Scaling up Finance for the SDGs: Experimenting with Models of Multilateral Development Banking

UNCTAD SUMMER SCHOOL 2018

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05 September 2018

Geneva
Key Points

- Little additional aid promised for SDGs
- MDBs: important tools for leveraging private capital for development, but lending capacity limited
- Established MDBs finding new ways to expand lending and leverage more
- NDBs leverage more and MDBs can learn from them
- Balance of power changing: advanced countries have to do more to remain relevant
### Context

<table>
<thead>
<tr>
<th>SDGs</th>
<th>Little has been promised in the AAAA in terms of additional resources for the SDGs</th>
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<tbody>
<tr>
<td>Private Capital</td>
<td>The world economy awash with private financial resources</td>
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<tr>
<td>MDBs</td>
<td>Tool for leveraging private capital for infrastructure and other development projects</td>
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Infrastructure related SDGs

- **Goal 9**: building resilient infrastructure, promoting industrialization and fostering innovation
- **Goal 6**: availability and sustainable management water and sanitation for all
- **Goal 7**: affordable and clean energy
- **Goal 11**: making cities inclusive, resilient and sustainable
Development Banks Primary providers of long-term financing:

- Clear mandate to support developmentally oriented projects
- Funding base: liabilities predominantly long term
- Capital owned by highly rated sovereigns allowing them to borrow at lower costs
- In-house expertise allowing them to take decisions in terms of technology, scale, location
- Play a catalytic role partnering with other players in co-financing
What is the issue? (I)
What is the issue? (II)

Ability to tap into international markets depends on:

- International ratings
- Gearing ratios

But their capital bases are limited and gearing ratios long established...
Total disbursements and private co-financing, selected MDBs, 2016

- AfDB
- ADB
- IADB
- WB
- EIB

Billions of dollars

- Disbursements
- Private co-financing
MDBs: Finance for infrastructure as proportion of total banks' finance %

<table>
<thead>
<tr>
<th>Decade</th>
<th>World Bank</th>
<th>Inter-American Development Bank</th>
<th>Asian Development Bank</th>
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<tbody>
<tr>
<td>1950s</td>
<td>67.2</td>
<td>64.8</td>
<td>39.8</td>
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<tr>
<td>1960s</td>
<td>39.8</td>
<td>64.8</td>
<td>39.8</td>
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<tr>
<td>1970s</td>
<td>33.5</td>
<td>64.8</td>
<td>39.8</td>
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<tr>
<td>1980s</td>
<td>26.3</td>
<td>64.8</td>
<td>39.8</td>
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<tr>
<td>1990s</td>
<td>26.2</td>
<td>64.8</td>
<td>39.8</td>
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<tr>
<td>2000s</td>
<td>30.2</td>
<td>64.8</td>
<td>39.8</td>
</tr>
<tr>
<td>2010s</td>
<td>30.2</td>
<td>64.8</td>
<td>39.8</td>
</tr>
</tbody>
</table>
What are MDBs doing? (I)

• Increasing capital?

• Going for higher gearing ratios?
MDBs: Expand their capital base...

• Indeed, the WB did that in April 2018: $13 billion capital increase.
• But difficult to do more, due to shareholding changes…

Gearing ratio:

WB: from 2.6 in 2008 to 4.4 in 2017. Can it go further up?
What are MDBs doing? (II)

- Merging banks’ balance sheets of concessional and non-concessional windows
- Allow concessional window their own rating
- Loan swaps
- Expand off-balance sheet operations
- Establishment of joint investment platforms
A more radical proposal...

**Originate-to-hold Model**

**Originate-to-distribute Model**
The changing landscape of development finance

Diagram showing the reach and ownership of various institutions like EIB, WB, AIIB, ISDB, NDB, ADB, AfDB, and CAF.