



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

Leveraging Limited Official Development Aid with Private Capital

Financing for Development Initiative

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UN Financing for Development
Doha, Qatar**



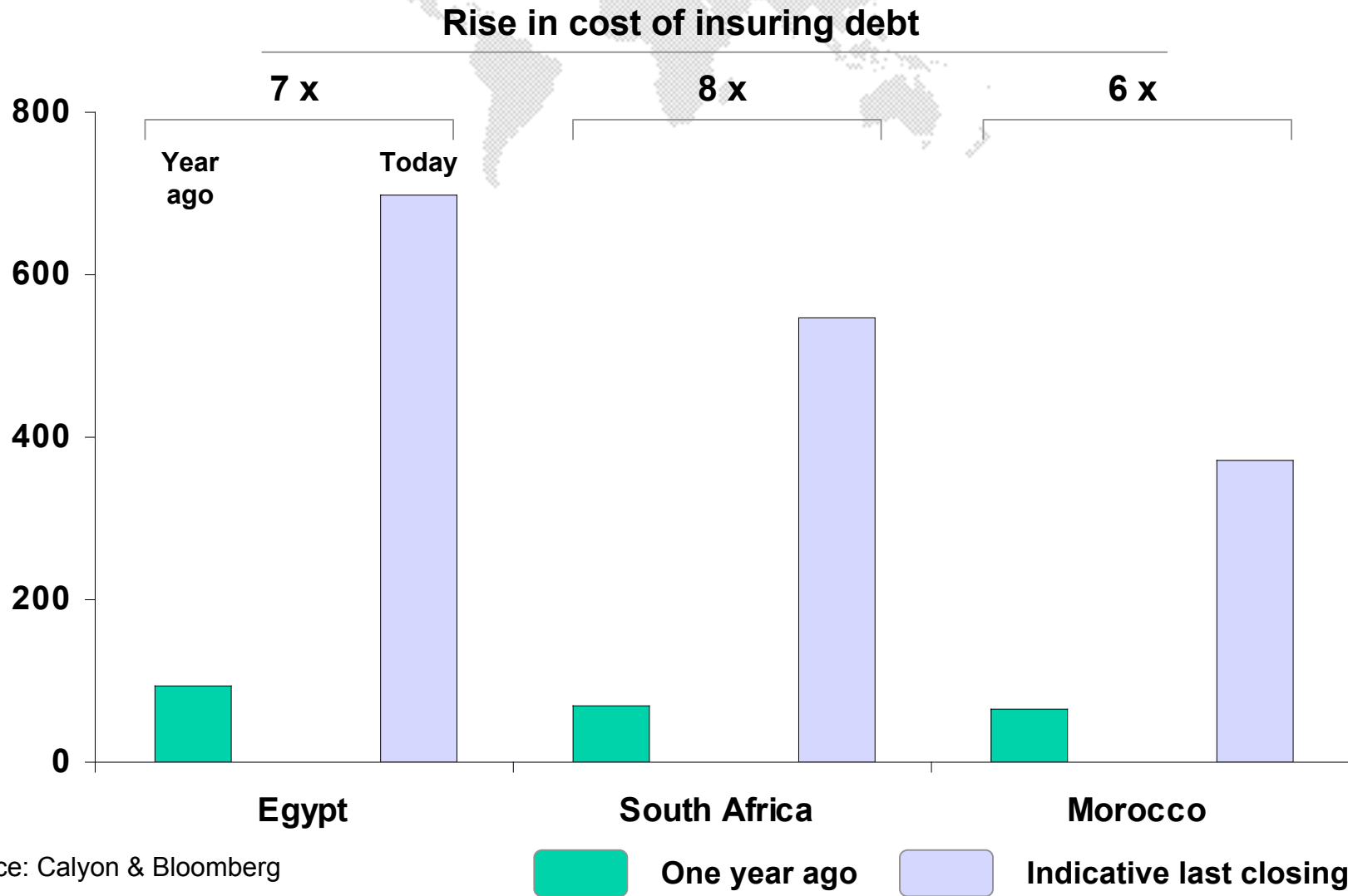
Schweizerische Eidgenossenschaft
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Direction du développement et de la coopération DDC
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Agencia Suiza para el desarrollo y la cooperación COSUDE

AGENDA

- I. The Opportunities: Changed Context of Development Finance**
- II. Enabling Factors: Four Critical Roadmap Actions for MDB Innovation**
- III. Applying the Roadmap to MDBs for Immediate Aid Effectiveness**
- IV. Conclusions for FfD Follow-Up: MDB Action Steps to**

Dramatic rise in private sector financing costs



Source: Calyon & Bloomberg

Current Status and Public/ Private roles going forwards

- ❑ **International banks are retreating to preserve capital**
- ❑ **Brought in to question virtually all assumptions about market disruptions and the ability to have access to a steady supply of credit**
- ❑ **Transactions, including trade finance, are facing a substantial “re-pricing of risk”.**



A changing dynamic – The Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) are being called upon to fill the gap



- ❑ **The partnership between MDBs and the Private Sector might grow closer due to the financial crisis as each looks to the other to complete complex financings.**
- ❑ **Future counter cyclical role of MDBs and DFIs in times of Financial crisis**

However the fundamental long term picture for private sector involvement remains strong...

The Opportunities: Changed Context of Development Finance & Potential Role of MDBs in Unlocking Capital

Huge Supply of Private Sector Capital & New Sources of Finance

- ❑ Higher track record of private sector infrastructure finance versus ODA and MDB Support (high of US\$128 B in 1997 versus ODA US\$ 60 B and MDB Loans US\$15 B)
- ❑ Huge potential of institutional markets (e.g., US Market: US\$13 T: Developing Country Markets: US\$ 13 T)
- ❑ New Sources: Infrastructure Funds, Foundations, Social Responsibility Investors; example: 72 new infrastructure funds expected to raise up to US\$ 120 B
- ❑ Obstacles to accessing capital: country regulatory and currency risks, lack of project development, weak country macro environment

MDBs have innate “enabling“ functions

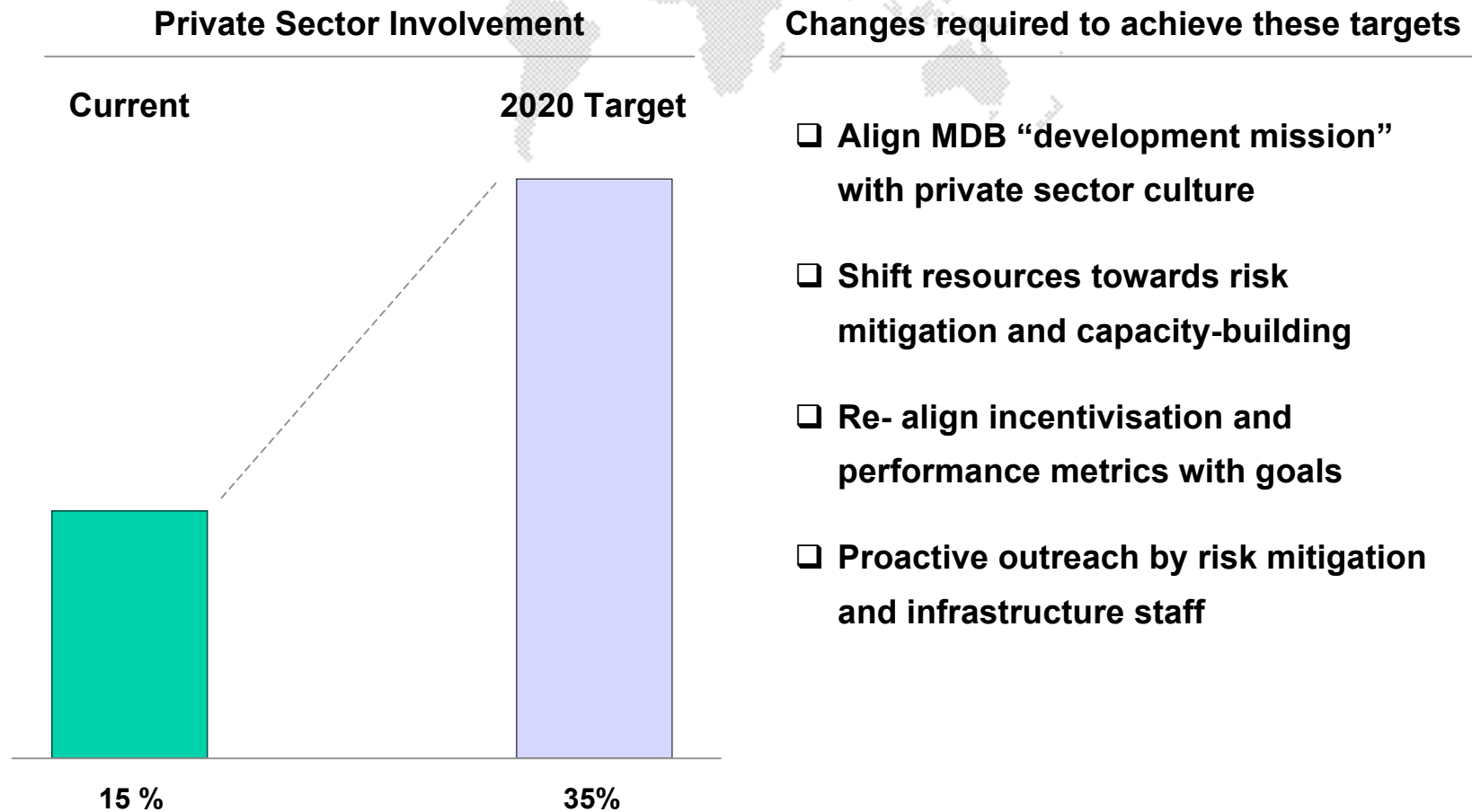
- ❑ Risk mitigation
- ❑ Project development support

Current Underutilized Role of MDBs in “Crowding In” Private Sector Capital

- ❑ Low MDB risk mitigation activity
- ❑ Limited project development
- ❑ Underutilized MDB Capital; if leveraged with private sector capital, could harness US \$1 T for infrastructure finance!

Sources: OECD Development Assistance Committee: Online Statistics www.oecd.org. OECD: “Guaranteeing Development,” 2004; World Bank: ppi.worldbank.org.; World Economic Forum: “Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyse Private Investment,” 2006; Robert Bestani: “Infrastructure’s Unbalanced Equation,” Euromoney Yearbook 2008; R. Orr, “Global Infrastructure Report,” 2007, PFIE.

Roadmap 1: Reorient Culture, Capital, & Skills of MDBs



Source: African Development Bank

Roadmap 2: Expand Risk Mitigation Activities as “Aid Multiplier” of Official Sector Resources

- ❑ **Scale Up Official Sector Risk Mitigation Activities to mitigate specific impediments restricting developing country access to private sector capital;** for example:
 - Partial guarantees
 - Targeted guarantees of regulatory and currency risks
 - Output- Based Aid
- ❑ **Develop and Scale Up Modern Financial Structures** with successful track records in providing long term affordable finance from capital markets; for example:
 - Multilateral credit insurance facilities
 - Multilateral securitization facilities
- ❑ **Measure Enhanced “Aid Effectiveness” with New MDB Risk Mitigation Performance Measurement Indicators,** adding to development impact assessment:
 - Leverage of MDB Funds
 - Project Facilitation Role
 - Harmonization & Aid Effectiveness
- ❑ **Include Expanded Risk Mitigation Support for Local Currency Financing**
 - Scale-Up Tenor Extensions & Partial Guarantees
 - Increase Local Currency Bonds,
 - Scale up Pooled Funding,
 - Strengthen Local and Regional Sources of Development Finance

Roadmap 3: Establish Investment Climate Capacity Building as a Central MDB Priority

- ❑ **Create a step change in MDB funding to strengthen the enabling environment:**
 - Legal and regulatory frameworks
 - Critical skill sets
 - Macro environment and sound institutions
- ❑ **Integrate private sector expertise on a more systematic performance basis:**
 - Building a market of experts and country clients
 - Developing greater core expertise
- ❑ **Integration of demand-driven programmes into country fabric**, developing customized country training programs with local institutions and business organizations, including:
 - Official communication venues with the private sector
- ❑ **Public benchmarking and development of market instruments** that directly reward developing countries for improved investment climates (e.g., ratings, indices, niche funds, etc.)
- ❑ **Leadership in first-time transactions,**
- ❑ **“Learn by doing” transaction programs**

Roadmap 4: Strengthen Investment Project Pipelines with Project Development Support

MDBs need to pool and scale up project development funds, making them easier to access, utilizing appropriate experts from across the public and private sectors to identify quality projects and develop acceptable risk mitigating financial structures:

- ❑ Set Up Funds with Simplified Access (subsovereign, national, regional, and global), using technical assistance grants or revolving funds to finance the development costs of projects
- ❑ Create Partnerships for Project Development with Experienced Private Sector or Research Entities that can collaborate with federal and state governments in identifying projects & manage the procurement process for operators, service providers, and contractors
- ❑ Create and Strengthen Regional and Local Development Financial Institutions that can assist in this process
- ❑ Create “Steering Committees” of Experts to oversee the project development process and the development of appropriate policy, legislative, and regulatory frameworks
- ❑ Establish Roving SWAT Teams of Experts who can respond quickly to private sector opportunities, help government officials determine how to approach the private sector and structure bankable deals, jump-start the project identification process, and help interested parties quickly access available funding

Applying the Roadmap to Infrastructure Projects: MDB “Enabling Actions” from Inception to Private Finance

MDB Risk Mitigation

- Regulatory Risk
- Currency Risk
- Other Political Risk Insurance
- OBA

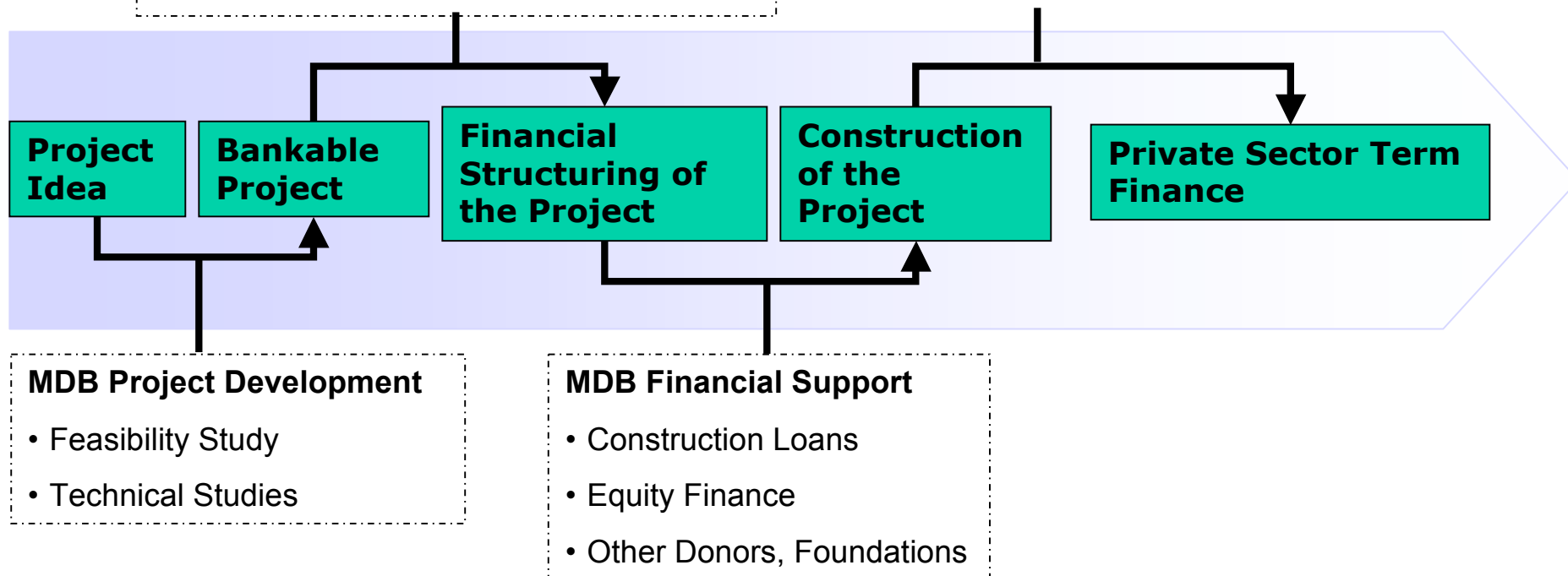
MDB Capacity Building for Ministries,
Regulatory Agencies, Sponsors

MDB Support

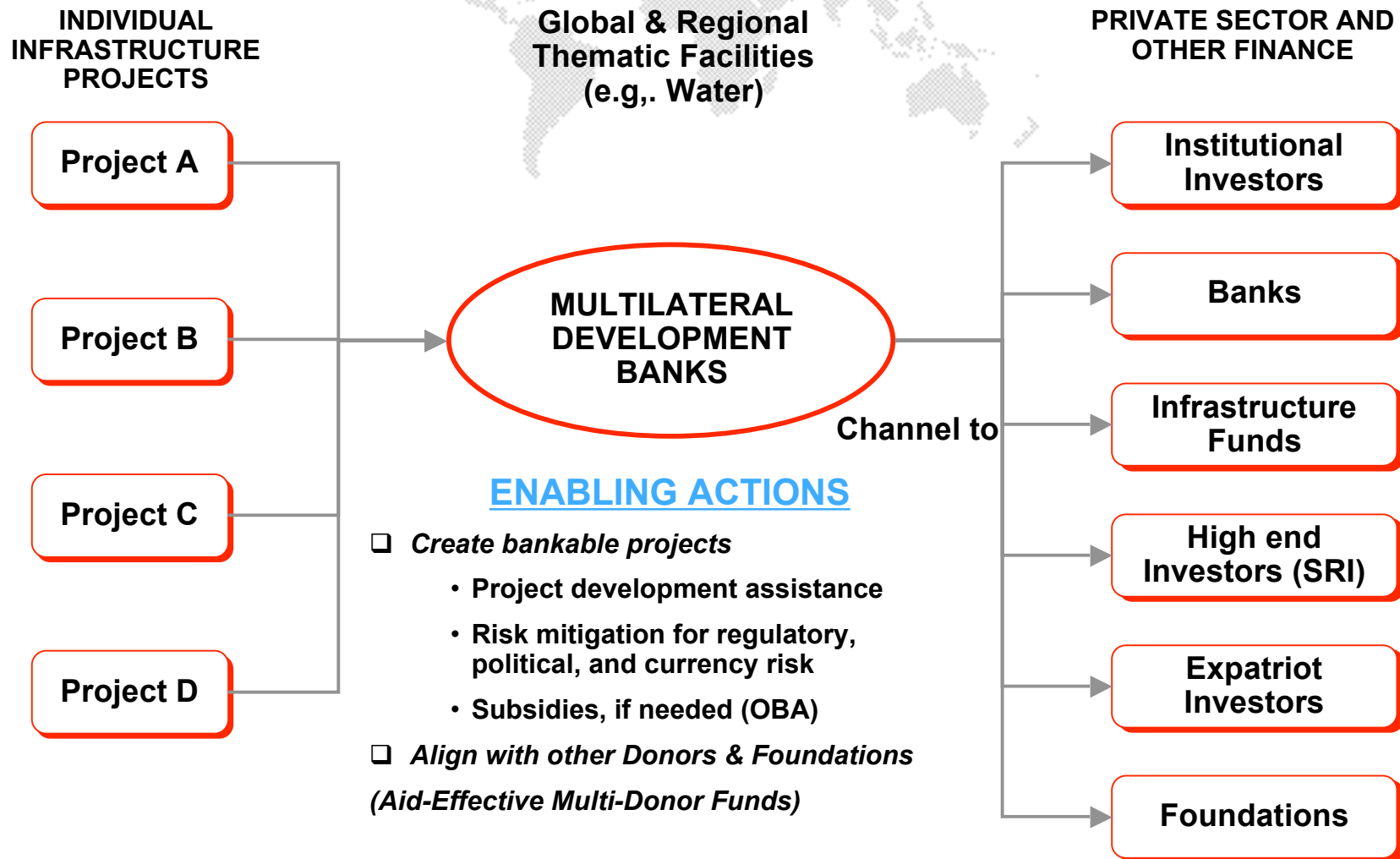
- Project Credit Rating
- Improved Country Macro Environment

MDB Marketing

- Roadshow
- Private Sector Market Access



Applying the Roadmap to MDB Processes: Scaling Up Aid Effectiveness with MDB Facilities Focused on Key Needs



Conclusions for FfD Follow-Up: MDB Action Steps to Deliver Broad Based Results

- 1) Senior Government Officials Reorient Development Agencies
 - *Scale Up Risk Mitigation & Project Development Assistance*
 - *Change Internal Incentives & Processes; Set and Enforce Internal Performance Measures*
 - *Candid Not-for Attribution Evaluations of Effectiveness from Governments & Private Sector that are Openly Disclosed*
- 2) All Partners Collaborate for Development Results, Using Frameworks for Aid Effectiveness
 - *Expert Forums to Create Capacity of Practitioners to Develop and Use Risk Mitigation*
 - *Multidonor Funds on Targeted Deliverables (e.g., Renewable Energy, Water, SMEs, etc)*
- 3) Develop & Implement MDB Performance Benchmarks: *How Much Private Capital Has Been Mobilized by Development Agencies?*

Background Documents:

- *"Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyse Private Investment", World Economic Forum 2006*
http://www.weforum.org/pdf/Initiatives/monterrey2006_summary.pdf
- *"Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Development" PPIAF 2007*
<http://www.ppiaf.org/Trends&policyseries/Riskmitigationinstruments.pdf>