceed current financial flows. Indeed, as explained in a paper prepared for the Conference and endorsed by the World Bank/IMF Development Committee in April 2015¹, the world needs to move from billions to trillions of financing in order to meet the challenge of promoting inclusive, sustainable growth, reducing poverty and inequality, and protecting the planet.

At this time, we came together as Multilateral Development Banks to reaffirm our pledge to catalyze more investment from private investors and other sources of capital such as pension funds, sovereign wealth funds and insurance companies. We do this by leveraging our own capital base by borrowing from capital markets to increase our own ability to finance development. In addition, we catalyze greater private investment by: i) helping evaluate and structure high quality investment projects; ii) helping mitigate risk (real and perceived) associated with investments that have a positive development impact; iii) mobilizing resources from and co-investing alongside both traditional investors and new sources of commercial financing for development; and iv) developing new financial products to help unlock additional flows.

While we each report the leverage of our own balance sheets according to accepted financial reporting standards, the mobilization and catalyzation of private investment through our financing and advisory activities has not been measured and reported in a comprehensive and consistent way. We have therefore lacked a common basis on which to track progress in increasing our contribution to catalyzing private investment to support our shared development objectives.

¹ 'From Billions to Trillions; Transforming Development Finance' prepared jointly by AfDB, ADB, EBRD, EIB, IDB, IMF and WBG for the April 18, 2015 Development Committee meeting.

To remedy this, we worked together to develop a joint framework and methodology to measure private investment catalyzed by the MDBs. This would allow us to measure private investment catalyzed on a consistent basis by applying common definitions and methodologies, and to report more fully on our contributions to a range of development priorities, including climate change and infrastructure development. By coordinating measurement and reporting across MDBs in this way, we will increase the transparency and accountability of our work, and identify potential gaps and opportunities to do more.

Building on our work to harmonize reporting on climate finance, we have agreed on an initial set of definitions and methodologies to measure the total amount of '*private cofinancing mobilized*' in our operations, and its component parts of '*private direct mobilization*' and '*private indirect mobilization*' for most of our financial products and for direct transaction advisory services.

We note that different measures can be tracked and reported with different degrees of accuracy. Because private direct mobilization involves a transactional relationship between the MDB and the client, this metric can be captured with the greatest accuracy, and in some MDBs is audited. Private cofinancing of an MDB-supported project or activity may not directly involve the MDB in arranging the financing, and therefore measurement relies on voluntary reporting by the client or estimates by the project team. It is therefore likely to be less accurate. This does not imply that it is less important to measure – indeed the amounts are substantially larger.

We have made efforts to avoid double-counting where more than one MDB is involved in a transaction, and we have applied attribution rules to this end. Since this is the first time we are reporting using these new definitions, our information systems are not yet fully in place and the basis for accurate estimation and attribution is incomplete. We therefore acknowledge limitations on the accuracy of the results and we urge caution in using the data from the first year of reporting as a baseline for projecting future amounts. We expect to fine-tune the methodology, establish more robust information systems, and otherwise improve the reliability of the data in future years. This may result in upward or downward movement of the reported amounts independent of the actual amounts mobilized.

We recognize that we also catalyze private investment on a much broader scale through advice, support for policy reform, capacity building, demonstration effects, and other activities which trigger an investment response from private investors, or which open new opportunities for private investment. We will continue to explore ways to measure and report on this broader *private investment catalyzation*. We will also explore ways to capture the mobilization impact of a wider range of MDB advisory work. We recognize that without the ability to measure these wider impacts, we are capturing only a part of our overall efforts to catalyze private investment.

We emphasize that these measures of private investment mobilization and cofinancing track the size of the financial flows, but do not measure the development impact of these flows. We continue to measure and report on the development impact of our operations through our established results measurement systems.

2016 Results

Based on 2016 commitment data², we estimate that the total amount of long-term co-financing mobilized by the MDBs from private investors and other institutional investors (including insurance companies, pension funds, and sovereign wealth funds) in all countries of operation was US\$163.6 billion. Of this, private direct mobilization is estimated at US\$49.9 billion. In addition, we estimate the MDBs' private direct mobilization through short-term finance was US\$3.7 billion.

This financing supported investment in a range of sectors. In view of the importance of private financing to meet the enormous infrastructure financing needs of developing countries, we estimate the proportion of total long-term cofinancing for infrastructure (including power, water, transportation, telecoms, IT and social infrastructure (such as schools and hospitals)) in all countries of operation was US\$68.7 billion. Private direct mobilization for infrastructure was US\$7.1 billion.

ALL COUNTRIES OF OPERATION		
From Private Investors and Other Institutional Investors (Long Term):	Total (US\$ billion)	Of which Infrastructure (US\$ billion)
Direct Mobilization	49.9	7.1
Indirect Mobilization	113.7	61.5
Total Mobilization = Cofinancing	163.6	68.7

From Private Investors and Other Institutional Investors:	Total (US\$ billion)
Direct Mobilization - Short Term	3.7

² AfDB and IsDB data is based on approvals. NDB did not have operations with private mobilization to report in 2016.