

Reinventing multilateral development banks

Can development banks and agencies mobilise their capabilities, capacity and capital to emerging economies aren't left behind?



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Over the years, multilateral development banks (MDBs) have played a critical role in helping developing economies address structural challenges and development goals. “Now, many of the world’s leading MDBs and development agencies are rapidly evolving to meet the changing needs of their clients and the changing dynamics of the global marketplace, says James Woodward, head of transport & infrastructure at KPMG Africa.

All eyes on the private sector

Perhaps the most obvious change has been the shift towards catalysing private finance and investment. “The African Development Bank (AfDB) believes that the mobilisation of private capital is critical to closing the infrastructure financing gap in Africa. Developing markets know they need to attract private investors to their projects, especially given the limited fiscal space of African governments. And we are focused on supporting those efforts,” says Solomon Quaynor, vice president for infrastructure, industrialisation and private sector with the AfDB at a recent KPMG Africa webinar on innovative infrastructure finance.

Many believe that the need for private capital to drive infrastructure development will only increase over the coming year. “The economic crisis has hit developing markets particularly hard. Governments will be forced to really check their priorities and rethink how they can attract private capital. I think all MDBs are now thinking about how they can be much more supportive of the private sector,” says Rajat Misra, principal with the private sector operations at the Asian Infrastructure Investment Bank (AIIB).

A more holistic approach

Many development organisations are now rethinking the way they achieve their mandates, interact with their clients and the private sector, and deliver solutions and services. “We have essentially reassessed and reorganised how we encourage private sector participation in infrastructure. There is now a lot more coordination between the International Finance Corporation (IFC) and the World Bank on counterstrategy, upstream reforms to unlock private investment and downstream innovation to produce solutions,” says Richard Cabello, manager of infrastructure advisory at the IFC, a sister organisation

of the World Bank.

Susanne Gaboury, director general of the private sector division at the Asian Development Bank (ADB) also notes increased internal collaboration. “Our One ADB approach is all about integrating solutions and combining our sovereign and non-sovereign operations with the objective of delivering better results for our clients. The approach has already proven to be very effective in quite a number of transactions.”

Encouraging the right environment

MDBs recognise that there is a lot of private capital sitting in global markets. And, while our recent report on the changing face of infrastructure in Latin American countries suggests there are a variety of cultural and institutional barriers to effective cooperation between public and private sectors, the bigger challenge is about creating bankable projects that meet the investment criteria to attract private investors in the first place.

“I don’t see capital as a limitation. Right now, the limitation is good projects. If you structure a good transaction, balanced with comprehensive technical studies, the capital will be there,” says Cabello.

Some are working to enhance specific capabilities in client markets. “We created Africa50 to provide leadership in developing bankable infrastructure projects. We also have several project preparation facilities within the institution that look at infrastructure project development at a regional level,” says Quaynor.

At the same time, many MDBs also acknowledge it will require policy reform and regulatory change to improve the investment environment for private participants. “Markets with developed and transparent regulatory environments tend to attract more private sector investment. We want to help build that enabling environment that creates opportunities for the private sector and sustainable development for the countries themselves,” says Gaboury.

Innovating the instruments

Innovation has also been spreading into financial instruments and models. “In the short space of five years, we’ve done almost everything – bonds, equities, funds, pure credit finance, partnerships, standalones and, of course, nationals. I would say we are open to all kinds of new products,” says Misra.

“We’re looking deep into our toolbox to come up with innovative solutions. We’re working closely with member governments, donors and DFI partners to look at how we can work together to find new ways to assess and manage those risks that the private sector is often unwilling to take,” says Gaboury.

For the AfDB, a significant part of the focus is on unlocking local currency sources of capital. “They are often ignored, but Africa’s pension, life insurance and sovereign wealth funds represent important pools of capital that can be unlocked through credit-enhanced local currency bonds, for example,” says Quaynor. “That, in turn, can help reduce the currency risk that often challenges local projects.”

Lift the boat

Looking ahead, some MDBs are starting to explore the advantages of taking a 'platform' approach to catalysing investment into markets and sectors. "The idea is really to create a good model within a specific market and sector and then leave it to the government and private sector to get on with the transactions," noted Cabello. "That's what we recently did with Brazil's Fourth Generation Roads programme. And now we are taking those lessons to the roads programme in Colombia."

"As much as you may want to, you can't do everything at once. We've been working with governments to choose certain sectors and then helping them to create the right risk environment in which private investors can participate. Once it gets to the appropriate stage, the private sector would step in to start financing those projects on their own. It's something we are keenly exploring," says Gaboury.

Reinventing MDBs

Ultimately, interactions and conversations with MDBs suggests that the sector has put tremendous effort into rapidly evolving, modernising and enhancing their approaches to achieving their mandates in infrastructure. Yet, as Gaboury admits, "there is always room for more work and innovation".

MDBs know they must reinvent themselves if they hope to address not only the existing emerging market challenges, but also the opportunities being created by the new global economic order. Clearly, MDBs have a critical role to play in catalysing private investments and being an effective bridge between the public and the private sector.

MDBs blast off

MDBs aren't just innovating in the way they shape and catalyse infrastructure investment. They are also helping drive technology innovation in the sector. In 2019, the ADB participated in a project that used a SpaceX Falcon 9 rocket system to put a geostationary internet satellite into space over the Asia Pacific region, successfully bringing low-cost, high-speed internet connectivity to remote and far-flung communities across the region.

"You learn from doing innovative things. We needed to solve a connectivity problem, and this was a great solution. It's about removing that barrier of 'we haven't done that before' and thinking more broadly about how we solve these problems." says Gaboury.

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