

MDBs reinvented

Can development banks and agencies mobilize their capabilities, capacity and capital to catalyze more equitable development?



The forces of globalization are changing. And some populations remain at dire risk of being left behind. Can development banks and agencies mobilize their capabilities, capacity and capital to catalyze more equitable development?

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.

All eyes on the private sector

Perhaps the most obvious change has been the shift towards catalyzing private finance and investment. "The AfDB believes that the mobilization 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," noted Solomon Quaynor, Vice President for Infrastructure, Industrialization and Private Sector with the African Development Bank (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," added Rajat Misra, Principal with the Private Sector Operations at the Asian Infrastructure Investment Bank (AIIB).

A more holistic approach

Many development organizations 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 reorganized how we encourage private sector participation in infrastructure. There is now a lot more coordination between the IFC and the World Bank on counterstrategy, upstream reforms to unlock private investment and downstream innovation to produce solutions," said Richard Cabello, Manager of Infrastructure Advisory at the International Finance Corporation (IFC), a sister organization 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 recognize that there is a lot of private capital sitting in global markets. And, while [our recent report on the changing face of infrastructure in LATAM](#) 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," argued the IFC's Richard 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," noted Solomon Quaynor with the AfDB.

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," added the ADB's Susanne 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," noted Rajat Misra at AIIB.

"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," added 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," said 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 catalyzing 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 program. And now we are taking those lessons to the roads program 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," added Gaboury. "It's something we are keenly exploring."

Reinventing MDBs

Ultimately, interactions and conversations with MDBs suggests that the sector has put tremendous effort into rapidly evolving, modernizing and enhancing their approaches to achieving their mandates in infrastructure. Yet, as Susanne 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 catalyze 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 region¹.

"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." Susanne Gaboury, Director General of the Private Sector Division at the Asian Development Bank.

Find out why MDBs are launching satellites in [this recent article by the ADB](#).

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¹ <https://www.adb.org/news/kacific1-satellite-launch-brings-affordable-internet-remote-parts-asia-and-pacific>