# Infrastructure Finance and the Role of MDBs

# Introduction

- Governments face significant fiscal constraints, while private investors are often wary of the risks associated with long-term infrastructure projects. Bridging this financing gap requires a multi-pronged approach involving the public sector, private capital, and international financial institutions.
- Infrastructure is the backbone of economic growth. MDBs help bridge the $1 trillion annual gap in infrastructure financing. This presentation explores MDB roles, financial instruments, and case studies.
- Provide long-term financing, technical assistance, and risk-mitigation instruments to enable sustainable infrastructure development. More than just lenders, MDBs act as knowledge partners, conveners, and catalysts for private sector participation.

# Global Infrastructure Needs and Challenges

- The world faces an infrastructure financing gap of approximately $15 trillion by 2040, with an annual shortfall of around $1 trillion. Developing countries, in particular, struggle to mobilize sufficient resources to meet their growing infrastructure needs. Several key challenges contribute to this financing deficit:$3.7 trillion needed annually for infrastructure (world); only $2.7 trillion available;
- Challenges: (i) Fiscal Constraints and Public Debt; (ii) Limited Private Sector Participation; (iii) Weak Institutional and Regulatory Frameworks; (iv) Climate Change and Sustainability Challenges, and (iv) Regional and Cross-Border Infrastructure Coordination.
- MDBs play an instrumental role in providing financial resources, technical expertise, and risk-mitigation mechanisms to support sustainable infrastructure development.

# Role of MDBs in Mobilizing Finance

- Direct Financing for Infrastructure Projects – sovereign vs. non-sovereign
- De-risking and Mobilizing Private Capital: Credit Guarantees and Risk Mitigation; Blended Finance Mechanisms; Co-Financing Arrangements
- Technical Assistance and Project Preparation: GIF; AP3F, MCDF
- Policy and Institutional Support
- Promoting Sustainable and Climate-Resilient Infrastructure: GCF; CIFs
- Regional Infrastructure Development and Cross-Border Cooperation: CAREC, GMS, PIDA, TEN-T

# Key Financial Instruments Used by MDBs

- Loans: Both concessional and non-concessional financing to governments and private entities.
- Grants: Provided for technical assistance, project preparation, and capacity building.
- Equity Investments: Direct investments in infrastructure projects, often through private sector arms of MDBs like the International Finance Corporation (IFC).
- Guarantees: Credit and risk guarantees to lower financing costs and attract private capital.
- Blended Finance: Combining concessional resources with commercial financing to improve bankability.

# Case Study: Noor Solar Complex, Morocco

- **Morocco's Noor Ouarzazate Solar Complex:** One of the world's largest concentrated solar power complexes (580 MW) was made possible by a coalition of MDBs. The project's financing involved the **African Development Bank, European Investment Bank, the World Bank Group**, and others, which together provided about **$1.6 billion in loans and grants** for the multi-phase solar parkPPP.
- This blended package included concessional climate funds (under the Clean Technology Fund) mobilized by the MDBs.
- The result is a landmark renewable energy project supplying hundreds of megawatts of clean power. MDB support was crucial in structuring the public-private partnership and mitigating risks in this first-of-its-kind venture in the region. The success of Noor Ouarzazate has demonstrated how MDBs can help governments tap into climate finance and private investment to realize green infrastructure at scale.

## Case Study: Rogun Hydropower Project (Tajikistan)

- a massive **3,600 MW** hydropower initiative aimed at enhancing the country's energy security and fostering regional electricity trade. Situated on the **Vakhsh River**, it is one of the largest hydropower projects in Central Asia, expected to generate **13.3 TWh annually**.
- Given its estimated **$8 billion cost**, the project has relied on **multiple financing sources**, including the **Tajik government, Multilateral Development Banks (MDBs)** such as the World Bank and the Asian Infrastructure Investment Bank (AIIB), bilateral development agencies, and private investors. MDBs played a crucial role in **project preparation, financing structure, and risk mitigation**.
- MDBs facilitated **blended finance mechanisms**, including concessional loans and guarantees, to make the project bankable for investors. They also supported **regional diplomatic efforts**, as Rogun's water usage raised concerns among downstream countries like Uzbekistan. By fostering dialogue, MDBs helped ease geopolitical tensions and promote regional energy cooperation.

## Case Study: Kokshetau Hospital Public-Private Partnership Project in Kazakhstan

- A pioneering healthcare infrastructure initiative aimed at improving the country's medical service delivery. The project involves the design, construction, financing, and operation of a **multi-specialty hospital** in **Kokshetau**, the capital of the Akmola region, under a **PPP model**.
- The **EBRD and AIIB** played a key role in structuring and financing the project, through syndication.
- The **Kazakh government ensured long-term viability** through **availability payments**, guaranteeing private investors a stable return while maintaining affordability for patients.
- Showcases how **MDBs can facilitate healthcare infrastructure development through innovative financing models**. By leveraging **private capital and expertise**, the project enhances **service quality, efficiency, and sustainability** in Kazakhstan's healthcare sector.

# PPPs and MDB Facilitation

- **Upstream support:** MDBs help governments create an *enabling environment* for PPPs. This includes advising on policies, laws, and regulations that govern PPPs – such as procurement laws, concession frameworks, tariff regulations, and institutional capacity building.
- **Downstream support:** MDBs can participate in the financing of PPP projects once they are being tendered and implemented. This often takes the form of **long-term loans or guarantees to PPP project companies**. Having an MDB as part of the financing package often gives comfort to other lenders (as discussed earlier). MDBs can also provide contingent financing or **viability gap funding (VGF)** if a PPP's projected revenues are not quite sufficient to attract private bids – essentially a performance-based subsidy to make the project commercially viable while still ensuring public affordability. In some cases, MDBs even act as honest brokers during the bid process, ensuring transparency and fairness, which increases investor confidence in the PPP procurement.

# Climate Finance and Green Infrastructure (1)

- **Direct project financing for clean energy and transport:** Renewable energy projects (solar, wind, hydropower) are a major focus. For instance, MDBs have financed large solar parks, wind farms, and geothermal plants across Asia, Africa, and Latin America. They often bring in concessional climate funds from mechanisms like the Climate Investment Funds or Green Climate Fund to blend with their loans.
- MDBs also fund mass transit systems, electric mobility, and energy efficiency retrofits that reduce emissions. These projects sometimes have lower financial returns or higher upfront costs than fossil-fuel alternatives, so MDB involvement is key to tilt the economics in favor of green solutions.

# Climate Finance and Green Infrastructure (2)

- **Climate risk mitigation and adaptation in infrastructure:** MDBs are increasingly ensuring that infrastructure is built to be resilient to climate risks (e.g. stronger storms, floods, droughts). They provide expertise and financing for things like flood defenses, climate-resilient road design, and water supply systems that can handle variability. They also support nature-based infrastructure (like mangroves for coastal protection) under the banner of green infrastructure. Through **blended finance**, MDBs use grants for the climate adaptation components of projects that might not generate revenue but are vital for long-term sustainability.
- **Green Bonds and innovative finance:** Some MDBs issue **green bonds** to raise capital earmarked for climate-friendly projects. The World Bank issued one of the first green bonds over a decade ago and continues to be a leader in this space, which indirectly supports more funding for green infrastructure. MDBs also help countries develop domestic green bond markets and guide utilities or cities in preparing green bond offerings to finance sustainable infrastructure.

# Climate Finance and Green Infrastructure (3)

- **Policy and institutional support:** Alongside financing projects, MDBs advise governments on reforms like removing fossil fuel subsidies, implementing carbon pricing, or setting renewable energy targets – policies that improve the investment landscape for green infrastructure. They may support utility reform to integrate renewable energy or help draft regulations for energy-efficient buildings. All this falls under helping countries make a **"green transition"** in their infrastructure development.
- One of the important areas of MDB focus now is **ensuring a just transition** – mobilizing climate finance at scale while making sure developing countries are not overburdened. Many MDBs champion the idea that concessional resources (grants or very low-rate loans) should be prioritized for the most climate-vulnerable countries or for pilot projects that demonstrate new green technologies. In South Africa, MDBs and climate funds are working on a financing plan to help transition from coal to renewables in a way that manages social impacts.
- MDBs' role in climate finance will only grow as the world seeks to channel more investment into sustainable infrastructure. At the same time, they and their member countries are mindful of balancing climate objectives with development needs, which leads to the next topic – debt sustainability and financing strategies.

# Debt Sustainability and MDBs (1)

- **Debt Sustainability Framework (DSF):** The World Bank and IMF use a Debt Sustainability Framework for low-income countries to evaluate how new borrowing will affect a country's debt burden. They produce joint Debt Sustainability Analyses (DSA) that project a country's debt ratios under various scenarios. The goal is to guide borrowing in a way that balances infrastructure investment needs with the ability to repay over time.
- For example, if a low-income country is at high risk of debt distress, MDBs will provide more of their support on **grant or highly concessional terms** (such as IDA grants or zero-interest loans) rather than adding to the debt stock. The DSF essentially sets recommended limits and terms for new borrowing, and MDBs adhere to these when approving new infrastructure loans.
- **Concessional Financing and Blending:** MDBs' use of **concessional funds** (like IDA, the African Development Fund, or climate funds) in infrastructure projects helps improve debt sustainability by softening the financing terms. A project that might be only marginally bankable on commercial terms can become viable with some grant element – ensuring the country doesn't have to shoulder fully commercial debt for a project that has high social returns but lower financial returns. Blended finance, as mentioned, also plays a role: by attracting private co-investment, the host government may be able to take on less debt than if it funded the entire project publicly.

# Debt Sustainability and MDBs (2)

- **Project selection and economic analysis:** MDBs work with governments to prioritize infrastructure investments that are economically sound and likely to boost growth or revenue. Rigorous cost-benefit analysis and feasibility studies are done to avoid white-elephant projects. If an infrastructure project is expected to generate direct revenue (e.g. a toll road, a port, or a power plant), MDBs often structure the financing so that the project's own cash flows (user fees or tariffs) can service the debt, rather than the government budget. Even for non-revenue projects, MDBs emphasize selecting those that remove growth bottlenecks (e.g. improving electricity access, which can unlock business expansion) so that the *indirect* boost to the economy improves the country's capacity to carry debt.
- **Loan terms and flexibility:** MDB loans typically have long maturities and grace periods which align with the long-term nature of infrastructure. This means debt service is spread out and starts slowly, reducing pressure on a country's finances in the initial years when the project is still ramping up. Some MDBs also offer local currency lending or hedging products to avoid currency mismatch (a cause of default when local revenue is in local currency but debt is in foreign currency). Additionally, in cases of extreme distress or shocks, MDBs have at times restructured debts or provided waivers – they are more patient lenders than bond markets or commercial banks. All of this contributes to more sustainable debt management.
- **Policy and capacity support for debt management:** Beyond project finance, MDBs (often in conjunction with the IMF) help countries strengthen their debt management offices, improve public investment management, and increase transparency of contingent liabilities (like PPP commitments). For instance, they assist in developing medium-term debt strategies that guide how much a country can safely borrow and under (Sovereign debt swap).

# Debt Sustainability and MDBs (3)

- **Not all financing is equal** – borrowing heavily at commercial rates for projects with uncertain returns can quickly lead to trouble. MDBs, by contrast, seek to ensure a more prudent approach: they act as a counterbalance, encouraging countries to maximize concessional resources, to tap into private capital for bankable projects (so the debt isn't on government books), and to strengthen institutions that monitor debt.
- Ultimately, sustainable infrastructure financing is about pacing investments with realistic repayment capacity and structuring deals creatively to share risk. MDBs, with their development mandate, prioritize this balance.

# Regional Cooperation and MDBs

- Infrastructure often has impacts and benefits beyond national borders. Power grids, transport corridors, water basins, and telecommunications networks frequently span multiple countries.
- MDBs play an invaluable role in **facilitating regional infrastructure cooperation**. They serve as neutral parties that can bring countries together, provide regional planning expertise, and finance multi-country projects that individual governments might not undertake alone.
- **Regional Investment Programs:** Many MDBs have special initiatives for regional integration.
- **Convening power for dialogue:** MDBs use their convening power to bring stakeholders together. They organize regional forums, joint country meetings, and working groups for planning cross-border projects.

# Conclusion

- MDBs play a critical role in infrastructure finance by mobilizing resources, reducing risk, and ensuring sustainable and inclusive development. Effective engagement with MDBs can accelerate infrastructure growth.
- MDBs can help structure bankable projects, enable PPPs, unlock climate finance, ensure projects don’t push countries into unsustainable debt, and even knit together regional visions.
- Mid-level officials, often the ones preparing projects and negotiating financing, are the linchpins in this process. Equipped with the knowledge of MDB processes and tools, they can transform proposals into financed projects on the ground.