Plenary Session: Collaboration of MDBs: Addressing Global Challenges through Local Lenses

The role, weight and importance of emerging markets and developing economies in the global economy are rapidly increasing – today, they account for 58% of the world’s GDP and 85% of its population. However, their growth prospects are not without challenges, as these countries increasingly need additional funding to develop sustainably. The total need for infrastructure financing until 2040 is estimated at nearly US $40 trillion. The growing financing gap impedes the construction and modernisation of essential infrastructure such as roads, railways, electricity and water supply. Multilateral development banks (MDBs) must step in to assist.

Globalisation processes present common challenges, yet, the world operates in a “glocal” mode, with each region having its specific characteristics. Acknowledging these specifics is crucial for effective economic strategies. The EDB proposes discussing several challenges that are global in nature but are applicable to many developing economies. In addition, we would like to do this through the regional “lenses” of Central Asia. These challenges include:

1. the need for both sustainable and reasonably rapid economic growth to combat poverty;
2. developing the industrial base, including through industrial cooperation, to secure a more favourable place in the international division of labour and value chains;
3. transport connectivity – all Central Asian countries lack access to the ocean. The Eurasian Transport Network aims to mitigate this structural constraint and establish the region as a transportation crossroads; and
4. the organic and integrated development of the water-energy-food nexus as a foundation for security, peace and development.

Strengthening the role and significance of MDBs is a top priority of the G20 agenda. The G20’s International Financial Architecture Working Group (IFAWG) is working toward this objective. This year, the G20 established a dedicated group on MDBs (IFA-MDB). In September 2023, G20 leaders urged MDBs to undertake a comprehensive effort to reshape their vision, incentive structures, operational approaches and financial capabilities to maximise their impact in addressing global challenges, in alignment with their mandate and commitment to help achieve the Sustainable Development Goals. Addressing global challenges requires the
involvement of all members of the MDB system. The family of international financial institutions, typically associated with major financial entities, will be more effective as an integrated system with horizontal and vertical linkages. It is crucial to ensure that MDB collaboration at all levels – global, regional and subregional – is complementary.

Additionally, collaboration among MDBs extends beyond syndication. We have identified seven potential priorities for MDB cooperation: (1) capital mobilisation, (2) capital markets, (3) financing in local currencies, (4) project assessment, (5) knowledge pooling, (6) technical assistance, and (7) cross-border projects. MDB collaboration will consolidate resources, expertise and experience, unlocking the greatest potential for investment in sustainable development.

Properly structured, effective MDB cooperation can yield a cumulative effect. Together, international development banks can achieve more for their member states than they can individually. This principle applies fully to the Central Asian region. A “glocal” perspective is essential. Let us discuss the best strategies to accomplish this.

Questions for discussion:

- What global challenges are most relevant for Central Asia at present? What are the region’s specifics and potential responses to global challenges?
- How is cooperation among multilateral development banks currently evolving? Are there any successful case studies?
- What modalities of MDB interaction could be implemented in projects? What opportunities do MDBs see for joint projects in Central Asia or in the region where your IFI operates?
- How can MDB cooperation be further developed in other key areas, such as capital markets, technical assistance and analysis?
- How can MDBs jointly respond to requests from developing countries for more financing in local currencies?

Session: Islamic Finance in Central Asia

As of the beginning of 2024, global Islamic finance assets totalled approximately US $4.0 trillion, constituting almost 2% of global banking sector assets.

The segment is experiencing rapid growth, with Islamic assets globally expanding at an average annual rate of 10.5% between 2015 and 2021, compared to 5.8% for conventional financial assets.

Islamic banks operate in over 40 countries. In most nations with developed Islamic finance, it coexists effectively with conventional finance. Besides the Gulf and Southeast Asian countries, Europe and North Africa are witnessing active
development of Islamic finance. The UK is Europe’s largest market and leader in Islamic banking (US $7.5 billion in assets).

In the Central Asian countries, the Islamic finance sector is in its nascent stage, with Islamic financial instruments accounting for 0.2% to 1.5% of banking assets. The sector’s structure is still evolving. Kazakhstan leads the region in Islamic finance development, representing 68% of all Islamic finance in the Central Asian countries.

A crucial element of the Islamic finance infrastructure is the presence of international development institutions, which serve as knowledge conduits and benchmarks for investment in the region. The Islamic Development Bank (IDB) Group provides development finance to the public and private sectors.

The Eurasian Development Bank began to work on establishing its Islamic finance window in 2023, with support from the IDB, to offer funding aligned with Islamic finance principles. As a regional development bank, the EDB plans to serve as a conduit and regional partner for Islamic investment in Central Asia.

Questions for discussion:

- The EDB’s role. Institutional development of Islamic finance in Central Asia. The EDB as a guide and regional partner for Islamic finance in Central Asia.
- The role of the IDB and international development banks as sources of knowledge. Islamic social finance and SDGs. Preliminary insights from the joint research by the IDB Institute and the EDB titled *The Future of Islamic Finance in Central Asia*.
- Impact of regulation and legislation on the development of Islamic banking and finance.
- Global trends in Islamic finance and banking, including the potential in Central Asia.
- Opinions/case studies from Islamic banks in the region, and discussion on enhancing the conditions for the development of Islamic finance.

**Session: Water, Energy and Food in Central Asia: Partnerships and Projects for Sustainable Development**

Water, energy and food are key components of sustainable economic development, with undeniable *interdependence*. It is impossible to generate hydroelectric power without water or to supply water to water-scarce regions without energy, and food production depends on both resources.

The water, energy and food nexus directly impacts achievement of the United Nations’ *SDGs* 2, 6 and 7 (food, water and energy security). Furthermore, it indirectly
influences SDGs 11 and 12 (sustainable cities and responsible production and consumption).

Water scarcity is already having a profound impact on economic development in Central Asia, reshaping various sectors. Water, energy and food security stand among the region’s top long-term development priorities. Addressing the water, energy and food nexus requires optimised resource usage, enhanced efficiency, political coherence and joint management of transboundary water resources by all Central Asian countries.

This challenge particularly impacts agriculture. The sector is a major employer, relies on irrigated farming, consumes up to 90% of available water, and exhibits low water use efficiency. Despite considerable irrigation infrastructure, its deterioration and outdated operational principles result in substantial water losses. The irrigation infrastructure is over 50 years old, and 40% of the water is lost through irrigation canals. Water shortages are exacerbated by the countries’ outdated energy system, requiring additional water storage in reservoirs during spring and summer for efficient power generation in winter. However, this process conflicts with summer water demands for irrigation.

Resolving these regional issues requires substantial financial and organisational resources and coordinated efforts, beyond the capacity of individual government agencies or private businesses. In this context, international organisations, particularly MDBs, play a pivotal role, as they can leverage their strengths to unify efforts towards Central Asia’s development. MDBs can arrange necessary financing and offer mutually beneficial, coordinated solutions, aligning disparate efforts into a single vector of stable economic growth.

The Eurasian Development Bank actively engages in addressing Central Asia’s challenges. The Bank implements projects in the electric power sector and agribusiness while maintaining continuous dialogues with governmental authorities. Notably, in December 2023, it signed a memorandum with Kazakhstan’s Ministry of Water Resources and Irrigation. Additionally, the Bank has published a series of reports proposing practical solutions for the region’s water and energy supply issues. The session will feature presentation of the EDB’s new report titled Water and Sanitation in Central Asia.

Questions for discussion:

- How can the water-energy-food nexus be developed in a coordinated manner across the entire Central Asian region?
- How should cooperation among multilateral development banks and international organisations foster sustainable water and energy development in Central Asia?
- What are the most promising projects and approaches in government regulation, water, energy and industry?
Session: The Eurasian Transport Network: Potential, Challenges and Solutions

The synergy of international transport corridors and routes within the Eurasian Transport Network (ETN) is ensured not through competition, but rather through connection and complementarity of those routes.

While transit traffic between Europe and Asia is significant and cost-effective, the internal economic and trade connectivity provided by the ETN in Central Asia and the South Caucasus is even more crucial. In the region’s landlocked countries, new transportation options lead to increased trade, job creation, tax revenues, human mobility and associated multiplier effects.

Container shipping is the most sought-after and effective mode, facilitating high-value freight transportation along the ETN. International efforts should focus on promoting container services and infrastructure in the region.

The development of transport infrastructure yields significant socioeconomic effects, but is hindered by various administrative barriers, especially regarding inter-country interactions. Key to addressing these challenges is fostering interaction and harmonised positions across all stakeholders, with the active participation of international development institutions involved in such initiatives.

Pre-project preparation and concessional long-term financing are essential for major transport infrastructure initiatives in Central Asia. International development banks play a significant role in implementing these initiatives, offering various project preparation tools such as special technical assistance funds and the ability to mobilise funding on terms not available to ordinary financial market participants.

Considering the need to enhance transport infrastructure within the ETN, a promising area for international development institutions could be financing initiatives aimed at expanding the fleet of rolling stock and containers for multimodal transportation.

Questions for discussion:

- What are the most significant constraints on the development of transport potential in Eurasian countries today?
- Which transport projects are priorities for Eurasian countries?
- The special role of the ETN in developing Central Asian landlocked economies.
- Challenges associated with financing transport infrastructure projects involving tolls and other operational fees.
- What measures are needed to stimulate the development of transportation infrastructure in Eurasia?
- MDBs’ best practices in providing the most appropriate technical assistance tools for pre-project preparation and financing of ETN infrastructure projects; ensuring coordination and convergence of member states’ positions in respect of the
key parameters of ETN infrastructure projects; exchanging expertise in structuring and financing ETN infrastructure projects and building competencies of the public authorities from member states; preparing analytical products for ETN development, etc.

Session: Digital Technology and Innovations for Eurasia

As part of its programmatic and strategic activities, the Eurasian Development Bank stands out as the only development institution in Eurasia with a dedicated focus on supporting national digital transformation and fostering digital cooperation for cross-border integration.

The EDB and its Fund for Digital Initiatives direct their efforts toward bolstering national and integrative digital competencies through grants, loans and equity participation.

In addition, the EDB is actively working to implement venture capital financing. Venture financing enables support for startups, whose funding through conventional banking models is often challenging due to the specifics of this domain. This direction is quite important, as many development institutions and banks provide support to startups through venture capital instruments. Notably, the European Bank for Reconstruction and Development and the World Bank Group extensively utilise venture capital methods.

Another important tool in advancing digital transformation is the project approach based on the following principle: problem – problem formulation – project design/solution – project financing and implementation – policy formulation for scaling up outcomes. Successful digital projects and their scalability substantially reduce transaction costs for new entrants, enabling them to benefit from projects without significant capital investment in the problem identification and solution development cycle.

Questions for discussion:

- What measures are necessary to develop cross-border digital projects and initiatives with regional and international integration effects?
- What challenges do digital startups and initiatives encounter in securing funding and during implementation?
- Can venture capital financing instruments contribute positively to the development of efficient investment methods for new digital projects?
- Digital projects funded by the Eurasian Development Bank: how do they work and what are their development prospects?