Information Note: Post-2015 Financing for Development in the World Bank Group
**Foreword**

2015 is a pivotal year—a year when the global community will commit to a shared vision on international development goals through 2030. The Third International Conference on Financing for Development in Addis Ababa in July is an important milestone in the post-2015 global effort to achieve universal and sustainable development, underpinning the expected adoption of the Sustainable Development Goals (SDGs) at the UN Special Summit for Sustainable Development in New York in September.

The proposed SDGs are ambitious. They aim to meet the dual challenge of overcoming poverty and protecting the planet. They will build on the experience acquired in pursuing the Millennium Development Goals (MDGs) and pick up the unfinished agenda, but they go further, highlighting a comprehensive vision of sustainable development that embraces economic, social and environmental dimensions.

The financing resources needed to achieve the SDGs will greatly surpass current development financial flows. Reflecting developments in the global economy over the last decade, substantial investable resources, mostly private, are available in advanced and emerging economies. In addition, domestic public resources, even in low-income countries, can be increased. However, resources will not automatically be allocated and used effectively to support the SDGs. Private investment moves in directions determined by risk-reward considerations, which in turn is driven by public policies. Shifting the allocation of investable funds to better meet development needs is thus an issue of “getting policies right” and “getting development results”—whether at the national or international level.

The World Bank Group (WGB), regional Multilateral Development Banks (MDBs) and the International Monetary Fund (IMF) have committed in an unprecedented way to work together to contribute to the financing of the post-2015 development agenda. For the WBG-IMF 2015 Development Committee meeting this group produced a joint paper: *From Billions to Trillions: Transforming Development Finance*.¹ The paper offers a vision of their collective role as key contributors, innovators, and intermediaries. This vision encourages a paradigm shift in development finance, emphasizing the essential but changing role of Official Development Assistance (ODA). ODA will remain critical not only to finance the needs of low-income, fragile and conflict-affected states but, more than ever, as a resource to channel additional public and private flows in support of the proposed SDGs, acting as the nexus to improve institutional capacity as well as mitigate risk.

While countries have a central role in generating investment flows and in determining their development priorities, IFIs are essential for catalyzing and channeling additional financing flows. Due to their unique business models, backed by shareholder capital, innovative financing solutions, knowledge, and convening

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¹ Paper written jointly by the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and World Bank Group. The paper was discussed by the Development Committee during the 2015 WBG-IMF Spring Meetings.
power based on trust they can be considered as “leveraging machines” of the global multilateral development system. Simply put, the billions of dollars in lending commitments leveraged annually through their balance sheets also help catalyze and crowd-in trillions of public and private sector dollars.

At the WBG, we’ve started to change the conversation on development finance. The objective is to continually innovate in order to maximize the use of every available grant dollar and use it to crowd-in additional sources. Our unique country-driven model of engagement supported by financing and technical assistance is well suited to take a leadership role in leveraging the grant and capital funds of our shareholders. Moreover, with the addition of the new lending instrument, Program-for-Results, we now have a new option to support government programs and enhance the efficiency and effectiveness of their overall results. Each scarce amount of ODA is put to the best possible use, mobilizing international funding and support to address human and developmental challenges, particularly those in low-income countries and fragile and conflict affected situations.

Emphasizing the strengths of the individual institutions working together as One WBG, the WBG strategy focuses on development solutions, embedded in evidence of what works and how to deliver it. The new WBG structure, comprising 14 global practices and five cross-cutting solution areas, aligns with the proposed SDGs and their cross-sectoral, inter-dependent approach to development, and emphasizes both global expertise and delivery support in country.

The WBG is also at the forefront of developing ways to scale up and introduce new platforms and instruments in line with the “Billions to Trillions” vision. This ongoing work is part of the WBGs broader effort to ensure it has the financial heft and appropriate tools to meet the growing complexity of the global development landscape and the demands of our clients. Across the institutions of the WBG—focused equally on the public and private sectors—efforts have been underway to:

(1) Increase WBG financial resources;
(2) Expand and renew support to improve domestic resource mobilization and public expenditure;
(3) Promote and catalyze private investment;
(4) Support international action on regional and global issues; and
(5) Increase coordination and partnership.
1. Increasing WBG financial resources

The WBG business model leverages and maximizes the impact of every dollar. The WBG comprises financial institutions that are able to leverage capital and contributions from shareholders through bond issuance, equity, guarantees and other instruments. In 2014, the WBG received contributions of US$ 12.4 billion, and committed US$ 65.6 billion in loans, grants, equity investments and guarantees to its shareholder countries and private businesses.

The WBG is in the midst of comprehensive efforts to stretch its balance sheets. IBRD’s “Margins-for-Maneuver” measures, combined with savings from the WBG-wide expenditure review, have strengthened IBRD’s medium-term capacity by US$ 7-8 billion annually. The WBG is also leading a collective effort by the MDBs to develop and put in place exposure exchange agreements, which are formal exchanges of selected country exposures to reduce concentration risk. This would allow increased financing for countries where lending headroom is constrained. The WBG has tested this solution between IBRD and MIGA for an exposure swap of up to US$ 100 million of principal, which allowed each organization to do more business in Brazil and Panama. Scaling up this approach among the MDBs is now within reach.

The WBG is also exploring ways to leverage IDA’s capital to finance additional non-concessional loans, while maintaining IDA’s focus on the poorest and FCS countries and allowing for enhanced targeting of scarce concessional resources. Additional financing capacity from mobilizing market resources has the potential to support revenue-generating investments in low-income countries consistent with debt sustainability considerations, as well as to increase available financing for countries transitioning from IDA that have limited capacity to attract other sources of finance. Buy-downs of non-concessional finance, for example, for climate-smart investment could also leverage grant resources by a factor of three to one, helping to address climate change impacts on the poorest and contributing to the Copenhagen target of mobilizing US$ 100 billion a year by 2020 of public and private finance for climate mitigation and adaptation in developing countries.

There is also scope for significant growth of the WBG’s private sector arms. IFC’s financing and overall mobilization (which includes AMC, syndications and other portfolios) is projected to have annual growth of 8-10 percent in long term commitment volume through FY18; while MIGA is aiming to achieve a 50% increase in new guarantees by FY17.

Yet demand for strategically relevant investments continues to outstrip our financial capacity to respond. From infrastructure to energy health to education, needs among our client countries remain vast. We are looking closely at the implications of the proposed SDGs, the emerging global economic landscape and key new challenges on the development horizon in terms of what they mean for the future needs of our clients and the role the WBG could play. We are continuing to look at ways that the WBG could increase its resources across its public and private sector arms to increase its own investment and mobilize and catalyze very substantial additional resources on top of that. These will be the subject of important conversations with our shareholders over the coming period.
2. Expand and renew support to improve domestic resource mobilization and public expenditures

Countries must lead in mobilizing and efficiently spending their domestic resources. Domestic resources, both public and private, provide the lion’s share of development spending. Effective domestic public policy helps increase equity through poverty eradication, providing public goods and services, and, at the national level, managing macroeconomic stability. It also reinforces a country’s ownership of public policies, reduces aid dependency and can raise creditworthiness. However, measures to improve DRM and public expenditures can vary across countries, and their implementation may be beset by political economy constraints. Experience has shown that the combination of technical assistance and increased financing for capacity building can play a vital role in strengthening DRM and increase public expenditure efficiency and effectiveness.

Efficient mobilization of significant domestic public resources requires both technical capacity in the public sector and a sense that the tax regime is fair. Support depends on trust in government, and on the efficiency and effectiveness of public expenditures. Civil society can play an important role in creating transparency and raising trust in public institutions. These factors together can help translate increased domestic resources into strong SDG outcomes.

Increasing the amounts and the impact of these resources is all about good policy, and that policy dialogue with country clients, working to develop capacity and build strong policy environments, is at the heart of the WBG’s work. The WBG lends roughly US$ 7 billion in Development Policy Loans annually, supplemented by analytical and advisory Services, to support governments and sub-national institutions as they reform their policies, strengthen institutional capacity, and review their expenditure and fiscal management.

PforR innovation is a key element in the WBG strategy that directly contributes to the SDG’s achievement. The PforR instrument, introduced in 2012, focuses on country ownership and strengthening of country programs, systems and institutions in a sustainable manner. PforR directly links disbursements of financial resources to achievement of development results. PforR goes beyond filling financing gaps and can be used strategically to unlock, leverage and catalyze all possible financial resources (Box 1).
Box 1 – PforR fills a gap in development financing and capacity building

The PforR instrument is designed to enable the WBG to better respond to changing development needs, meet demand from client countries, and enhance development effectiveness by supporting a government program of expenditures, building institutional capacity, and tying financing to achievement of results. Client countries are increasingly implementing their own programs for development and poverty reduction that are rooted in their own legal, policy, regulatory and institutional environments and are asking development partners for financing and expertise to improve the programs’ effectiveness and efficiency in achieving results. The Bank was not able to adequately meet this demand with existing instruments, hence the introduction of PforR.

Policy guidance and technical assistance are being reframed and expanded under the new Country Partnership Framework (CPF) to make the WBG’s country-driven model more systematic and evidence-based. A Systematic Country Diagnostic (SCD) will inform each new CPF by identifying the most important challenges and opportunities. The SCD/CPF will identify where and how financing, technical assistance and other support from the WBG can be prioritized and allocated for the most impact.

Together with the IMF and other development partners, the WBG is identifying ways of strengthening its support to developing countries for domestic resource mobilization (DRM) and public expenditure, including committing to:

- **Build a joint WBG/IMF DRM Assessment Mechanism** that would combine domestic revenue mobilization (DRM) diagnostics and technical assistance, evaluating tax policy stance, effectiveness of revenue systems, and tax administration, as well as other forms of revenue and domestic and international sources of tax base erosion. This would provide a baseline for international support to countries in implementing DRM reforms. The IMF and WBG are working on mechanism design to ensure that it draws on comparative strengths of the two organizations. Assessment outcomes and action plans would feed into WBG operational activities and IMF surveillance and programs, as well as activities of other development partners. A multi-donor trust fund could supplement these efforts with timely capacity building and knowledge sharing on the findings of these assessments and discussion of trending issues in the international fora.

- **Intensify WBG engagement on tax issues**. The WBG is committed to playing a major part in supporting the G20 tax agenda in developing countries through its technical assistance, lending operations and knowledge products that build on, but also go beyond, the OECD agenda.

- **Stepping up our work on the challenge of illicit international flows** (IFFs). Development losses stemming from IFFs and the underlying criminal activities are substantial. Corruption, tax evasion, organized crime, terrorism financing, money laundering, abuse of public authority, and the outflows of related proceeds have a significant negative impact on domestic revenue mobilization and development. The WBG commits to supporting action by both developed and developing countries to prevent, detect and prosecute illegal activities that give rise to illicit financial flows and foster related international cooperation. Responses to IFF will be structured along three pillars involving the public sector, the private sector and civil society. The three pillars will aim to reduce both the underlying activities and the outflows in developing countries; prevent, detect and deter illegal inflows to developed countries; and improve international cooperation to trace, seize, confiscate and return illegal assets to their rightful owners and punish criminal behavior. To this end, the WBG will focus its efforts in building country capacity while ensuring a concerted action between country work and global engagements.
3. Promote and catalyze private investment

The private sector will play a pivotal role in financing the post-2015 development agenda. As recognized in the Monterrey Consensus, private investment underpins economic growth, know-how and technology transfer, job creation, and productivity gains. Ultimately, functioning, self-sustaining private sector markets that respond to economic demands are central to the sustainability of development gains.

The drivers of private finance are distinctly different from the motivations of domestic public finance. Private sector firms seek investment opportunities based on risk-return considerations. To be effective, public sector measures to encourage private investment need either to decrease perceived risk or increase anticipated returns. Governments play a critical role in providing a conducive investment climate through supportive governance structures, competition policy, hard and soft infrastructure and instruments that foster healthy, commercially sustainable markets.

At the same time, businesses realize that unmet societal needs, not just economic needs, define markets. Consequently, business success occurs alongside societal progress. Risk-return considerations increasingly take into account, for instance, the need to ensure sustainability throughout supply chains, and the benefits of increasing the customer base to include unserved customers at the base of the pyramid. More and more examples of business solutions to development challenges are surfacing to demonstrate how private business can deliver profit and development impact simultaneously. A growing class of international investors make investment to generate measurable positive social or environmental impact alongside a financial return.

The WBG works on the ground to support the full life cycle of investments—from advice on sectoral and business climate reforms, to project preparation, transaction structuring and financing, implementation, and monitoring and evaluation of development impact. The fundamental approach of the WBG is to identify areas of market failure or areas where markets are yet non-existent, and then to structure commercially viable projects in these areas. WBG works to provide the necessary incentives (political risk mitigation, appropriate pricing structures, regulatory advice, advisory funds, risk sharing, co-investments, etc.) to address risk-return requirements of the private sector while encouraging inclusion and high standards.

The WBG is increasing its commitments to promote and catalyze private investment, developing new platforms and building on existing mechanisms to address risk and uncertainty. For example, in FY14, IFC provided over US$ 22 billion in financing, about US$ 5 billion of which was mobilized from investment partners—with IDA countries accounting for nearly half of IFC investment projects and 65 percent of advisory program expenditures. IFC is also expanding its work in power, SMEs, and agribusiness supply chains in FCS countries, and, working toward the WBG universal financial access goal, plans to reach 600 million unbanked account holders by 2020. Similarly, MIGA issued US$ 3.2 billion in political risk and credit enhancement guarantees underpinning investments. Moving forward, MIGA will focus on innovative projects, projects in IDA eligible countries and Fragile and Conflict States, and transactions with strong development impact.

Specific initiatives focused on private sector investment include:

- **IFC Asset Management Company (AMC) and Managed Co-Lending Portfolio Program (MCPP)**: These offer significant mobilization and scale-up opportunities, using a strong governance structure and innovative business model to match commercial capital with development finance. The AMC manages some US$ 8 billion in assets in seven funds for investment in emerging market companies and equity funds. AMC’s Global Infrastructure Fund, for example, has raised US$ 1.2
billion in equity commitments from commercial investors – sovereign wealth funds, pension funds, bilateral and multilateral development finance institutions and others – which will support an estimated US$ 18 billion of infrastructure projects in developing countries. AMC will continue to build out its portfolio of regional, sectoral and specialist funds, bringing additional capital to developing countries. MCPP is IFC’s newest Syndications product that allows institutional investors to passively participate in IFC’s future loan portfolio, rather than investing in specific deals, across all regions and sectors. The first MCPP investor, the People’s Bank of China, pledged US$ 3 billion to be committed over six years.

- **Global Infrastructure Facility (GIF):** GIF is bringing together institutional investors and partners to help bring to the market a strong pipeline of bankable projects that meet investor risk tolerance and investment profiles in developing countries. The GIF will foster collaboration and collective action on complex projects that no single institution could achieve alone. It will provide support throughout the project cycle, drawing on its array of technical and advisory partners to help build quality projects. During its three-year pilot phase, the GIF expects investments of US$ 2-3 billion, increasing over time.

### 4. Support international action on regional/global public good and development issues

In a globalizing world, problems and solutions reach across national borders, resulting in a growing need for international collective action. During recent years, the concept of Global Public Goods (GPGs) has become an increasingly important part of international policy making. Clean environment, health, knowledge, property rights, peace and security are all examples of public goods that could be made global. As a global IFI, the WBG has a comparative advantage in its ability to tackle regional and global development issues, convening diverse partners and connecting to policy, program and financing solutions at the country level.

Global economic stability is an example of a critical international public good that no one country can deliver. In the context of a global economy that is increasingly interconnected, measures to ensure that the international economic system is resilient in the face of shocks are of central importance. Strengthening global financial and economic stability requires better coordination of regulatory policies across countries, coupled with closer dialogue among national policy-makers to ensure that spillover effects of national policies on other countries are appropriately factored into national policy-setting. Providing analytical inputs and recommendations for these discussions is an important output of WBG country dialogue and assistance. Limiting the financial impact of natural events through provision of Catastrophe Bonds is another example of WBG support in helping mitigate shocks.

The WBG is expanding its work on financing important regional and global development issues, and developing new initiatives to respond to global issues. These include:

- **Pandemic Emergency Financing Facility (PEF):** The PEF would mobilize public and private sector resources for quick disbursement when needed to respond to the next outbreak. It could offer a private insurance mechanism complemented by public funds with a design that would incentivize recipient governments and the international community to introduce greater rigor and discipline into crisis preparedness. Premiums for the poorest countries would likely have to be subsidized, while private sector payments would be triggered by an outbreak to finance critical containment measures.

- **Global Financing Facility (GFF) in Support of Every Woman Every Child:** The Global Financing Facility (GFF) in support of “Every Woman, Every Child” (EWEC) was announced in September 2014. Its
Lastly, to avoid rolling back decades of work toward ending poverty, development processes need to build in climate change considerations. Experience has shown that well-designed development actions can capture multiple local and global benefits, such as improved air quality and health, higher agricultural productivity, and increased employment, while addressing climate change.

Development finance and climate finance should complement and leverage each other whenever possible. A compelling case for action and the allocation of finance can be made if development and climate benefits can be delivered together. In this context, the WBG, together with the MDBs and other public development finance institutions—play a strategic role in smartly deploying scarce government resources and leveraging more, and longer-term, private investment. Over the last four years (2011-14), the WBG has delivered US$ 43 billion in financing to help developing countries and emerging economies mitigate and adapt to the challenges of climate change. This represented over US$ 30 billion dedicated to mitigation efforts and US$ 13 billion for adaptation work. With the ability to catalyze public and private funds, the WBG has successfully attracted and deployed climate finance to support low-carbon resilient growth in developing countries and emerging economies. US$ 2.9 billion of climate mitigation finance and US$ 0.9 billion of adaptation finance in 2011-14 came from external resources including bilateral or multilateral donors, the Global Environment Facility, and the Climate Investment Funds.

5. Further improve coordination and alignment

The MDBs, the IMF, and MDBs are committed to greater harmonization and collaboration in financing the post-2015 agenda. The above mentioned “Billions to Trillions” joint paper was one way to emphasize that in today’s new financial landscape, the WBG, regional MDBs, and the IMF collectively continue to have a central and integral role in the global development toolkit as key financial and financing institutions, which are able to ramp-up and innovate.

Existing engagements range from informal dialogues to formal co-financing of projects, to issue-specific MDB working groups and agreements that integrate MDB joint work. These include initiatives such as the “exposure exchange agreements” highlighted above, as well as the Development Finance Forum, held in May 2015 in Rotterdam, which brought together over 200 representatives from international organizations, governments, the private sector and CSOs to deliberate how to bring financing for sustainable development to scale.

A few other notable examples of joint collaboration are ongoing in the areas of sustainable transportation, data, and climate change:

- **The MDB Working Group on Sustainable Transport**: This group established an agreement to provide over US$ 175 billion in loans and grants for sustainable transport in ten years, providing US$ 20 billion in financing in the first year.
- **Better data for development**: Timely, quality data is essential to guide good development policy and decision-making – and provides material for accountability. The MDBs and IMF are uniquely placed
to help fill development data gaps and, through an MOU, are committing to help develop and support a global consensus on principles and standards for development data.

- **Climate Finance**: The Climate Investment Funds (CIF), disbursed through the MDBs, are helping 72 developing countries pilot low-emissions and climate resilient development through country-led programs and investments. They have played a key role in catalyzing finance; the CIF’s US$ 8.1 billion in finance is projected to leverage at least US$ 57 billion from other sources for transformative climate investments. Recently, the MDBs and the International Development Finance Club of national and sub-regional development banks issued harmonized principles for mitigation finance tracking. In mid-June, a Joint Report on MDB Climate Finance for 2015 was released.

To complement the joint “Billions to Trillions” note an addendum chapter on “Joint MDB Commitments” provides a more comprehensive and detailed list of joint MDB commitments.