The role of MDBs in private investment in infrastructure
MDBs play an important role as financiers of private investment in infrastructure in middle- and low-income countries. This role is particularly important in the current challenging context of stagnant private investment in infrastructure, significant public sector fiscal constraints, the COVID-19 pandemic recovery, recent global economic shocks, and the need to work towards achieving the UN SDGs.
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Key findings

• Multilateral development banks (MDBs) continue to play a major role as financiers of private investment in infrastructure in middle- and low-income countries.

• MDB financing can be crucial in some regions. In Africa, for example, MDBs financed almost a fifth of the total value of private investment in infrastructure projects in 2021.

• MDB financing has mostly been channelled into the transport and renewable energy sectors, which attract almost three-quarters of total MDB financing.

• MDBs are playing a significant role in the global shift towards renewable energy. While financing of non-renewables still occurs, it is anticipated that it will decline to achieve global net-zero goals.

• As well as financing infrastructure projects and providing technical support, MDBs can also help crowd in more private capital to infrastructure. MDB participation signals the viability, stability, and creditworthiness of an infrastructure project, in turn reducing risk and attracting more private investment capital.

• MDB financing can facilitate the financing of larger private investments in infrastructure projects, as co-financing with an MDB helps reduce risk for private financiers.

• MDBs have significant potential to mobilise private financing directly and indirectly.
MDBs continue to play a major role as financiers of private investment in infrastructure in middle- and low-income countries.

- Although MDBs typically provide more financing and support to the public than to the private sector, their role in supporting private sector infrastructure investment is important in middle- and low-income countries.
- Direct financing is one way MDBs support private investment in infrastructure projects.
- In 2021, MDBs were the second largest financier in middle- and low-income countries, financing 9% of the total value of private investment in infrastructure projects in such countries. (Banks were the largest financier in middle- and low-income countries.) 27% of private investment in infrastructure in these countries involved an MDB as a co-financier in 2021.

Source: Global Infrastructure Hub based on IJGlobal data.
Note: ‘Others’ includes institutions such as export credit agencies, insurance companies, pension funds, infrastructure funds, asset managers, and utilities. ‘Banks’ includes commercial banks, investment banks, and other financial service providers (not captured within other categories of financial institutions). ‘Other development banks’ includes bilateral development institutions, national development banks, and other development institutions not included within MDBs. Figures for MDBs reflect data from 15 MDBs. Within the IJGlobal transactions database, all private investment in infrastructure projects receiving MDB financing is accompanied by additional financing from a private financier.
MDB financing can be crucial in some regions, such as in Africa, where MDBs financed almost a fifth of the total value of private investment in infrastructure projects in 2021.

- Although MDB financing for private investment in infrastructure projects is significantly lower than private sector financing, in middle- and low-income countries, it is highly relevant.
- Africa is the prime example. In Africa, while the overall level of private investment in infrastructure is low compared with other regions, MDB financing is more critical and becoming increasingly so over time. In 2010, MDBs financed 6% of the total value of private investment in infrastructure projects in Africa, increasing to 19% in 2021.
- In Asia, MDB financing is also becoming increasingly relevant. While in 2010 MDBs financed less than 0.5% of the total value of private investment in infrastructure projects, in 2021 this share rose to 5%.
- In contrast, in Latin America and Western Europe, the share of MDB financing has fallen over time, likely due to greater access to private financing in those countries.

MDB share of financing private investment in infrastructure projects, by region
(% of total value of private investment in infrastructure projects by region)
The role of MDBs in private investment in infrastructure

MDB financing has mostly been channelled into the transport and renewable energy sectors, which attract almost three-quarters of total MDB financing.

- From 2010 to 2021, the largest shares of MDB financing of private investment in infrastructure projects went to the transport sector (38%) and the renewable energy sector (35%).

- While the prominence of those two sectors has continued, there has been a sectoral shift over time. Transport dominated at the start of the decade, with the focus gradually shifting towards renewables in line with the MDBs’ commitment to supporting their clients’ efforts to achieve the goal of the Paris Agreement. The transport share of MDB financing has fallen from a peak of 53% in 2011 to 34% in 2021, mirroring trends in overall global private investment in infrastructure projects.

- The role of MDBs in the transition to net zero greenhouse gas emissions is particularly critical in middle- and low-income countries. In high-income countries, most renewable energy projects are financed by the private sector alone, but this is not the case in middle- and low-income countries. From 2010 to 2021, 27% of private investment in renewable energy projects in middle- and low-income countries involved MDB financing – almost approaching the level of investment financed by the private sector alone during this period (32%).

- MDB financing of private investment in telecommunications projects spiked in 2021, highlighting the increasing importance of digital connectivity, which was further emphasised by the pandemic.

Source: Global Infrastructure Hub based on IJGlobal data.
Financing of non-renewables in middle- and low-income countries is anticipated to fall to reach global climate targets.

- Significant progress has been made in moving towards renewable energy, and MDBs have played a key role supporting the energy transition, but more needs to be done to tackle the climate crisis. While many MDBs have committed to ending financing for non-renewables, some fossil fuel projects continue to be financed.

- Financing of fossil fuel projects is anticipated to fall to reach climate targets. For example, the International Energy Agency (IEA) roadmap to net zero by 2050 calls for no new investments in oil, gas, or coal (IEA, 2021).
As well as financing infrastructure projects and providing technical support, MDB participation can crowd in more private investment capital to infrastructure.

MDB participation signals the viability, stability, and creditworthiness of an infrastructure project, in turn reducing risk and attracting more private capital.
The role of MDBs in private investment in infrastructure

MDB co-financing helps reduce risk for private financiers and can facilitate the financing of larger private investments in infrastructure projects.

- Transactions in which MDBs act as a co-financier tend to be larger than those financed by the private sector alone. From 2010 to 2021, transactions involving an MDB were, on average, around 2.5 times the size of those financed by the private sector alone.
- As project sizes increase, so do risks, particularly for the private sector. MDB co-financing can help reduce country, sector, and project risks, which facilitates financing larger transactions.
- Reduction in risk is a key benefit of MDB participation in the financing of private investment in infrastructure, particularly in middle- and low-income countries:
  - With their strong, long-term relationships with governments, MDBs can reduce political risk affecting infrastructure project execution, for example risk emerging from a changing political landscape.
  - MDBs also have extensive technical, country, and sector knowledge that can help reduce operational risk and lower the risk of a project becoming distressed.
- MDBs can help mobilise private sources of finance and leverage additional resources beyond the MDB’s own lending capacity.

![Average project size by financier, 2010–2021](USD m)

Source: Global Infrastructure Hub based on IJGlobal data.
Note: Co-financing between private financiers and MDBs may also include other institution types such as national development banks, export credit agencies, or public sector institutions participating as co-financiers. 'Private sector financing' refers to transactions where the private sector is acting alone, without co-financing from public institutions.
MDBs have significant potential to mobilise private financing directly and indirectly.

- As well as providing financial and technical support for infrastructure projects, MDBs also directly and indirectly mobilise private capital. Direct mobilisation refers to the private financing generated by the active and direct involvement of an MDB, leading to commitment by private financiers. Indirect mobilisation refers to the private financing of projects similar to MDB-funded projects, but financed without direct MDB involvement in the project itself. The participation of MDBs in a particular market signals that market’s viability, stability, and creditworthiness, subsequently reducing risks and attracting a higher volume of private capital to participate (IFC, 2021).
- Levels of private indirect mobilisation tend to be significantly higher than levels of direct mobilisation. In 2019, the level of private indirect mobilisation was around five times that of direct mobilisation. In middle- and low-income countries it was three times that of direct mobilisation, and in high-income countries it was 12 times that of direct mobilisation. In middle- and low-income countries, major obstacles like excessive perception of risks and a lack of bankable projects continue to inhibit private financing.
- Other studies also estimate that MDBs mobilise significant levels of direct and indirect private investment. The Inter-American Development Bank (IDB) estimates an MDB indirect mobilisation multiplier for infrastructure at 2.1 over a three-year span (IDB, 2022).