United Nations Nations Unies

FINANCING FOR DEVELOPMENT OFFICE
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS (DESA)

18 April 2017

Plenary Panel Discussion Global Infrastructure Forum

Challenges of infrastructure investments and the role of MDBs

2:15 pm – 3:00 pm, 22 April 2017
Enrique V. Iglesias Auditorium Inter-American Development Bank
Washington D.C.

Concept Note

2016 was the first full year of implementation of the Addis Ababa Action Agenda. Efforts have begun at all levels to mobilize resources and align financing flows and policies with economic, social and environmental priorities. Progress can be reported in all seven action areas of the Addis Agenda. Nonetheless, a difficult global environment has impeded individual and collective efforts, and many implementation gaps remain. The Addis Agenda provides a broad framework for individual actions and international cooperation to increase sustainable development investments. Its rapid implementation can stimulate global growth and advance the world toward achieving the SDGs, and therefore is more important than ever.

The Addis Ababa Action Agenda (paragraph 14) established the Global Infrastructure Forum, recognizing that investments in sustainable and resilient infrastructure are a prerequisite to achieve many of the SDGs. The Forum is organized by the Multilateral Development Banks (MDBs), in close cooperation with the UN System. The 2017 Forum will be hosted by the European Investment Bank and Inter-American Development Bank during the Spring Meetings of the IMF and the World Bank Group, in Washington, D.C. on 22 April 2017. More information can be found on our website.

The Forum aims to develop best practice in Infrastructure Financing by sharing expertise and experiences amongst MDBs and UN Member Countries, and to alleviate impediments to greater investment. It aims to highlight regional priorities for investment and cooperation, and works to ensure that infrastructure is environmentally, socially, and economically sustainable.

The Forum is mandated to meet annually to:
- improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, United Nations agencies, and national institutions, development partners and the private sector;
- encourage a greater range of voices to be heard, particularly from developing countries;
- identify and address infrastructure and capacity gaps in particular in Least Developed Countries (LDCs), Small Island Developing States (SIDS), Landlocked Developing Countries (LLDCs) and African countries.

The outcomes of the Forum will be reported to UN Member States via the ECOSOC Forum on Financing for Development Follow-up.

Key Messages
Against this backdrop, the UN organized panel will aim at bringing a range of voices to the Forum, including country-representatives from LDCs, SIDS and LLDCs, as well as civil society will come together in this Panel to discuss their particular challenges in relation to sustainable infrastructure investments. The objectives of the Panel are as follows:

- Discuss experiences with infrastructure development, in particular in challenging environments, and explore lessons learned in LDCs, LLDCs and SIDS.
- Raise innovative ideas for sustainable financing of infrastructure and the contribution of MDBs.
- Discuss the possible future work of the Inter-Agency Task Force on Financing for Development.

Proposed organisation of the session
Keynote remarks will be made by the President of the General Assembly of the UN, Mr. Peter Thomson, followed by a statement of Mr. Horacio Sevilla, Permanent Representative of Ecuador to the United Nations and President of the G77. The Assistant-Secretary-General for Economic Affairs Mr. Lenni Montiel, responsible for the follow up of the Addis Ababa Action Agenda will make the closing remarks. The Panel itself will be composed of high-level representatives of different country grouping and civil society.

2.15 pm to 2.25 pm	**Opening Remarks** Mr. Peter Thomson, President of the General Assembly of the United Nations, representing SIDS. Mr. Horacio Sevilla, Permanent Representative of Ecuador to the United Nations, President of the G77.
2.25 pm to 2.55 pm	**Panel Discussion: Challenges of infrastructure investments and the role of MDBs moderated by Ms. Shari Spiegel.** Mr. Lucky Mulusa, Minister of National Development Planning, Zambia, representing LLDCs. Ms. Winnie Byanyima, Executive Director, Oxfam, representing Civil Society Organisations (CSOs). Mr. Abul Kalam Azad, Principal SDG Coordinator, Prime Minister's Office, Bangladesh, representing LDCs.
2.55 pm to 3:00 pm	**Closing remarks** Mr. Lenni Montiel, United Nations Assistant-Secretary-General for Economic Affairs.

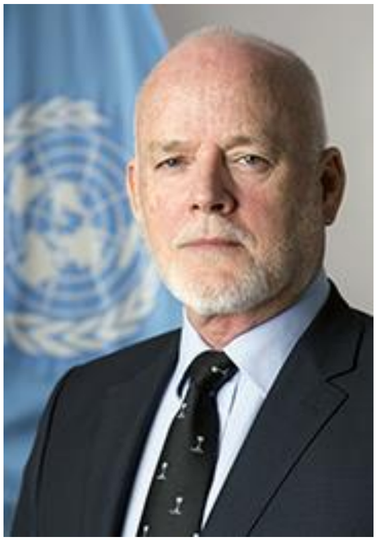
The discussion among panelists will be led by the moderator Ms. Shari Spiegel, chief in the Financing for Development Office, by means of direct questions ideally answered in the context of SIDS, LDCs and LLDCs.

Guiding questions

- What are the particular challenges of LDCs, SIDS and LLDCs in relation to infrastructure development?
- What examples are there of successful projects addressing infrastructure challenges in your country? What examples are there of projects that were more challenging? What was the capital structure in these examples, as well as the breakdown by private and public financing?
- How are specific projects integrated into infrastructure plans? How are priorities determined?
- What is the role of development banks in addressing the infrastructure challenges in LDCs, SIDS, and LLDCs?
- What is the role of civil society organizations in this regard?
- With relation to climate finance and infrastructure investment; what are the most pressing issues in LDCs, SIDS and LLDCs?
- What are the challenges in attracting private finance investments in LDCs, SIDS and LLDCs?
  What sectors would be specifically suitable for these investments.
  What would be the role of civil society organizations?
  How do you view the use of ODA and blended finance in this respect?
  How could long term sustainable private finance be promoted towards infrastructure investments?
- What should be the role of international public finance to address the enormous infrastructure investment needs?

See appendix for background information on the questions: Infrastructure Chapter of the 2017 report of the Inter-agency Task Force on Financing for Development. The Task Force comprises over 50 United Nations agencies, programmes and offices and other relevant international institutions and entities. The major institutional stakeholders of the Financing for Development process, the World Bank Group, the International Monetary Fund, the World Trade Organization, the UN Conference on Trade and Development and the UN Development Programme are taking a central role, jointly with the Financing for Development Office of the UN Department of Economic and Social Affairs, which also serves as the coordinator of the Task Force and substantive editor of the report.

Biographies



Mr. Peter Thomson is the President of the seventy-first session of the United Nations General Assembly on 13 June 2016. Ambassador Thomson took office in New York as Fiji's Permanent Representative to the United Nations in February 2010, serving concurrently as Fiji's Ambassador to Cuba until assumption of his duties as President of the UN General Assembly's seventy-first session. Ambassador Thomson held office as Vice-President of the UN General Assembly in 2011-2012. He was elected as President of the Assembly of the International Seabed Authority's 2011-2012 session and then as President of the Council of the Authority's 2015-2016 session. For the duration of 2013, he chaired the United Nations' largest negotiating bloc, the Group of 77 and China. From January 2014 to January 2015, he served as President of the Executive Board of UNDP, UNFPA and UNOPS.

Ambassador Thomson has served as a board member of the Fiji Visitors Bureau, Fiji TV and the Fiji Broadcasting Commission. From 1988 to 2009, he worked in private enterprise as a company director, an investment consultant and a management consultant specializing in Pacific affairs, with clients ranging from government agencies to regional organizations, banks, universities and investment corporations. Ambassador Thomson is a founding member of the executive committees of the Australia-Fiji Business Council and the New Zealand-Fiji Business Council and in 2007 was made a life member of the latter.

He was born in Suva, Fiji in 1948 and was educated at Suva Grammar School and Natabua High School in Fiji. In 1966-1967, he attended the International Centre at Sevenoaks School in the United Kingdom. A graduate in political studies (Auckland University, New Zealand) and development studies (Cambridge University, United Kingdom), Ambassador Thomson has had a lifelong involvement in the field of development.

Mr. Lucky Mulusa is a nominated Member of Parliament and the Minister of National Development Planning of Zambia since September 2016 with a five–year term. He gives strategic direction to line Ministries on the development planning process to ensure that the development interventions are in line with the Country's desired development outcomes. Through strategic planning instruments the Ministry guides and informs all planning process, investment priorities and implementation of decisions in a coordinated multi sectoral approach.

He served as Special Assistant to the Republican President in charge of Project Implementation & Monitoring for one year. For three years he was a Member of Parliament for Solwezi Central as well as a member of Pan African Parliament. He also served as Director for Treasury Operations and held strategic positions within the National Treasury of the Republic of South Africa for nine years. With a unique combination of strategic finance, treasury operations, development finance and development policy formulation skills gained through conducting Monitoring & Evaluation at the Treasury. Hon. Mulusa helped formulate initiatives of using parastatals as strategic initiatives to guide intervention in incidences of market failure.

From 1988 to 2002, he worked in private enterprises which gave him expertise in development Finance and financial dynamics of banking. Hon. Mulusa has authored several Publications which include a Policy Framework for State owned Entities and two development related course programmes for the University of Stellenbosch among other publications. He is not only a published Author but also a Development Finance expert with massive experience in the financial sector.

He was born in Solwezi, Zambia, in 1965. He holds a M.Sc. in Development Finance and a M.Sc. in Sustainable development from (Stellenbosch University), and a B.Sc. in Accounting (Copperbelt University).

Ms. Winnie Byanyima is the Executive Director of Oxfam International since May 1 2013 with a five-year term. She is a leader on women's rights, democratic governance and peace building. She served eleven years in the Ugandan Parliament, and has served at the African Union Commission and as Director of Gender and Development at the United Nations Development Program. She co-founded the 60-member Global Gender and Climate Alliance and chaired a UN task force on gender aspects of the Millennium Development Goals, and on climate change.

Born in Uganda, Ms. Byanyima was elected for three terms and served eleven years in the Ugandan Parliament. She led Uganda's first parliamentary women's caucus, championing gender equality provisions in the county's 1995 post-conflict constitution. She also founded the civil society organization Forum for Women in Democracy (FOWODE). She has served at the African Union Commission and as Director of Gender and Development at the United Nations Development Program.

Ms. Byanyima is a signatory to her country's 1985 peace agreement and has helped to broker and support women's participation in peace processes in Rwanda, South Africa, Burundi, Sudan and other countries emerging from conflict.

She co-founded a 60-member Global Gender and Climate Alliance of civil society, bilateral and multilateral organizations and chaired a UN-wide task force on gender aspects of the Millennium Development Goals, and on climate change. She has served on numerous global boards and commissions including the African Capacity Building Foundation and the International Centre for Research on Women.

She holds a M.Sc. in Mechanical Engineering in Energy Conservation and the Environment (University of Cranfield), and a B.Sc. in Aeronautical Engineering (University of Manchester).

Mr. Md. Abul Kalam Azad is responsible for Country Coordination of Sustainable Development Goal (SDGs) in Bangladesh. He leads the SDG planning and implementation from Prime Minister's Office of Bangladesh.
His quick decision making quality brought a momentum in the Civil Service of Bangladesh for pro-people administration. Earlier to this Mr. Azad coordinated all administrative, development and reform process from Prime Minister's Office as Principal Secretary to Honorable Prime Minister of Bangladesh and also as Secretary. For last four years he supports and guides implementation of 100 Economic Zone, dozens of Hi-tech Park and Several Public Private Partnership initiative, supervision of coordination of NGO activities in Bangladesh, provide policy support for investment climate for Board of Investment and Bangladesh Investment Development Authority. High level intelligence and security monitoring was part of his responsibility. Long working experience with Prime Minister of Bangladesh made him confident, analytical, prompt and able to work under stress. 'Digital Bangladesh' ICT activities of Bangladesh enabled him to lead Bangladesh Civil Service in Administrative reform of reducing time, cost and visit (TCV) while providing service to the citizens. He initiated several administrative reforms including Annual Performance Appraisal (APA) system in Bangladesh Civil Service.

Mr. Azad worked for a long time for management of foreign investment, foreign grant and bilateral and multilateral investment dialogue while working in Economic Relations Division of the Government. His able negotiation skill helps successful dealings of dozens high value agreements. Mr. Azad worked for a long time in infrastructure of Power and Energy in Bangladesh. His team work and sincere efforts enable Bangladesh increasing its power generation capacity three times in a span of four years. His 34 years civil service career is enriched with field level development administration, Judicial Service, human resource development activities in different training institute. Besides civil service he gathered long experience working with private sector as chairman and director of several power and energy companies, banking and non-banking financial institute, sports and aviation.

From his childhood he is involved with scouting. He leads 1.5 million scouts in Bangladesh from the front as President of the Bangladesh Scouts. He obtained an LL.B degree in 1981 from the University of Dhaka in the department of Law.

H.E. Mr. Sevilla Borja, Permanent Representative of Ecuador to the United Nations, and President of the G77, is a career diplomat from the Ecuadorian Foreign Service. Prior to his designation as Permanent Representative of Ecuador to the United Nations, Ambassador Sevilla served as Ambassador to Brazil, Germany, Peru, Argentina, Dominican Republic, Haiti and the former Czechoslovakia. He was also Counsellor at the Embassy of Ecuador in Washington. His first appointment as diplomatic abroad was in New York as First Secretary at the Permanent Mission of Ecuador to the United Nations, attending Decolonization and Disarmament issues.

Mr. Sevilla Borja held several positions in the Ministry of Foreign Affairs including Director General and Professor of the Diplomatic Academy of Ecuador. He was part of the Ministerial Cabinet as International Affairs Adviser of the President of the Republic. He served also as Governor to the Organization of Petroleum Exporting Countries (OPEP), Secretary General of the Latin American Association of Human Rights (ALDHU), among other high level functions.

Mr. Sevilla Borja was educated in Law and International Relations at the Central University of Ecuador in Quito and was fellow at the Center for International Affairs of Harvard University. He has been Professor in several Universities of Ecuador and Latin America.

Mr. Alexander Trepelkov, Director of the Financing for Development Office (since January 2010) at the United Nations Department of Economic and Social Affairs (UN-DESA), is responsible for secretariat support to the intergovernmental follow-up process of the 2002 Monterrey Consensus, 2008 Doha Declaration and 2015 Addis Agenda on Financing for Development, aimed at promoting policy coherence, coordination and cooperation at all levels in substantive areas of domestic resource mobilization, international development cooperation, private capital flows, trade, external debt, technology transfer, capacity building and the global financial architecture.

At present, he leads the work on promoting the contribution of the Financing for Development outcomes to the means of implementation of the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals.

His previous assignments at UN-DESA were in the areas of Development Finance (2000-2009) and Macroeconomics and Development Policy (1989-1999). Prior to joining the UN Secretariat, he worked in the Foreign Service of the former Soviet Union. Mr. Trepelkov holds MA and Ph.D. degrees in International Economics from MGIMO-University and authored several publications. He is married with two adult daughters.

Appendix
2017 Report of the Inter-agency Task Force on Financing for Development
Thematic Chapter on Infrastructure Investments

Introduction

Low levels of public and private investments have been a central component of disappointing growth since the global financial and economic crisis. Weak investment contributes to low levels of demand in the short run, and impedes productivity growth in the long run. Additional investments in sustainable infrastructure, health, education, research and many other areas are needed to spur growth, achieve the energy transformation required to meet climate goals, and meet the SDGs.

Investment needs are largest in the area of sustainable infrastructure. This chapter will explore ways to increase long-term investments in infrastructure, including public, private investments, and blended finance. It will explore the role that development banks can play in mobilizing resources and supporting sustainable infrastructure investments, and will address challenges specific to the least developed countries (LDCs), which face large investment gaps and will require specific support.

Long-term quality investment for infrastructure

The Addis Agenda recognizes that investing in sustainable and resilient infrastructure, including transport, energy, water and sanitation for all, is a pre-requisite for achieving many of the SDGs. The Addis Agenda points to an infrastructure gap of $1 trillion to $1.5 trillion annually in developing countries. Estimates of the global gap generally range from USD 3 to 5 trillion annually.[1]

Given the enormous investment needs, public, private, domestic and international investment and financing will be required. However, public and private sources are not necessarily substitutable; each has its own incentive structures, goals and mandates. This is reflected in the breakdown of public and private finance across sectors. Public investment typically accounts for more than half of all infrastructure investment globally (Bhattacharya et al., 2015). In developing economies, three quarters of infrastructure is financed by the public sector (government, official development assistance, and development banks), while in developed countries, this pattern reversed, with around two thirds of investment by the private sector.

Table 1: Estimates of infrastructure investment in developing countries, by source

Source	**Per cent**
Domestic government budgets	67 - 72
Private sector	20 - 30
Aid and multilateral development bank financing	5 – 8
Other developing country governments	3

Source: Bhattacharya, A., M. Romania, and N. Stern. 2012. Infrastructure for Development: Meeting the Challenge. CCCEP, LSE, and G24.

The difference in the contribution of public and private investment across countries reflects different institutional frameworks, policies and levels of development, but also reflects different investment needs. In developed countries, for example, much infrastructure investment is in maintenance rather than new greenfield investment. Different sectors also have different capital structures. While ratios vary by country, private investment generally represents the majority of new investment in telecommunications, while public investment is generally greater in social infrastructure. In the United States of America, for example, public investment represents around 90 per cent of the investment in transportation and water and sewage, while private investment represents 100 per cent of investment in telecommunications, and around 90 per cent in the power sector (McKinsey, 2016). In Africa, transport and water have also been financed almost exclusively with public funds, but in contrast to developed countries, energy and communications are also majority publically funded, at 89 and 87 per cent respectively. (PPI database; ICA, 2014)

Historically high levels of public investment in infrastructure across many countries do not necessarily mean that its provision will remain a public endeavour going forward. They do however imply that the risk/return profile of such investments would generally not be sufficient to attract private finance on its own. In general, investment is attractive to private actors when the expected return adjusted for risk is competitive with other investments. This is generally more likely to be the

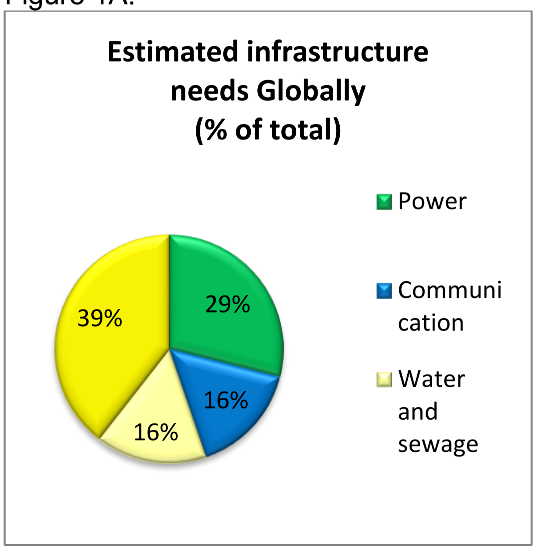
[1] Estimates of global investment needs vary widely, depending on underlying assumptions about economic growth, policies and other issues, as well as the scope of the sectors included. McKinsey (2016) estimates a USD 3.3 trillion annual global gap (constant 2015 USD), which includes power, transport, communications and water. The World Economic Forum (2013) estimates a USD 5 trillion annual global gap, which includes power, transport, buildings and industrial, communication, agriculture, forestry, and water. See http://reports.weforum.org/green-investing-2013/required-infrastructure-needs/

case when projects have positive cash flows, which can be used to repay the private investor, as is the case in the telecommunications and power sectors.

In most sectors, user fees could create cash-flows to make the investments viable for private investors, but Governments also need to consider equity implications. User fees can make access to infrastructure and services for the poor unaffordable. The regulatory frameworks and competition laws, particularly in sectors like telecommunications that can be subject to monopoly behaviour, are necessary components of an enabling environment for infrastructure investment. Affordability can sometimes be achieved through other means, such as subsidies. Nonetheless, the policy imperative for equitable provision of certain services is a main reason for public funding of some forms of infrastructure, even in developed countries. Public policy may also be warranted in the presence of externalities such as carbon emissions, which impose costs on society that are not reflected in private investors' returns and thus lead to misallocations of capital. This is particularly important in the power sector, as discussed later in this report.

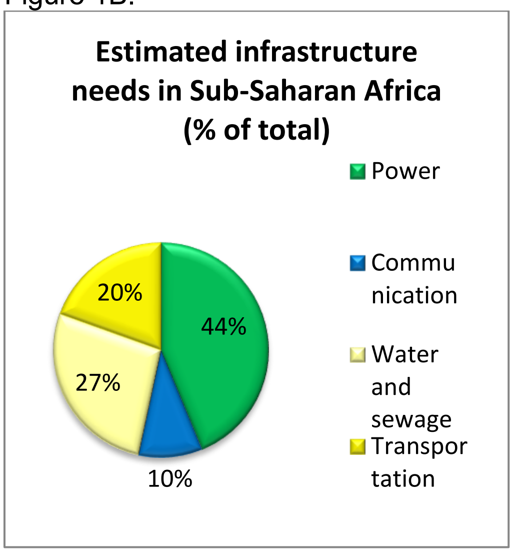
Figure 1.A breaks down the estimated global financing needs noted above by sector. Areas traditionally financed by public spending, i.e. transportation (primarily roads) and sewage and water, make up more than half of total needs, though power and communication, which tend to have a greater private component, are also significant. Figure 1B shows estimated needs by sector for Sub-Sahara Africa as an illustration of the break-down in one developing region, where the greatest needs are estimated to be in the power sector.

Figure 1A.



Source: McKinsey 2016

Figure 1B.



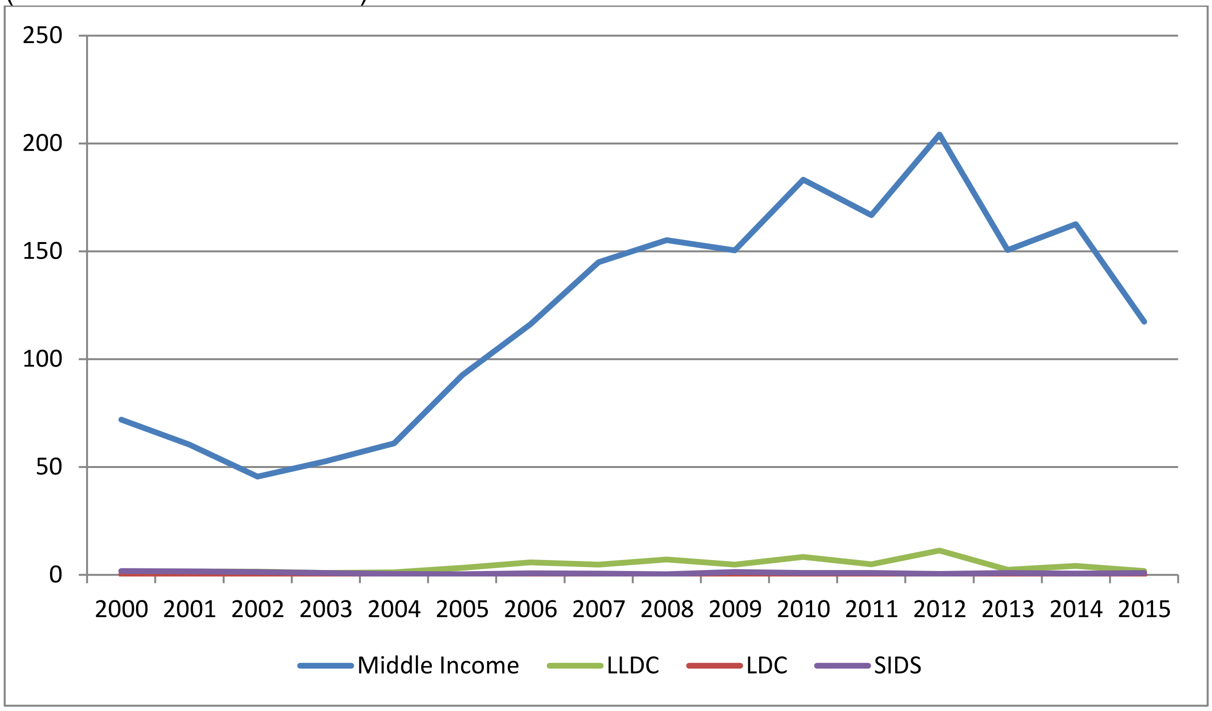
Source: G20 Development Working Group, 2014

The breakdown of public and private finance in different sectors will depend on a host of factors, including government priorities and policy frameworks. Nonetheless, the scope of financing needs should present a historic opportunity for private SDG-related investment.

Private investment in infrastructure

Infrastructure investments that include private participation have increased dramatically since the turn of the century, though most of the growth was in middle-income countries (see figure 3). In middle-income countries, the nominal volume of investment in infrastructure with private participation increased sharply since 2002, but levelled off after the world financial and economic crisis in 2008 and saw declines after peaking in 2012. This trend was driven by electricity sector investment, with many large investments announced in 2011 and 2012 before declines. Investment in infrastructure that includes private participation has remained at minimal levels in LDCs, LLDCs and SIDS.

Figure 2: Infrastructure investment with private participation, by country group
(Billion United States dollars)



Note: Includes the total value of projects, not just the share attributable to the private sector, in current year dollars. Infrastructure includes investments in energy, ICT, transport, water and sewerage.
Source: World Bank (2017) PPI Database. Available from https://ppi.worldbank.org/

The Addis Agenda includes commitments to tackle impediments to private investment in infrastructure on both the supply and demand sides. One common complaint by investors is on the lack of investible projects. Rather than focusing on one-off projects, the Addis Agenda emphasizes the need for infrastructure plans, which should then be translated into concrete project pipelines. Indeed, Governments in Addis committed to a package of policy actions, including strengthening the domestic enabling environments (see Chapter II.B) and embedding resilient and quality infrastructure investment plans in their national sustainable development strategies. There are also commitments to provide technical support for countries to translate infrastructure plans into concrete project pipelines, as well as for feasibility studies, negotiation of complex contracts, and project management, as well as to use investment promotion and other relevant agencies to strengthen project preparation.

In this regard, there are several initiatives to strengthen project preparation and capacity building, some of which also provide seed funding, including the World Bank's Global Infrastructure Facility (GIF), IFC InfraVentures, and initiatives by regional development banks. Peer learning could also be very useful in this regard. The United Nations could be a platform sharing of experiences in regional and global fora.

At the same time, and as discussed in Chapter IV, long-term investment available for infrastructure has been insufficient. Large international commercial banks, which had previously provided a significant portion of infrastructure financing, have been deleveraging since the global economic and financial crisis, which has affected the availability of long-term financing. Regulations, such as Basel III, which imply a higher cost of capital for long-term investments, could constrain such lending by commercial banks going forward, particularly in developing countries (see Chapter V and VIII). At the same time, institutional investors, which should be a source of longer-term finance for sustainable development due to their long-term liabilities, and which currently hold the total $115 trillion in assets under management (TheCityUK, 2015), invest only a limited portion of their portfolios in infrastructure -- in both developed and developing countries. For example, the largest pension funds hold 76 per cent of their portfolios in liquid assets, with direct investment in infrastructure at less than 3 per cent, and even lower in developing countries and for low-carbon infrastructure (Willis Towers Watson, 2016.)

In the Addis Agenda, Governments committed to “promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators.” The Task Force has identified several factors that shape these incentives, including institutional factors; short-term oriented compensation packages, particularly when long-term investors outsource asset management; firm culture; and regulatory and accounting standards. In this regard, some long-term investors are taking actions to better align incentives with long-term investing. To reorient more investment in support of the SDGs, additional steps will need to be taken, by them and by other private actors (e.g. rating agencies), Governments, civil society, norm-setting bodies and international organizations. (See also Chapter IV for a discussion on institutional investors and aligning capital markets with sustainable development.)
Even with such additional steps, however, the risk/return profile of many investments that generate public benefits will not be sufficient to attract private investment. In these cases, there is an important role for public investment, including direct investment, co-investments, and risk and reward sharing with private investors, through guarantees, first loss tranches and other mechanisms.

Public investments for sustainable development – the role of development banks
Fiscal space is available in many (albeit not all) countries to expand public investments while maintaining debt sustainability. Beyond financing from current revenue or direct sovereign borrowing, development banks – both national and regional and multilateral – have great potential to expand their activities and finance sustainable development investments.

Development banks can help finance infrastructure through four channels: they can mobilize finance by borrowing from financial market; they can mobilize private capital for specific projects, through co-financing, providing risk guarantees and other instruments; their experience allows them to improve the quality of projects by providing technical assistance and sharing best practices; and they can increase the sustainability of projects, and promote practices for infrastructure investments that are aligned with sustainable development. Development banks also play a counter-cyclical role, by extending their balance sheets during economic downturns. For example, the multilateral development banks significantly expanded their lending during the global economic and financial crisis of 2007 and 2008, as have many national and regional development banks.

Over the last 70 years, multilateral development banks have channelled large amounts of long-term development finance to developing countries, and infrastructure financing has been a key focus of their activities. Nonetheless, in recent decades, their overall contribution to infrastructure financing in developing countries has become relatively minor – the eight major MDBs (excluding the European Investment Bank) invest around USD 35 to 40 billion annually in infrastructure in developing countries, compared to total infrastructure investment of around $2 trillion (Bhattacharya et al., 2015.) This is at least in part due to a refocusing of their activities towards programme and policy lending and social sectors in the 1990s and 2000s. Infrastructure lending has rebounded in recent years, but remains a smaller share of overall operations than in earlier years (Humphrey, 2015).

It is widely agreed that the MDB system has the potential to significantly expand its contributions to financing the 2030 Agenda. Indeed, the Addis Agenda prominently recognizes this potential and calls on them to take steps to do so. Among measures discussed are an expansion of their capital base and its more effective use to increase lending, while also aligning practices and policies with sustainable development. MDBs have also been encouraged to better leverage their existing capital by the G-20, and have already taken steps in this regard. Nonetheless, significant scope remains to optimize their balance sheets (see for example Murphy, 2015, Ahluwalia et al., 2016). The recent establishment of the Asian Infrastructure Investment Bank and the New Development Bank has also expanded overall resources available.

National development banks (NDBs) are widespread across the globe. A global survey of development banks carried out by the World Bank in 2012[2] found that NDBs are an important source of long-term credit in many emerging market economies, and also play an active role in strategic sectors in some advanced economies (de Luna-Martinez and Vicente, 2012). Most institutions are small in size relative to their domestic market – 80 per cent of the development banks surveyed hold less than 3 per cent of assets of their national banking systems. However, some NDBs play a significant role, either in their local markets (such as some NDBs in small island developing States) or at the regional or global level (such as the Brazilian Development Bank BNDES, China Development Bank, and Germany's Kreditanstalt fuer Wiederaufbau, KfW). Overall, it is estimated that NDBs hold around $5 trillion in assets, more than half of which are held by the three institutions mentioned above. This considerably exceeds the combined assets held by the MDBs (Studart and Gallagher, 2016).

Many of the large NDBs prioritize infrastructure, providing both financing and technical expertise, which ranges from needs assessment and planning to project feasibility studies. Some have also been pioneers in incorporating sustainability considerations in their operations. In India, NDBs play a central role in financing the transition to sustainable infrastructure and to renewable power sources that is laid out in the country's Intended Nationally Determined Contribution (INDCs) submitted to the United Nations Framework Convention on Climate Change (UNFCCC) (Kumar, 2016). KfW has similarly been central to financing Germany's energy transformation.

NDBs have also been able, in many countries, to finance SMEs, support financial sector development, and played a counter-cyclical role. However, experience also shows that a precise mandate, ideally stipulated in law and embedded in a broader national development strategy, and sound governance structures, with representative supervisory bodies and executive management with banking experience, are critical for their success (Povel, 2015). In many developing countries, NDBs also lack the scale to fully address the vast infrastructure financing needs, and will remain constrained for the foreseeable future by challenging macro-financial conditions in their home markets. In such cases, regional and MDBs can help fill the gap.

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[2] The World Bank study defined development banks as having at least 30 percent state-ownership and a legal mandate to reach socioeconomic goals.

Public-private partnerships and blended finance

The Addis Agenda notes that "both public and private investment have key roles to play in infrastructure financing, including through… mechanisms such as public-private partnerships [and] blended finance."[3] It defines blended finance as combining "concessional public finance and non-concessional private finance and expertise from the public and private sector." The discussion below thus focuses on blending with non-concessional or for-profit private finance.[4]

Blended finance and public private partnerships (PPPs) are fairly controversial in debates on implementation of the SDGs, with views ranging from the essential need for PPPs to meet the large financing needs, to concerns that PPPs will be used to privatize public services and subsidize the profits of the private sector. Nonetheless, such mechanisms have become increasingly looked to as a method of using official resources to leverage private financing. The use of such instruments in official development assistance (ODA) is still quite limited, but it has increased steadily over the last several years – according to a OECD survey, $27 billion were mobilised from the private sector in 2015 by official development finance interventions – and new platforms have been established to further expand blended finance (see Chapter V on International Development Cooperation).

While blended finance and PPPs have most often been used for infrastructure investment, there is also consideration of using these mechanisms to help finance SMEs and other entities, which is aligned with the discussion on inclusive finance measures in Chapter II.B. In terms of infrastructure investment, PPPs account for around 3 per cent of infrastructure investment, ranging from a high of 10 to 15 per cent in some developed countries, to 6.4 per cent on average in large middle income countries, and minimal amounts in LDCs. (McKinsey Global Institute, 2016)

The goal of using PPPs should be to improve the coverage, access and quality of a given service in a cost efficient manner, and to provide greater "value-for-money" than the alternative of public procurement. While assessing financial risks and rewards determines the viability of PPPs for the private partner, non-financial costs and benefits, including long-term fiscal liabilities and social, environmental and development impacts throughout the life of the project, are integral to assessing value-for-money from the public perspective.

The appropriate capital structure of a project ultimately depends on national circumstances and preferences, as well as levels of expertise and capacity constraints. However, in general, PPPs can be considered as a financing modality when: i) the public benefit of the project is greater than the financial returns[5] and ii) when that the structure adds value, such as through increased efficiency, lower costs, or higher quality. The viability of PPPs also varies across sectors. As noted above, whie PPPs may be better suited in sectors, such as power, which have positive cash flows to repay the private sector, they are more difficult to structure in sectors without clear positive financial returns (such as social sectors.)

Nonetheless, evidence to date suggests that many PPPs have been more expensive than the alternative of public procurement, across both developed and developing countries and across sectors, while in a number of instances they have failed to deliver the envisaged gains (Jomo, et.

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[3] PPPs are referred to as a specific type of blended finance. (See paragraph 48 of the Addis Action Agenda.)
[4] For a discussion of blending of international public finance with philanthropy see Chapter II.C on International Development Cooperation.
[5] Additionally, the financial risk-adjusted returns would generally not be sufficient to attract private investment on its own.

al., 2016). There is thus a need for more in-depth analysis and guidance on the conditions under which PPPs can best bring benefits and advance sustainable development.

The Addis Agenda recognizes both the potential and challenges associated with PPPs. It notes that “careful consideration should be given to the appropriate structure and use of … blended finance, including PPPs, [and that projects] should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards.” To facilitate effective use of PPPs, the Addis Agenda identifies a number of considerations, spelled out in Box 1.

Box 1: Principles for Blended Finance and PPPs extracted from the Addis Agenda.

1. Careful consideration given to the structure and use of blended finance instruments (para 48);
2. Sharing risks and reward fairly (para 48);
3. Meeting social and environmental standards (para 48);
4. Alignment with sustainable development, to ensure “sustainable, accessible, affordable and resilient quality infrastructure” (para 48);
5. Ensuring clear accountability mechanisms (para 48);
6. Ensuring transparency, including in public procurement frameworks and contracts (paras 30, 25 and 26);
7. Ensuring participation, particularly of local communities in decisions affecting their communities (para 34);
8. Ensuring effective management, accounting, and budgeting for contingent liabilities, and debt sustainability (paras 95 and 48);
9. Alignment with national priorities and relevant principles of effective development cooperation (para 58).

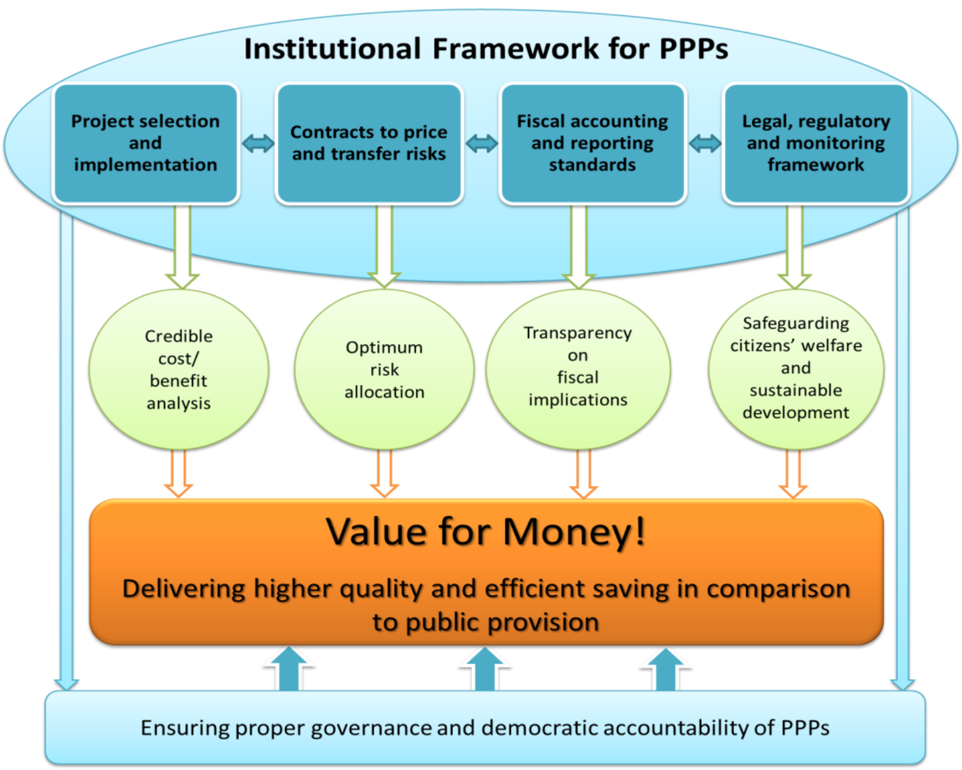
These principles range from ensuring effective and fair use of PPPs, to calls for transparency, accountability, and inclusiveness. Many PPP projects have had weak accountability and transparency. Those PPPs involving publicly owned development finance institutions could, for example, publish relevant contracts and establish mechanisms for greater stakeholder input and public feedback. More broadly, a framework for disclosure on PPPs throughout the asset’s lifecycle, including at the time when the choice of financing instrument is made, could be an important agenda item for future work. Ensuring effective management, accounting, and budgeting for contingent liabilities, underscores the need for debt incurred through PPPs to be effectively tracked and managed. Task Force members thus believe that Governments should account for PPPs on balance sheet, to avoid non-transparent contingent liabilities and the misuse of PPPs as a tool to get around fiscal controls. In this vein, task Force members have developed tools to help countries manage fiscal risks associated with PPPs. The ‘Public Fiscal Risk Assessment Model’ or PFRAM, developed by the IMF and World Bank, provides a framework to identify the main fiscal risks arising from PPP contracts.

As infrastructure projects often profoundly impact local communities, stakeholder participation in decision making on PPPs is critical to ensure accountability. The Addis Agenda also calls for PPPs to meet social and environmental standards, and for all investment flows to be aligned with sustainable development. This represents a shift in thinking, from ‘doing no harm’ through safeguards, to also generating positive impacts of in all three dimensions of sustainable development, along the line of impact investing (discussed in chapter IV).

The Addis Agenda calls for sharing risk and return fairly, meaning avoiding undue subsidies to the private sector and undue risk for the public sector. Valuing risks and rewards in complex projects is notably difficult, even for governments with strong capacities, and climate risk makes this task more difficult. While analysis inevitably needs to be carried out on a case-by-case basis, the Inter-agency Task Force could be a platform for bringing together work on analytical parameters to guide the use of instruments, such as when subsidies might or might not be appropriate, and what type of structures could be most effective.

Addis also calls on all financing flows to adhere to principles of development cooperation. In the context of using official funds to leverage private finance, the principle of country ownership implyies that developing countries play a central role in the decision to prioritize the use ODA for blending and in the planning, design and management of specific blended finance projects.

For successful use of PPPs, countries need the institutional capacity to create, manage and evaluate them,[6] including for project selection, transparent fiscal accounting and reporting, and legal and regulatory frameworks. For a many countries, setting in place these capacities requires assistance from the international community in the form of technical support and capacity building.



Source: Jomo et. al., 2016

Finally, in the Addis Agenda Member States committed to "build a knowledge base and share lessons learned through regional and global forums."[7] A number of knowledge-sharing initiatives have been developed by multilateral organizations, including the World Bank's PPP knowledge lab, which provides an on-line platform for knowledge-sharing amongst some actors. The Global Infrastructure Forum provides a space for MDBs, UN Agencies, development partners and

[6] UN DESA working paper titled "PPPs and the 2030 Agenda for Sustainable Development: Fit for Purpose?" (co-authored by KS Jomo, Anis Chowdhury, Krishnan Sharma and Daniel Platz) Can be downloaded at http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf.
[7] Addis Ababa Agenda Action Agenda, Paragraph 48.

national entities to share knowledge on PPPs for infrastructure investment. The UN, with its universal membership, can also be a platform for further discussion, through regional fora, as well as the Financing for Development Forum, which could further explore how to ensure access to finance for all, and how mechanisms discussed above could be effectively be used in countries often bypassed by such investment, and in particular LDCs.

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