

Mobilizing private investment by multilateral development banks as a tool of promoting sustainable development in Indo-Pacific

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Karina Jędrzejowska, PhD
k.jedrzejowska@uw.edu.pl



Faculty of Political Science
and International Studies
University of Warsaw

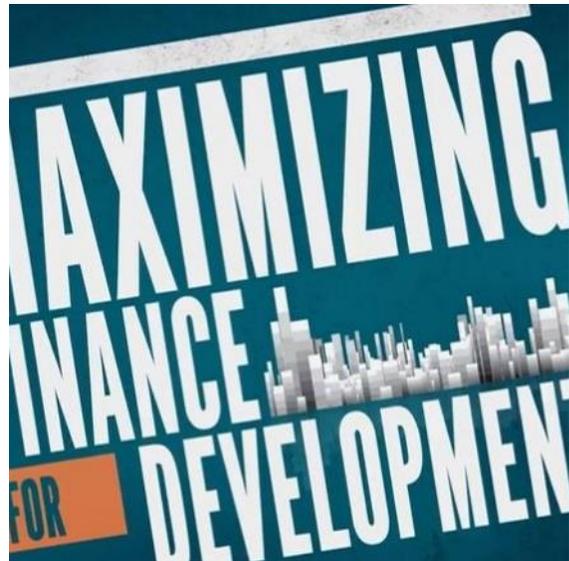


Presentation Outline

- **Introduction**
 - **Why private capital?**
 - **Why Multilateral Development Banks?**
 - **Why Indo-Pacific?**
- **Trends in development financing**
- **Mobilizing private capital for development**
- **Role of Multilateral Development Banks**
- **Indo-Pacific and private development finance**
- **Conclusions**



**FINANCE
DEVELOPMENT**
13-16 JULY 2015 • ADDIS ABABA
TIME FOR GL



 **SUSTAINABLE DEVELOPMENT GOALS**

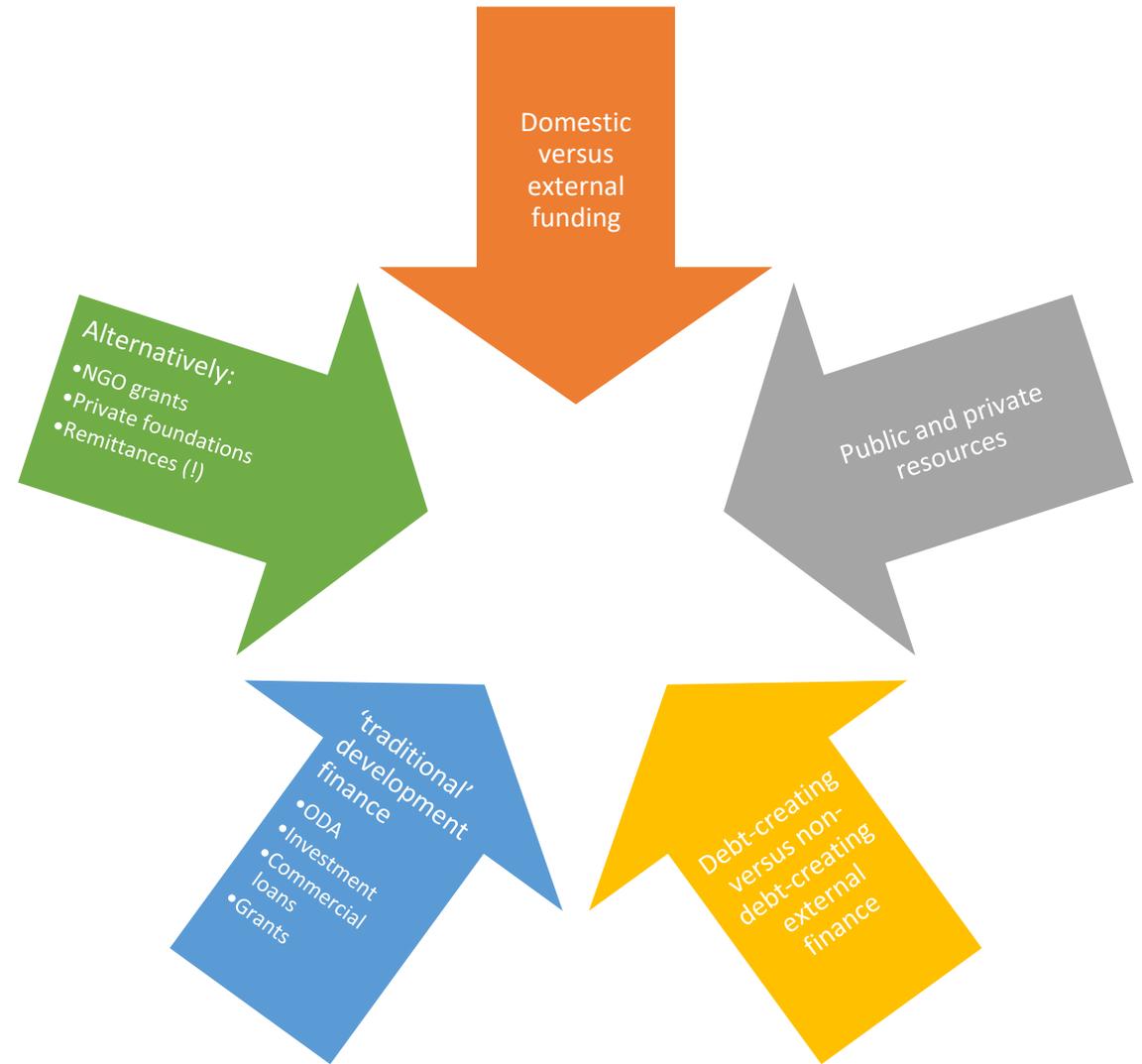


Development Finance:
where are we now?

Development financing – a neverending story...

- Work of Development Assistance Committee since the 1960s...
- MDGs & Zedillo Committee (UN High Panel on Finance for Development)
- Monterrey: 0.7% GNI target
- Evolution of development assistance and development funding fueled by the evolution of ideas on development (Akiyama et al. 2003)
- SDGs: boost for development of new ideas
- Innovative development finance
 - No single definition
 - Mechanisms of raising funds for development that are complimentary to official development assistance, stable & predictable...
 - Idea of global public goods

Development funding architecture



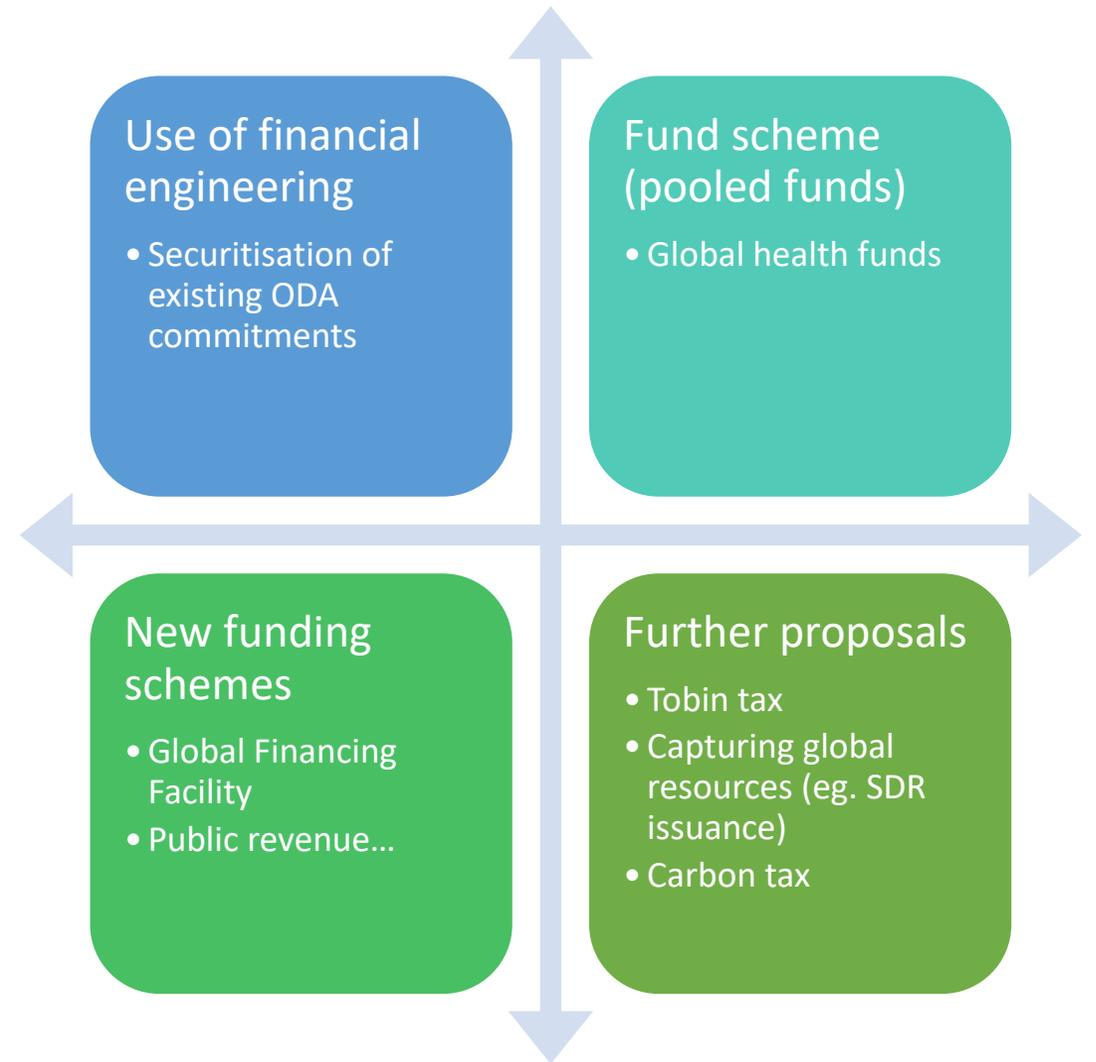
New actors in development financing

- South-South development cooperation
 - BRICs (!)
 - Greater involvement in multilateral development funding
- Multilateral development banks
 - New players:
 - AIIB – Asian Investment and Infrastructure Bank
 - NDB – New Development Bank
- Private sector...
 - Social entrepreneurship: innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors (Austin et al. 2006)
 - Impact Investments: investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals (The Global Impact Investment Network)

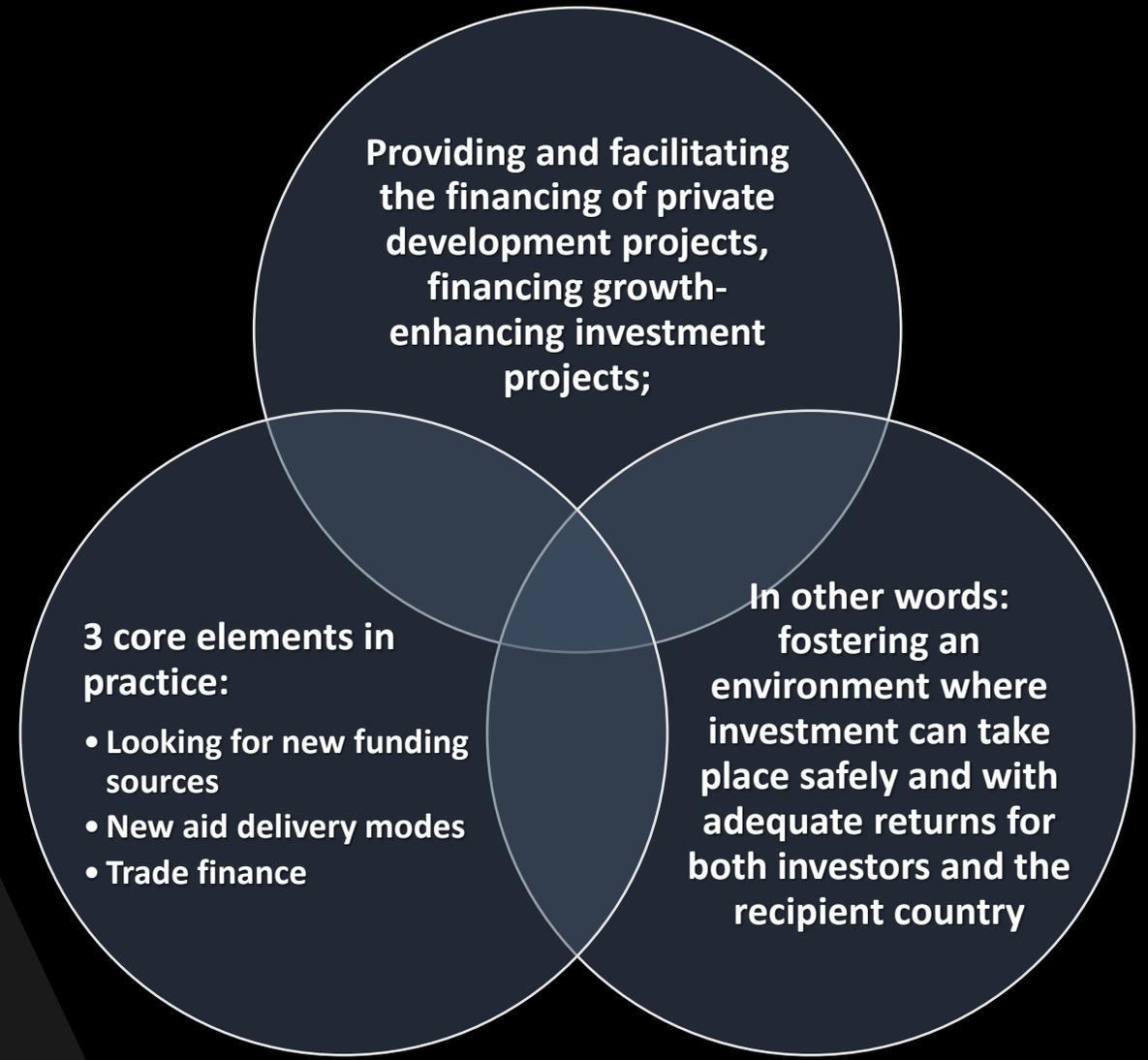
Innovative (?) aid delivery modes

- Closer linkage between development and humanitarian assistance
 - Linking Relief, Rehabilitation and Development (LRRD)
- Cash transfers
- Greater leverage of aid flows
 - Limited resources converted into larger projects tied to debt & equity (not entirely new idea)
- Public private partnerships
 - Private companies are welcome...
 - „Maximizing Finance for Development”

New sources of development funding



Mobilizing private capital for development



MDBs & Private Capital

- Klaus Regling, ESM Managing Director “The Role of Multilateral Development Banks in mobilising private capital” 2019 Annual Meeting of the Asian Infrastructure Investment Bank, Luxembourg, 12 July 2019:
 - *„Let me emphasise three areas where I see MDB involvement as particularly important to attract private investors: First, profit margins of investments in development projects are often too low compared with the cost of acquiring country knowledge, building relationships, and employing necessary services. As such costs approach or exceed the expected return, private financing becomes less attractive, if not impossible. Here, potential investors can reduce costs as well as risks by partnering with an MDB which can enhance both project quality and the project environment. Second, looking at credit enhancement and de-risking of investment opportunities: when MDBs are engaged as participant investors in projects, they can bring innovative financing tools but also increase ownership between MDBs, governments and the private sector. This can enhance private capital flows. Finally, I want to stress the importance of factors that are not directly related to investment profitability, but to the benefits for the recipient country, and thus indirectly to longer-term debt service and repayment prospects. Here MDBs also have an important role: making sure that the investment benefits the country and its citizens. The agenda here is large, from transparent procurement and project governance (i.e., reducing project costs as well as the risk of corruption) to environmental standards, social considerations (such as employment of local labour), budgeting for adequate maintenance after project completion, and ensuring debt sustainability. These are critical public goods that will enhance both the project’s value for the recipient country and, more generally, the environment for growth-supporting investment in the country”.*

Aid architecture in Indo-Pacific

- Decentralised fragmented „patchwork” system: each country and cooperation programme has its own characteristics
- DAC donors + non-DAC donors (China!) on the rise
- Similarities:
 - promotion of trade finance, focus on infrastructure
 - And the SDGs...
- Asian Development Bank (ADB) has been the core actor in development financing for Asia-Pacific.
 - But: with the establishment of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) situation has changed
- Japan as a leading donor
 - Belief that poverty reduction can be greatly assisted by sustained economic growth (hence: both economic and social investments)
 - Since 2009 International development dialogue with EU
 - White Paper on Development Cooperation 2017: „Quality Growth”, „Free and Open Indo-Pacific Strategy”
 - In East Asia: combining aid with trade and investment, inclusive quality infrastructure
- Aid for East Asia versus East Asian aid & East Asian development cooperation
- Regional development cooperation:
 - Japan and ASEAN-led since 1970s (Kuala Lumpur 1977)
- Shifting aid directions: African countries as major beneficiaries
- Most changes happening in development cooperation framework reflected in regional policies



Multilateral development banks and trade financing

Given the importance of international trade for development, multilateral development banks are important players in trade finance in developing countries

A gradual increase in MDBs' involvement in promoting trade finance can be observed since the 1990s, but the importance of the number of Trade Finance Facilitation Programmes (TFFPs) offered by MDBs is related to the limited availability of trade finance instruments after the 2007-08 financial crisis

Multilateral Development Banks offer a number of fairly similar Trade Finance Facilitation Programmes, which aim to eliminate risks in trade transactions involving representatives of developing countries

TFFP programmes can be found in the offer of, among others:

- Asian Development Bank,
- African Development Bank,
- Inter-American Development Bank,
- Islamic Development Bank Group institutions
- European Bank for Reconstruction and Development

Competition or cooperation between “old” and “new” development finance institutions?

- Since 2014: AIIB & NDB enter the scene
- Main issue since: how do the China-led IFIs affect the „old” ones? (ADB & World Bank in particular)
- Initial concern: undermining of existing structures
- Reality: „healthy” competition? (Rana 2018)
 - new MDBs have helped to partially fill the massive infrastructure financing gaps facing Asian countries
 - new MDBs have also encouraged the World Bank and the ADB to pay greater attention to infrastructure
 - new MDBs led existing MDBs to streamline their operational procedures
- Functional complementarity and cooperation between the old and new MDBs: memorandums of understanding (MOUs) between the World Bank and the ADB with the AIIB and the NDB
- So far: most projects financed by the AIIB and the NDB have been co-financed with the World Bank or the ADB



Some conclusions

General:

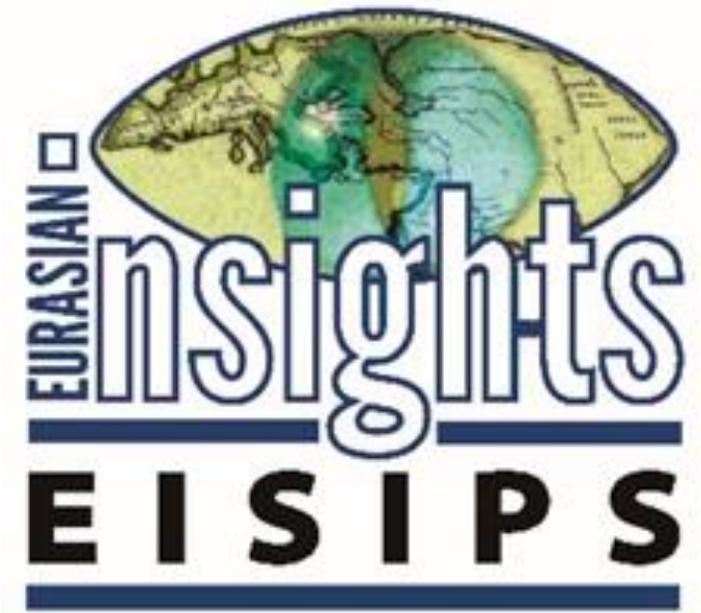
- Towards a more institutionalized development cooperation?
- Indo-Pacific development cooperation architecture or architectures?
- For now: new actors as a positive addition to the regional financial structures, common ground: Focus on infrastructure
- Issues: still existing funding gaps, problem of transparency, data collection, and policy coordination

Insufficient private capital mobilization (in spite of efforts)

Major issue now: impact of the COVID-19 pandemic...

EURASIAN INSIGHTS: STRENGTHENING INDO-PACIFIC STUDIES IN EUROPE

- Erasmus + / KA2 / Strategic Partnerships for higher education
- Project number: 2019-1-PL01-KA203-065644
- Handbook of Indo-Pacific Studies (draft title)
- <http://eisips.eu/>



Karina Jędrzejowska, PhD

k.jedrzejowska@uw.edu.pl

Treasurer & Governing Board Member
World International Studies Committee (WISC)
www.wiscnetwork.net

Assistant Professor
Department of Regional and Global Studies, Faculty of
Political Science and International Studies University of
Warsaw
www.wnpism.uw.edu.pl

Research Sections & International Cooperation Coordinator
Polish International Studies Association (PISA)
www.ptsm.edu.pl



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Faculty of Political Science
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**Thank you for your
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