

MULTILATERAL DEVELOPMENT BANKS AND PRIVATE SECTOR ENGAGEMENT FOR SUSTAINABLE DEVELOPMENT



July 2019

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AN EVOLVING FINANCING FOR DEVELOPMENT LANDSCAPE

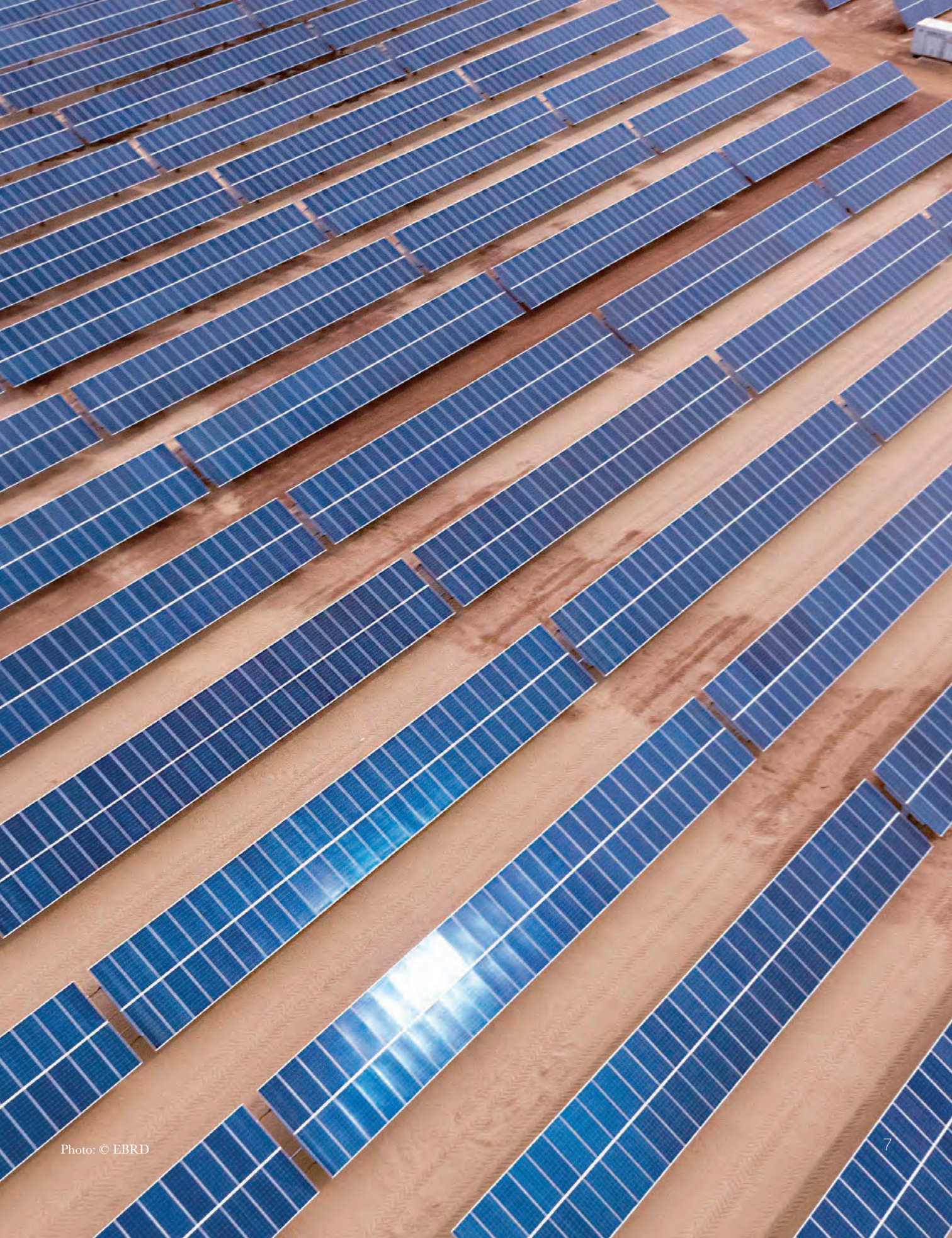
In 2015 the international community agreed on the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda on Financing for Development, the Paris Agreement and the Sendai Framework for Disaster Risk Reduction. These agreements laid out an ambitious set of commitments to achieve sustainable development through inclusive economic growth, to protect the environment and ensure a healthier planet for future generations.

The Addis Ababa Action Agenda marked the beginning of a new era in development financing. Recognizing the investment gap between the resources required to achieve the Sustainable Development Goals (SDGs), which go far beyond what government budgets, tax revenues and Official Development Assistance (ODA) can provide, the Multilateral Development Banks (MDBs) were called to step up their efforts. Responding to this call, MDBs presented a joint vision to support and finance the development needs going from “billions to trillions” to make the SDGs a reality.¹

¹From Billions to Trillions: MDB Contributions to Financing for Development, April 2015

Key enablers of this renewed Financing for Development agenda include:

- **Mobilizing all sources of finance** and increasing their combined impact. Integrative thinking and creative approaches are needed to mobilize finance, make it complementary and increase its impact.
- **Leveraging public finance.** Scarce public finance, both international and domestic, must be used where they have greatest impact and to catalyze other sources of finance. The capacity for domestic resource mobilization could be improved in many countries.
- **Crowding in the private sector in financing development.** As the largest potential source of finance, the private sector can play a larger role by investing, driving innovation, improving delivery, and promoting efficiencies.
- **Improving investment data.** Better data, including big data, and diagnostic tools are needed to assess investment risks and returns and unlock opportunities in emerging market and developing economies.
- **Harnessing technology and disruptive business models.** Technology and innovative business models offer unprecedented opportunities to redefine and accelerate paths to development. They make possible a world with universal access to government services, financial services, and global markets.
- **Creating development finance partnerships** and building multi-stakeholder platforms. A new level of collaboration is needed across a range of public and private stakeholders to meet financing challenges.



MDBs play a critical role in supporting efforts to translate the SDGs into meaningful country-level targets, policies, programs, and projects needed to achieve them. They provide direct financing and help “unlock” and catalyze additional public and private resources. MDBs also provide policy advice and technical assistance supporting countries and clients to build domestic capacity and to identify the needed priority investments with internationally recognized standards.

Ensuring That No One Is Left Behind

A central objective of the 2030 Agenda is “leaving no one behind” to help countries promote inclusive growth. Despite important global gains made during the Millennium Development Goals (MDGs) era and now under the SDGs in lifting people out of poverty, inequalities and large disparities persist in access to food, healthcare, education, land, clean water and other assets and resources that are essential for living a full and dignified life. A warming climate, demographic change, decent work deficits, political crises, technological changes and conflict risk exacerbate the problem.

Such inequalities can become self-perpetuating across generations, hindering progress towards “leaving no one behind”. Some groups, including those in rural areas, women, young people, people with disabilities, indigenous people, and others, are persistently clustered at the bottom of distributions. Inequality between all people in the world has declined since 1990, mirroring the reduction in poverty. However, within-country inequality is higher today than 25 years ago. In fact, in 2019, the average person today is more likely to live in an economy with higher inequality than in 1994.

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To include these groups and ensure that the Sustainable Development Agenda is a truly universal one, MDBs play an important role in structuring financing and impact to reach those who need it most. From providing lines of credit to those who would be otherwise unable to receive financial assistance, to facilitating women's ownership of businesses, to engaging with government partners on infrastructure needs, MDBs continue to push for social and economic inclusion. Capitalizing on their convening power and as trusted intermediaries, MDBs create equality of opportunities so that all people can have access to – and benefit from - sustainable development activities.

Addressing Fragility

The percentage of the extremely poor people living in conflict-affected situations is projected to rise above 50% by 2030. Violent conflict has spiked dramatically since 2010, and social, economic, and environmental fragility is becoming more complex. Climate change, rising inequality, demographic change, new technologies, illicit financial flows and other global trends may also increase the risk of fragility. In many contexts, sustainable development under the Agenda 2030 will not be possible without also addressing the drivers of fragility, conflict and violence.

MDBs are increasingly active in such complex settings, working to address sources of instability and build resilience, and can play a crucial part in sourcing and directing finance to the places that need it the most.



CROWDING IN THE PRIVATE SECTOR IN FINANCING DEVELOPMENT

The 2030 Agenda reaffirms the role of the private sector in achieving sustainable development and calls on “*all businesses to apply their creativity and innovation to solving sustainable development challenges*”.

Increasingly, business leaders embrace the SDGs not only from a philanthropic or Corporate Social Responsibility (CSR) point of view, but as a business opportunity. Achieving the SDGs could generate trillions in market opportunities, and sustainable business models could open new markets worth up to USD 12 trillion and create up to 380 million new jobs by 2030.²

MDBs believe that broad, inclusive growth is central to ending poverty and achieving sustainable development. This cannot occur without a thriving and sustainable private sector. To achieve the results needed to deliver the 2030 Agenda worldwide - from filling large infrastructure gaps to growing small and medium-sized enterprises (SMEs) - it is essential to build a dynamic private sector that complements public interventions.

² Business and Sustainable Development Commission Better Business, Better World report, 2017

MDBs have a long history of working with the private sector and have been working to leverage and maximize the benefits of public and private sector synergies in a more systematic way. Various channels allow MDBs to augment the role of the private sector in financing development:

- **Creating markets:** MDBs help uncover new opportunities for sustainable private sector investment at the local level and help develop and deepen capital markets.
- **Deepening local capital markets:** MDBs work to deepen local capital markets, increasing access to long-term finance.
- **Preparing bankable projects:** MDBs work to increase the stock of bankable projects for private sector investment through support for project preparation, deal structuring, and capacity building.
- **Creating conducive business environments:** MDBs engage in policy dialogue to improve the investment climate and regulatory environment.
- **Mitigating risks:** MDBs help mitigate real and perceived risk associated with investments that have a positive development impact including through credit enhancement, guarantees, and political risk insurance.
- **Mobilizing private investments:** Directly and indirectly: MDBs bring international investors to countries of operations by co-investing alongside both traditional investors and new sources of commercial financing for development. MDBs offer investors dedicated instruments, such as loan syndications, equity, and bonds.



PRINCIPLES ON CROWDING IN PRIVATE SECTOR FINANCE

In 2012, MDBs identified five common core *Principles to Support Sustainable Private Sector Operations*³ to guide engagement with the private sector. To ensure that MDBs' interventions maximize impact, and serve to reinforce rather than replace markets, the core principles consider that MDB interventions need to be additional, crowd-in the private sector, are developed with commercial sustainability in mind, reinforce markets, and promote high standards.

In 2017, G20 finance ministers approved the *Principles of Crowding-in Private Sector Finance*⁴ to give MDBs a common framework for increasing private investment in support of countries' development objectives. These “Hamburg Principles” see MDBs i) recognize the primacy of country ownership; ii) create an investment-friendly environment; iii) expand and standardize credit enhancement; iv) prioritize commercial financing; v) blend concessional resources and private capital; and vi) review incentives for crowding-in private sector resources.

³ Multilateral Development Bank Principles to Support Sustainable Private Sector Operations, 2012

⁴ G20 – IFA WG Principles of MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development, April 2017

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The concept of additionality is central to the mandate of MDBs with private sector operations. As public entities with a development mandate, MDBs support the private sector providing services that are additional to what is available in the market. While the assessment of additionality is not new to the MDBs, in 2018 a group of MDBs published the *Harmonized Framework for Additionality in Private Sector Operations*⁵, which provided a harmonized approach and concrete guidance on the application of the additionality principle.

⁵ Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations, September 2018



HIGHLIGHTS OF MULTILATERAL DEVELOPMENT BANKS' INITIATIVES

Private sector engagement is fundamental to meet the 2030 Agenda. MDBs are working to increase their ability to leverage their resources to attract participation of private sector stakeholders. The following initiatives are just a token of the activities that are currently underway. These examples evidence the potential of MDBs to effectively engage the private sector for sustainable development. Moreover, these initiatives are aligned with the recently launched “Kampala Principles” for Effective Private Sector Engagement through development cooperation, in the context of the Global Partnership for Effective Development Co-operation (GPEDC). The principles are grounded in a recognition of the overarching purpose of development co-operation, eliminating poverty and inequalities, and reaching those left behind. The five principles aim to establish a set of shared expectations that can address the key challenges to scaling effective Private Sector Engagement through development co-operation.



CLIMATE CHANGE / ENERGY

Project for Adaptation to Climate Change in the Mekong Delta in Ben Tre and Tra Vinh Provinces (AMD) in Viet Nam

In Viet Nam's Ben Tre Province, crop land is deteriorating due to increasing salinization caused by the rising sea level, the subsiding of land and the lower outflow of sweet water from the Mekong due to an increasing number of dams. As a consequence, areas which have been used for rice farming for centuries are no longer arable. The International Fund for Agricultural Development (IFAD) launched the AMD project in 2014 to support the development of organic coconut farming as an alternative to rice. Moreover, coconut farming and processing have always played an important role in providing employment and livelihood opportunities for the poor in the province.

The AMD project facilitates the development of the coconut value chain through a Public-Private-Producer Partnership (4P) with Betrimex, a large organic coconut processing company. IFAD supported Betrimex to help local farmers switch to organic production in return for the commitment to purchase 100% of their produce at a fair price. The company also supports their transition to organic farming by

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providing inputs, verifying adherence to the required standards, building capacities on agrochemical management and organizing farmers into groups.

Betrimex piloted an organic coconut farming model on a plantation area of 100 ha, with the participation of 87 producer households. After three years, this had been successfully expanded to 184 ha and 414 households, thereby creating additional jobs both on the farms and within the company. Annual farmer income increased by more than USD 2,000.

The Betrimex case is only one of more than 100 co-investments that IFAD has taken with private enterprises in Viet Nam. These 4Ps increase incomes, profitability, scales and resilience of both smallholder farmers and the private partners, thereby creating employment and developing improved and sustainable livelihood opportunities for rural people.

Mr. Nguyen Van Kinh, a coconut farmer, said:

“ Signing a long-term contract with the company has helped improve my household income. Previously, I only sold coconuts to traders; prices fluctuated a lot and were rather unstable. Prices were often pushed up when there was a shortage in the market but dropped dramatically in the coconut season. Because of agreed prices in the contract, we are not affected by those kinds of fluctuations anymore ”



Photo: © EBRD

Joint MDB Financing of the Benban Solar Complex in Egypt, the Largest Solar Plant in Africa

Benban solar park is a power complex of 41 solar power plants being developed in Benban, located in the Aswan governorate, Egypt. With 1600 MW of total solar capacity and additional capacity to be commissioned in the future, Benban is expected to become the biggest solar photovoltaic park in the world, upon completion. The project is a part of Egypt's Renewable Energy Feed-in Tariff (FiT) programme announced in September 2014, which is in line with the Egyptian government's Sustainable Energy Strategy 2035 that aims to produce 20% of electricity from renewable sources by 2022. The entire solar park is expected to be completed in 2019.

The program is a benchmark example of the WBG Cascade and Maximizing Finance for Development initiative as policy support for a new progressive law on electricity and renewable energy, and for macro-economic stabilization, with energy subsidy reforms that reduced energy subsidies from 6.6% of GDP to less than 2% of GDP from 2014 to 2019 and were critical in addressing policy barriers for private investment. In addition, a framework approach was adopted that led to 13 developers and 9 foreign institutional investors investing in Egypt for the first time over last decade. An international consortium, led by the International Finance Corporation (IFC), has provided USD 653m in financing for the construction of 13 solar power plants in the Benban solar park in October 2017. The consortium includes the African Development Bank, the Asian Infrastructure Investment Bank (AIIB), the World Bank Group (including International Bank for Reconstruction and Development (IBRD), IFC and the Multilateral Investment Guarantee Agency (MIGA), Arab Bank of Bahrain, CDC of the United Kingdom, Europe Arab Bank, Green for Growth Fund, FinnFund, ICBC, and OeEB of Austria.

The European Bank for Reconstruction and Development (EBRD) played a leading role in developing the contractual framework for the FiT programme by helping the Egyptian government adopt a bankable power purchase agreement adapted to the Egyptian context. This unlocked investment from international renewable energy developers and development institutions. The EBRD financed 16 projects with a combined capacity of 750MW, under a USD 500m agreement for renewable energy financing in Egypt. The consortium partners also include the United Nations' Green Climate Fund (GCF), FMO of the Netherlands, Proparco of France, Industrial and Commercial Bank of China⁶ (ICBC), the Islamic Development Bank (IsDB) and its affiliate Islamic Corporation for the Development of the Private Sector (ICD).

⁶ ADB recognizes “China” as the People’s Republic of China.

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The Benban project is a great example of how public-private partnerships can decarbonize the energy sector. The solar park will provide Egypt with some of the clean energy it needs to drive sustainable economic growth. Furthermore, the project has become a foundation stone for the expansion of private renewable energy in Egypt. Since 2017, the government has launched a number of tenders for solar and wind energy that have further led to reduction in clean energy tariffs to now under USD 4 cents per unit, being one of lowest globally. In parallel, private renewable energy generation in Egypt has taken off, with many commercial and industrial consumers seeking to access green energy.

Photo: © EBRD





FINANCIAL INCLUSION

Maldives Islamic Bank Deepens Banking Penetration in Maldives

Islamic Cooperation for the Development of the Private Sector (ICD) set up Maldives Islamic Bank (MIB), the first and only wholly Islamic Bank in Maldives, with the strategic objective and a clear development mandate to provide access to banking and financial transactions in strict compliance to Islamic banking principles. MIB, ranked among the top 5 banks in the country in market share, has provided financial access to more than 71,000 customers and has directly impacted the infrastructure and small and medium-sized enterprises (SMEs) development. The Bank remains the first and preferred choice financier for several private sector operations owing to its unique products and the customized value proposition offered to the import-based economy. MIB has begun the Initial Public Offering (IPO) process for listing in the Maldives Stock Exchange, fully supported by the Ministry of the Finance and the Maldives Monetary Authority.

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MIB has financed more than 100 SMEs amounting to USD 104 million covering key economic sectors including fishing, construction, housing, general assets and consumer goods. As part of its clients' relationship program, MIB transmits its financial management know-how to the SMEs' managers, and advises them on the negotiations' good practices when dealing with foreign suppliers. These initiatives have impacted positively the profitability of the SMEs and strengthened their repayment capacity.

Housing and infrastructure sector comprising both transport and communication account for 60% of MIB's portfolio. The growth in these sectors is critical for an island nation like Maldives. MIB's impact on the local economy is emphasized through its contribution to the government revenues via tax payments exceeding USD 2.8 million since 2014. MIB has also contributed approximately USD 150,000 to social empowerment of local communities. MIB currently employs 215 full time workers, out of which 108 are women, becoming one of the very few organizations to employ more female staff than male.



Photo: © ADB

Deepening Financial Inclusion in Asia and the Pacific: Microfinance Risk Participation and Guarantee Program

Across Asia and the Pacific, millions of poor people struggle to access finance from formal financial institutions on fair and transparent terms to meet the needs of their livelihood and income-generating activities. These borrowers are often exposed to the predatory practices of informal moneylenders who exploit their vulnerability and limited financial literacy.

The Microfinance Risk Participation and Guarantee Program (MFP) of the Asian Development Bank (ADB) is a credit-enhancement and risk-allocation tool designed to address this issue. ADB partners with MFIs to facilitate their access to local currency funding from commercial bank partner financial institutions (PFIs)

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and provides partial risk coverage to the PFIs on their MFI loans. This risk-sharing structure encourages private sector participation on market-determined terms.

Annapurna Finance Private Limited, India, was included in the MFP in 2013 with a portfolio of USD 10 million covering 86,000 borrowers. By the end of 2018, Annapurna has expanded its loan portfolio to USD 336 million, covering 1.4 million borrowers in 14 states, and has widened its loan product portfolio to include water and sanitation and farm-based income-generating activities for its mostly female borrowers.

Photos: © ADB



Since its inception in 2010, the MFP has facilitated USD 1.06 billion in local currency financing for MFIs through PFIs in the countries where it operates. This financing has reached more than 5.6 million borrowers with loans averaging USD 200. About 90% of these borrowers are women living in rural and peri-urban areas.

The MFP has steadily built up a network through 8 partner banks and 32 MFIs in key markets including Bangladesh, Cambodia, India, Indonesia, Myanmar, and the Philippines. The MFP has also provided technical assistance in India that has strengthened 5 MFIs' risk management, governance, and audit; trained 10 MFIs on the client-protection principle; held workshops on consumer protection and risk management for 20 MFIs; and provided financial education to 32,000 MFI borrowers.

Trade Finance Program in Asia and the Pacific

Trade is critical to economic growth, job creation, and poverty reduction. But the full potential of trade to deliver growth and jobs cannot be realized without sufficient financing. Asia and the Pacific has an estimated trade finance shortfall of USD 1 trillion. Asian Development Bank's (ADB) Trade Finance Program (TFP) works with more than 240 partner banks to provide companies with the financial support and confidence they need to engage in import and export activities in the most challenging markets in Asia and the Pacific. The TFP supports a wide range of transactions, from commodities and capital goods to medical supplies and consumer goods.

The TFP's mandate is to support trade by providing guarantees and loans to partner banks to fill market gaps.



Photos: © ADB

The TFP has established itself as a key player in the international trade community, providing fast and reliable trade finance support to fill market gaps.

Since 2009, it has supported more than 16,000 SMEs across the region through more than 21,000 transactions worth more than USD 36 billion and mobilized more than USD 22 billion in cofinancing from private sector partners. The most active recipient countries are Armenia, Bangladesh, Mongolia, Pakistan, Sri Lanka, and Viet Nam.

In 2018, TFP did 4,470 transactions valued at USD 6.20 billion, USD 3.75 billion of which was cofinanced with the private sector. Over 75% of TFP's transactions support SMEs.

GENDER EQUALITY

Women in Business Program in the Western Balkans

Active in more than 18 countries, the EBRD's Women in Business Program in the Western Balkans was launched in 2014. There, it works to build a business environment where women-led enterprises can thrive, contributing to the growth of their economies.

In the region, the program is active in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, and works through local financial institutions so they can provide dedicated financing, for which they receive capacity-building technical advice. The program also provides direct support to women entrepreneurs, improving their access to know-how and networks, through in person and the EBRD's online self-diagnostic tool, Business Lens.

The EBRD's Women in Business Program helps create systemic change in the financial sector, encouraging financial institutions to take a new approach to women entrepreneurs as a viable client segment. Seven financial institutions have joined the program so far, launching products tailored to the priorities of women-led businesses of various sectors and stages of development. At the market level, this has created a demonstration effect, showing that commercial banks that finance the women-led SME segment are commercially viable in the long term.



Photo: © EBRD

To date, the EBRD's seven partner financial institutions have disbursed more than EUR 40 million under the program, through 2,725 loans to women-led SMEs. The Women in Business Program has also engaged directly with more than 2,000 women entrepreneurs, helping them to access business advice and make their firms more competitive.

Hysnije Kurteshi, the founder and Director of Hello Academy, a school and kindergarten in Gjilan, Kosovo, is an example of an entrepreneur who has benefited from the program. TEB Banka provided a loan to help her convert a disused textile

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factory into a modern environment where more than 300 students could learn. In addition, Women in Business helped Hysnije and Hello Academy to get expert advice on developing marketing materials for the school and to introduce software that would better track the performance of pupils. As a result, new pupils have joined Hello Academy, which tripled its financial turnover within a year.

IFC Supports Sustainable Fisheries and Jobs in the Solomon Islands

With one of the world's largest and most plentiful fishing grounds, the vulnerable Solomon Islands, a Small Island Developing State of 600,000 people with 30% unemployment, relies on tuna for revenue, food security and exports, which makes sustainable management of its abundant tuna stocks vital. WBG support is boosting capacity to sustainably manage fish resources, increase tuna catches, and tackle key obstacles at the only processing facility, SolTuna, where two-thirds of the staff are women. The WBG also supports an investment at National Fisheries Developments (NFD), SolTuna's sister company. As a result, the country captures more value from its tuna resources, providing more jobs and expanding opportunities for women.

IFC provided a USD 10 million loan to expand Solomon Islands' only tuna processing facility and USD 20 million in loans for fishing vessels for its sister company. IFC also worked on solutions for women, labor and occupational health and safety. The Global Agriculture and Food Security Program contributed to financing for the vessels. The World Bank and Global Environment Facility (GEF) committed USD 11.12 million to enhance sustainable management of the country's tuna and coastal fisheries.

IFC's loan to the tuna processing facility SolTuna came after initial talks with a leading global tuna supplier, Tri Marine, a controlling shareholder of SolTuna. IFC's USD 10 million loan was part of the company's USD 27 million upgrade and expansion plans. With production at SolTuna affected by an absenteeism rate of about 18 percent - mainly among women employees - IFC's advisory services worked with the company to analyze key factors contributing to this problem. The analysis found that women often skipped work because they ran out of money before payday. The need to care for children and worker and family health issues -including domestic violence- as well as limited career prospects were also factors. To address this, IFC's advisory team worked with the company on a series of solutions to encourage women to stay at work. Financial literacy training was seen as a key solution. Providing access to banking services and creating jobs for women in non-traditional roles also contributed.

Photo : © Soltuna



IFC's support for SolTuna contributed to positive operational results, with IFC's advisory work helping the company significantly reduce absenteeism and costs. With new fishing vessels, NFD is creating more local jobs. It recently hired three female cadets—a first for the company. SolTuna now has a workforce of just over 2,000, compared to 1,800 a few years ago. Occupational health and safety standards have improved. More women at SolTuna have been promoted. Women have also moved off the production line into jobs once considered exclusively male, such as driving forklifts. SolTuna has developed new export markets, shipping to the United States for the first time last year.

INFRASTRUCTURE / INDUSTRIAL DEVELOPMENT

The Derba Midroc Cement (DMC) Project in Ethiopia

The booming construction activities in Ethiopia has led to the growth of the cement industry in the country. In 2011, Ethiopia imported around 1 metric tons of cement. The government stopped this on 27 March 2012 when it banned imports in order to protect upcoming domestic cement production.

In the past, it was not uncommon for construction projects to be delayed by as much as a year or two due to cement importation restrictions. Companies were also experiencing frequent power interruptions, limited access to funding, as well as lack of the required skills in the cement technology and management sector. In addition

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to frequent electricity supply interruptions, companies were having to use expensive imported energy – Heavy Fuel Oil and coal, because of the limited options of power.

The DMC is a green field cement plant to develop the Derba-Muger limestone deposit located 70 km north of Addis Ababa, Ethiopia. The objective was to build and operate an integrated cement plant with capacity to recover 5,600 tons per day clinker and produce 7,000 tons of cement per day as a finished product, or an annual production of 2.5 million tons.

With co-financing from the African Development Bank (AfDB), European Investment Bank (EIB) and the International Finance Corporation (IFC) the project covered the development and upgrade of supporting infrastructures: roads, power transmission line, water pipelines and social amenities. Furthermore, the AfDB provided assistance by undertaking and preparing environmental management, assisting stakeholders with industry best practices and making key recommendation to authorities in order to improve the business environment. The plant played a key role in local cement supply with a 75% drop of price, which had a positive effect in the construction sector, especially with the reduction of cement import dependency. The project created about 2,000 jobs during construction and currently employs 739 permanent workers.

With an installed production capacity of 8,000 tons a day, Derba MIDROC is helping meet 100% of the country's cement needs, and exporting to nearby countries. The project had a catalytic effect on regional development with the establishment of a local township for workers and communities providing basic services including schools, a hospital, primary healthcare facilities and training for local SMEs.



Photo : © AfDB

“ Our company has had an exponential impact on the local economy and the construction industry in general. People no longer have to wait for months or years for cement. Now, we deliver to a client’s construction site within 24-48 hours ”

Haile Assegide,
Derba MIDROC’s CEO

“ In the past you could never really tell when a project would be completed. It was normal to always double the amount of time required to complete a project ”

Samuel Teklay,
Satcon Construction CEO,
a leading employer in
Addis Ababa

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The Panama Canal Expansion and Its Catalytic Effect on Attracting Private Capital

Panama has solidified its position as a transport hub in Latin America and the Caribbean. This achievement is due to the country's concerted efforts to maximize its most important asset- the Panama Canal, which represents 20% of the country's GDP through direct and indirect activities. The IDB Group has been a strategic partner throughout this transformational process, helping the government to develop a regulatory and institutional framework conducive to consolidating the country's logistic system. IDB Invest, the private sector institution of the IDB Group, provided financing for the canal expansion with a USD 400 million loan to the Panama Canal

Photo : © IDB Invest



Authority. Inaugurated in June 2016, the expansion project doubled the capacity of the Canal by increasing the width and depth of lanes allowing for larger ships to pass.

Large infrastructure investments have great potential to influence the business climate and increase investor confidence by lowering risks and costs of entry or expansion of the private sector, even before projects are completed. For example, through a national referendum in 2006, Panama formalized its commitment to the canal expansion project, sending a powerful signal to local and global investors that the country was open for business. Being able to account for these “anticipation effects” allows for a deeper understanding of the overall impacts of the project and the role of the private sector in driving economic activity in the context of large infrastructure investments. To this end, IDB Invest carried out a study to quantify the impacts that the canal expansion announcement had on catalyzing private investment and promoting economic growth in the country. In addition, the USD 5.5 billion canal expansion project is an outstanding example of how development finance institutions (which funded about 40% of the project) can help to spark these catalytic effects on private investment and answer the call of the international community to scale up funding for development from billions to trillions to finance the 2030 Agenda and the Sustainable Development Goals.

Results of an analysis IDB Invest conducted⁷ on the impact of these “anticipation effects” indicate that the announcement of the canal expansion project, formalized by the 2006 referendum, stimulated important anticipation effects in Panama’s economy. More specifically, in the medium-term, between 2006 and 2011, there was an increase of nearly USD 10 billion in private investment that can be attributed

⁷ Lanzalet, M., Maffioli, A., Stucchi, R. & Yanez-Pagans, P. (2018). Infrastructure Investments and Private Investment Catalyzation: The Case of the Panama Canal Expansion. Development through the Private Sector Series. IDB Invest.



Photo : © IDB

to the canal expansion announcement. This represents 1.8 times the size of the total project investment and is, on average, 1.3 times the trend that would have been observed in private investment in the country in the absence of the expansion referendum. The impact on economic growth shows an increase of USD 20.2 billion in GDP over the same period, which is 1.2 times the trend observed in the counterfactual scenario. Looking at a longer time frame, from 2006 to 2016, the results suggest a total increase in private investment of approximately USD 47 billion and an accumulated increase of USD 87 billion in GDP.

SERVICES

Transform Healthcare System in Turkey

The Government of Turkey (GoT) launched a comprehensive transformation/restructuring program of its healthcare system in 2003, with the aim of mobilizing private sector investment to provide its citizens with comprehensive and quality healthcare services. By 2023, GoT aims to develop 35 new integrated health campuses all over the country to add up to 50,000 new bed capacity at an estimated total investment of EUR 12 billion.

IsDB assumes the critical role of Mandated Lead Arranger (MLA) for the first time in Turkey to arrange the full financing for the Project. IsDB has mobilized financing from a group of banks consisting of IsDB and its private sector entity-ICD, OPEC Fund for International Development (OFID), Siemens Bank and Ziraat Katılım Bankası. The non-recourse Islamic facility has 18 years maturity with 2 years grace period.

Manisa Hospital has total capacity of 558 beds consisting of a General Hospital and technical buildings for training and research with a build-up area of 178,204m². The Project's concession term is 27 years from the Ministry of Health, with a construction period of 24 months. Post construction, the Sponsor will operate the Project for 25 years, before handing it over to MoH.

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The Hospital was opened in October 2018, and since opening approximately 404 thousand Outpatient and 46 thousand Inpatient visits have been observed. Furthermore, since opening 17.5 thousand operations were performed. The occupancy rate for the hospital since operation start in October was 80.4%.

Photo : © IsDB



SMALL AND MEDIUM ENTERPRISES (SMES) / SUPPORTING JOBS AND MARKET CREATION

Transformative Financing of Sustainable Production Investments in the Mexican Rural Sector

This project is a good scalable and replicable example of how MDBs can help to promote water and energy efficiency investment by agroindustrial small and medium-sized enterprises (SMEs). This project was conducted against a backdrop of perennially low access rates (2% of the credit placed in Q1 2010 went to the agricultural sector and only 7% of agricultural producers could get credit – and mostly it was short-term). The IDB prepared a credit line of USD 50 million to the public sector Mexican Agricultural Trust Fund FIRA to finance agricultural SMEs via local financial intermediaries. The direct participation of FIRA during the preparation process ensured that the activities financed by the project were aligned with government priorities. The project was carried out from 2014 to 2017, providing access to credit for over 600 sustainable investments to the rural sector increasing the supply of long-term financing for such investments at adequate terms.

This project successfully engaged private sector financial institutions in financing agricultural sector enterprises in sustainable water use and energy efficient investments. The aim of the project was to serve as a pilot to illustrate the viability of investments with longer-term paybacks. The project was carried out using IDB's environmental and social safeguards standards which foresaw the need of an adequate protocol for dismantling substituted equipment.



Photo : © IDB / FIRA México

The project successfully financed 110 water and energy efficiency projects for an average investment of USD 360,000. It included 49 efficient refrigeration systems, 47 photovoltaic and solar energy systems, 9 cogeneration systems and 4 efficient motors, boilers and compressed air systems. These results are remarkable considering that in 2012 Mexico produced only 0.5% of its solar energy potential⁸, and that the social cost of electricity was 22 times higher than the price paid by users.

USD 92 million of investments in refrigeration, photovoltaics, cogeneration, and efficient irrigation systems was mobilized, and the project was able to more than double the average sub-loan tenor from 24 to more than 49 months addressing the need for medium to long-term finance to cover the investments' payback period.

⁸ U.S. Embassy—Mexico City, January 2013. "Mexico has the world's highest growth in wind energy and is ranked #20 in the world." Renewable energy Fact Sheet. Retrieved from: http://large.stanford.edu/courses/2016/ph240/basutkar2/docs/us_embassy.pdf

Finally, this intervention provides the potential for replication and scalability in the region and has been presented in forums such as the Latin American Association of Development Financing Institutions (ALIDE) of which FIRA and IDB are active members and Green Finance for Latin America and the Caribbean.

Smallholder Cash and Export Crops Development Project (PDCRE) and its Successor Project for Rural Income Through Exports (PRICE) in Rwanda

Tea is one of Rwanda's major export products and up until 2004, its production was government-run. The privatisation of the sector has been facilitated mainly by public-private partnerships, of which IFAD's PDCRE and PRICE projects are two examples. Both follow the Public-Private-Producer Partnership (4P) project model and develop the Rwandan tea value chain in remote and underdeveloped areas by supporting joint shareholdings between private tea processing companies and tea farmer cooperatives.

During the implementation of PDCRE (2003-2011), different tea companies leased land from the government and rehabilitated or set up tea plantations and processing factories. With IFAD's support, the government mobilized farmers, supported their cooperatives and linked them with the companies so they could provide the necessary supply of green tea leaves. As part of the partnership, the companies also started providing technical assistance, fertilizers and logistics to those tea smallholders who worked on their own plantations. Moreover, the government secured 15% of the shares in the companies for the cooperatives, who are now representing their members both at the factory boards and the national level. A government-set

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pricing mechanism helps protect farmers from fluctuations in tea prices and from an inequitable bargaining position with the companies. PRICE is now replicating the business model in other areas.

The volume of harvested green tea leaves nearly doubled by 2015. Tea growers have increased their incomes by up to 40% through selling green leaves and working in the factories, as wage labourers, pickers or cleaners. Households have used some of their extra income to invest in improved accommodation, animals and other assets. The 4P has also generated large numbers of permanent and seasonal jobs, and temporary work in transportation and construction in areas where livelihood options were previously limited. In one project district alone, more than 1,800 jobs have been created. Moreover, seasonal out-migration has been drastically reduced.

A focus group discussion concluded that:

“ A woman farmer in Mushubi who acquired a 1.5ha tea plot through the 4P has seen her income rise to eight times higher than the RWF 3,000 a month (USD 51 a year) she earned before. She has bought a cow so that the family can have milk, and can now afford to pay her children’s school fees. She is also a member of her local Savings and Credit Co-operative. ”



Improving Opportunities Through Cashew Value Chains in Côte d'Ivoire

Cashews are Côte d'Ivoire's third-ranking export after cacao and refined petroleum products, and a crucial source of cash for smallholders and processors in the poorer north of the country. Although Côte d'Ivoire produces 23% of the world's cashew supply, worth USD 800 million, fewer than 7% of raw cashew nuts are processed domestically. A new World Bank project, the largest to date in the subsector, is cutting regulatory costs; developing industry associations; providing farmers with quality stock, inputs, and better extension services; improving cashew storage and upgrading processing technology; expanding access to markets with better roads; raising environmental and social standards; and encouraging local banks to lend to smallholders and processors.

The World Bank's investments will help the government concentrate scarce public funds on sector policy, institutional, and infrastructure development, while IFC provides innovative financing to catalyze local private credit across the value chain. In partnership with the private sector, the project will build and equip four cashew platforms and train their staff. Eight satellite hubs will enable farmers in outlying districts to link with processors more easily, as well as access training, market information, and quality inputs.

In 2016 the government legalized a Warehouse Receipt System (WRS) that enables processors to use unprocessed nuts as collateral for working capital loans. Under the new project, the World Bank Group will continue promoting the cashew industry to local banks, offering a risk sharing guarantee, and establishing an online registry of WRS borrowers for banks to check before making new loans. Based on IFC's 2014–18 pilot of an IT platform for environmental permit applications, which cut processors' costs from USD 22,000 to USD 10,000, IFC will scale up the platform

nationwide. IFC will also continue seeking private investors to finance cashew storage and processing facilities, either on their own or in public-private partnerships with the cashew processing platforms.

About 225,000 cashew farmers are expected to benefit from these interventions raise their annual raw cashew yields by 20%, which by the end of the project is expected to result in a substantial increase in income per hectare. Through projected processing investments, an estimated 12,000 direct jobs will be create - half of them done by women - which will contribute to achieving the government's 2020 goal of cutting poverty in the country's north from 70 to 35%. Other important beneficiaries will be cashew processors, storage facility owners, and traders who will access new technology, training to improve quality and environmental and social standards, investment and working capital, and links to new markets.

Photo: @WBG



Boosting Mauritania's SMEs Through a Line of Credit to the Banque Populaire de Mauritanie (BPM)

Banque Populaire de Mauritanie (BPM), a growing financial institution in Mauritania, set out to mobilize medium-and long-term funds to better serve its clients, mainly comprising of SMEs. In April 2017, the African Development Bank (AfDB) opened a five-year USD 7 million credit line to BPM following an earlier line in July 2008.

The credit facilities have benefited thirty-five small and medium-sized enterprises (SMEs) in eight business sectors ranging from logistics, commerce, industry, transport, tourism, health, gas distribution and agriculture.

This project is part of the AfDB's Africa SME Program which supports African local financial institutions with long-term liquidity and with technical assistance to be able to successfully provide relevant financing to local small and medium sized enterprises.

Mauritania's banking sector has a great potential for growth but is mainly concentrated in the capital and characterized by low penetration. Because of the fall in iron ore prices and decline in foreign exchange inflows, the supply of foreign currency supply for private banks also dropped - further limiting their credit activities in favor of businesses. Hence, SMEs' access to credit faced rationing and unfavorable terms for short-term loans.

BPM in particular experienced serious difficulties in raising funds, especially for long-term maturities, which constituted a constraint for the financing of SMEs/SMIs. AfDB's line of credit helped the bank to overcome this constraint and provide better services to its preferred customers - SMEs. In addition, the provision of the line of credit in local currency also helped to mitigate against foreign exchange risk.

The project enabled thirty-five small and medium-sized enterprises. Atlas Mills is one of the successful beneficiaries of the Bank's private sector program. The company not only produces flour but also animal feed and aims to expand its market into the sub-region including Mali and Senegal. Access to credit enabled Atlas Mills to modernize its production machinery and diversify into other business sectors. It also employs some 170 workers.

Prepared jointly by the GPEDC MDB working group consisting of the following institutions:



