IDFC is ready to make 2015 a historic moment for development and climate change

Key messages for the third International Conference on Financing for Development to be held in Addis Abeba from 13 to 16 July 2015

Preliminary Remarks

2015 is a critical year as the international community negotiates the shift from Millennium Development Goals (MDGs) to Sustainable Development Goals (SDGs) as well as the international agreements that will help the world address the urgency of limiting the global average temperature increase to 2 °C above pre-industrial level. Investment needs are immense, estimated at around USD 5 to 7 trillion per year (ICESDF, 2014).

We, the International Development Finance Club (IDFC), consisting in 22 national, bilateral and regional development banks from Africa, Asia, Europe, and Central and South America, firmly believe that the role of development banks is crucial to promote sustainable development and help transition to low-carbon climate-resilient development pathways. With their medium and long-term vision, their field experience in financing development, and their capacity to leverage private investment, development banks are indeed uniquely positioned to provide supportive signals and contribute to the convergence of expectations for sustainable development within and across economic systems.

IDFC members got together in 2011 to pool their global expertise, best practices and in-depth local know-how on strategic topics of mutual interest. The primary objective of the club is to address the major obstacles facing long-term finance today by joining forces on the issues currently defining the global development agenda. With very important financial capacities - members committed approximately USD 440 billion in 2013 to finance a wide range of projects, from poverty alleviation and habitat protection to education, health, and public transportation.

IDFC members share a common vision of the potential for development finance to promote and support a low-carbon and climate-resilient future, alongside continuously pursuing poverty reduction, economic and social development, and a fair and equitable design of the globalized economy.

IDFC supports the universal approach of proposed SDGs

2015 should be a paradigm change in the global effort to foster sustainable development and combat climate change. With the envisaged launch of the SDGs in September this year at the General Assembly of the United Nations for the first time in history the community of states commits itself to a holistic set of goals including social, economic and environmental targets as well as good governance, peace and security.

Social inclusion is a major target in the Post 2015 Agenda towards ending extreme poverty and reducing inequality within and among countries. There are several reasons of deprivation beside poverty such as ethnicity, gender, religion, HIV/AIDS that exclude people from a range of processes and opportunities. Social inclusion aims to empower poor and marginalized people to take advantage of burgeoning local but also global opportunities. People must have a voice in decisions which affect their lives and must enjoy equal access to markets, services and political, social and physical spaces.

IDFC welcomes the universal approach of the proposed SDGs as a strategic guideline for all countries, depending on their stage of development. The SDGs properly address the most urgent challenges of global and local communities – sustainable, inclusive and resilient growth and development, climate change, fragile states and refugees.

IDFC highlights the importance of national, bilateral and regional development banks in the proposed framework for development and climate finance at the 3rd Conference on Financing for Development

IDFC welcomes the draft Accord for the 3rd Conference on Financing for Development, which is expected to specify the importance of aligning all financing flows with the three dimensions of sustainable development (social, ecological and economical) and reflecting climate and disaster resilience considerations in development financing.

IDFC states that <u>it is key to acknowledge the strategic role of national, bilateral and regional development banks and the need to strengthen their capacities, and provide them with resources and incentives</u>.

Investment needs are enormous particularly in pursuing sustainable and high-quality infrastructure models and more financial resources must be mobilized.

Sustainable and low-carbon economies demand enormous investments, including transport, communication, water, sanitation, energy, building and housing. <u>All kinds of financing flows need to be mobilized: public and private, domestic and international</u>. First and foremost domestic resources from the public as well as the private sector in the respective countries are pivotal for development. Local resources from taxation as well as fee incomes for the provision of public services are essential in order to mobilize the necessary public domestic resources. It is acknowledged that public finance is a key mechanism to initially support, stimulate/catalyze or incentivize areas of development. In addition private sector funds need to be mobilized for financing infrastructure projects wherever feasible.

Investing in sustainable infrastructure is essential for reaching many of the SDGs. IDFC expects the FfD-conference to give a new impetus to <u>all international, regional and national development banks to help mobilize sufficient financing for infrastructure</u> at the trans-national, national, the sub-national and local levels.

IDFC development banks offer the appropriate long-term finance according to the debt capacity of countries and projects

Development banks' principal objective is to provide long-term finance for the promotion of national and/or international development. The role of development banks is critical to bridge the gap between public and private finance, as it is designed to provide finance for investments where the private sector is not willing to initially invest and, furthermore, to create an enabling environment to <u>leverage additional funds and crowd-in private sector investments</u> in the medium to long term. IDFC members' financing addresses projects, programs and policies that are not or not sufficiently funded due to, for instance, market failures and the uncertainties involved when investing in innovation, science and technology.

IDFC development banks have a long track record in raising funds from national and international capital markets in order to extend long-term finance for development. Some members provide long-term loans according to the debt capacity of countries and projects by mixing public grants and/or other concessional instruments with private resources raised from the financial market.

For some of the IDFC development banks concessional loans are an efficient tool for development because scarce public funds are used very carefully. They are also a fair tool for development as they are used only with borrowers which can afford them, while international grants and/ or national public subsidies are addressed to those countries (LDCs, fragile states, etc.) and projects (climate adaptation measures, social cash transfers) which need them most. On step forward is to combine those concessional loans with grants such as successfully applied by the European Union.

There is also an opportunity to attract private funds through co-financing arrangements, where upfront risks are shared. The private sector is slowly starting to adopt a paradigm shift with regard to transitioning to a low-carbon economy, but any investment and allocation of resources must still make economic sense. In this manner large volumes and a large number of projects can be funded, raising the number of beneficiaries reached by development projects.

IDFC development banks are instrumental in mobilizing private funds for low-carbon, climate-resilient development projects – more efforts are needed globally

Public funds from development banks are key to address sustainable development and are also pivotal to mobilize and scale-up the necessary co-investment by private entities, ranging from philanthropists to institutional investors.

To mobilize private funds it is necessary to increase the attractiveness of investments by reducing financing cost, sharing risks and providing information. Associated instruments comprise mainly loans, equity, mezzanine finance, asset-backed lending, securitization, guarantees, co- and parallel financing arrangements, syndicated loans and various forms of public-private partnerships. Larger investments often require financing solutions which are structured in different risk-return layers incentivizing investors with different risk profiles. In this case development banks can engage in different manners in order to crowd in private capital. We consider risk sharing structures and credit enhancing instruments to be necessary for the mobilization of more public and private funds.

IDFC development banks are in a position to assess project risks in a professional manner. As a consequence projects are structured in a way that private sector financiers can be attracted to co-finance. In order to have a solid ground for discussion about the mobilization of private funds it is essential that there is a common definition and monitoring at the international level.

IDFC development banks offer the necessary financial, technical and market experience to successfully prepare and implement development and climate finance

Project preparation is still very often a major obstacle to investment financing. Development banks due to their vast experience and local and regional knowledge play a key role in building up a pipeline of development and climate-related projects and in the implementation of such projects. Frequently their activities comprise the following added value:

- structuring financing packages and mitigating political risks as anchor investor;
- identifying developmental constraints and suitable solutions to overcome them;
- fostering enabling environments, policy frameworks, ownership and accountability;
- assessing projects with respect to their expected developmental impacts and risks;
- providing technical advice (design, tender, cost-, time-, and contract management);
- facilitating local capacity development with respect to the design, implementation, maintenance and operation of the investment; and
- assuring economically efficient, and environmentally and socially sound project implementation (risk-management, safeguards, monitoring and evaluation).

IDFC development banks are ready to increase their efforts for technical and financial support to translate national investment plans into concrete project pipelines. In this context IDFC has shared its experience in the set-up of the “Green Climate Fund” and several IDFC institutions are in the process of accreditation.

IDFC development banks successfully work with the banking sector in order to have a systemic impact

Development banks also have a systemic impact, as many of them closely cooperate with the private banking sector to reach country-wide effects. Such support to the banking sector often is a very effective and efficient mechanism to reach social, economic and environmental targets. IDFC members currently support banking institutions and channels such as microfinance institutions, cooperatives, etc. with dedicated credit lines and other instruments as well as consider support for new investment vehicles such as venture capital funds, securitization, etc.

A capable and stable financial system is a precondition for the development and smooth functioning of economies. Sustainable economic structures require that enterprises and households have the possibility to save, borrow, insure themselves and perform financial transactions at affordable prices. This is crucial for private investment, accumulating wealth, generating income and escaping poverty and vulnerability. The structural and very broad impact of financial sector development potentially reduces the need for subsequent public intervention in other areas. Many interpret financial inclusion not only as a mean but even as an end of development because it strengthens people’s ability to master their own fate. With their banking know-how IDFC development banks are particularly well suited to support governments in financial sector development.

IDFC members stand ready to co-operate at multilateral, bilateral as well as national level to assure optimal co-ordination of financing activities

The members welcome the emphasis in the draft Accord for the 3rd Conference on Financing for Development on the blended finance potential and in particular the potential of partnership between national, bilateral and multilateral development banks in terms of financing and skill building. The IDFC network itself exemplifies how financing institutions share knowledge and best-practice experience to co-finance projects on a case-by-case basis. In addition the common principles on methodology in the field of climate mitigation finance jointly shared by

MDBs is a recent output of a close relation between national, regional and bilateral development banks on the one hand, and multilateral development bank on the other hand.

IDFC shares with multilateral development banks the common view that the private sector has a pivotal role in financing the development agenda and that in order to unlock the potential of private capital flows in support of development project preparation and risk mitigation is essential. This view is being developed in the joint statement “From Billions to Trillions” prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund and the World Bank Group. IDFC members provide both financial and technical solutions to catalyze investment flows.

IDFC will go on with its efforts to demonstrate concrete solutions to promote low-carbon, climate-resilient development pathways, as well as to ensure that the thousands of billions of dollars of global finance are invested in low-carbon development by mainstreaming climate finance in other peer institutions and, to a larger extent, mainstreaming climate finance to the financial sector as a whole. Some concrete results have already ensued from the Climate Finance Forum that took place on March 31 in Paris with a broad and unprecedented coalition of development banks and private financiers.

For more information on IDFC, please visit: www.idfc.org.