

# The Catalytic Role of Multilateral Development Banks in Mobilizing Private Finance

- In developing countries alone, the annual investment gap to meet the Sustainable Development Goals (SDGs) by 2030 is estimated at US\$2.5 trillion.
- Multilateral Development Banks (MDBs) can play a key role in bridging this gap by mobilizing private finance flows towards SDG-related investments.
- A joint study by the IDB Group and the International Monetary Fund tested whether MDBs crowd in private finance by analyzing syndicated lending to over 100 developing countries over 25 years.
- The results show that MDB lending attracts finance from private creditors. For each US\$1 MDBs invest in a loan syndication in a given country and sector over a three-year period, commercial banks lend about US\$7.
- Access to credit also improves as both the average number of lending banks per loan and loan maturity increase.

## MOBILIZING PRIVATE FINANCE FOR THE SUSTAINABLE DEVELOPMENT GOALS

Despite mounting private sector interest in sustainable investing, there is a pressing need to accelerate and magnify financing towards the Sustainable Development Goals (SDGs). The UN estimates that public and private investment in SDG-related sectors in developing countries falls short by about US\$2.5 trillion annually in order to reach 2030 targets.<sup>1</sup>

In addition to public resources and development aid, the private sector has a pivotal role to play in filling this funding gap. With an estimated US\$74 trillion in global assets under management<sup>2</sup>, there is no shortage of private capital. The challenge is attracting private investment to sectors critical for sustainable development, such as infrastructure, through projects that meet investors' risk and return expectations.

Beyond directly financing countries' economic and social development, MDBs are instrumental in mobilizing additional private resources by helping mitigate risk and paving the way for investors to enter new markets.<sup>3</sup> For example, the US\$5.5 billion Panama Canal expansion project, about 40% of which was financed by MDBs, catalyzed nearly US\$10 billion in private investment from the time it was announced in 2006 to 2011, 1.8 times the project cost.<sup>4</sup>

In general, MDBs can leverage additional resources either directly from co-investors contributing to the same project or indirectly by helping give investors the confidence they need to invest in a given market. MDB lending should not be a substitute for private finance, but rather a way to crowd in private financial flows to developing markets.

## ESTIMATING MDB MOBILIZATION EFFECTS

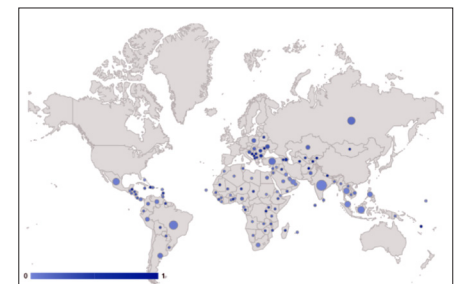
To better understand the mobilization effects of MDBs, which have been large-

ly overlooked by research on catalytic finance to date, a study carried out by economists from the IDB Group and the International Monetary Fund tested whether MDBs crowd in private sector resources to finance investment in developing countries.

The study analyzes loan-level data on syndicated lending for a sample of over 100 developing countries between 1993 and 2017. Syndicated loans are provided by a group of lenders (e.g., banks, institutional investors, private sector windows of MDBs) that share risks by pooling capital together. The sample includes over 21,000 syndicated loans in nine sectors, with most loans going to firms in the finance, infrastructure, and manufacturing industries. The average syndicated loan in the sample is formed by 6 banks. As Figure 1<sup>5</sup> shows, the number of syndicated loans and the share with MDB support varies across countries.



Figure 1: Number of Syndicated Loans and Share with MDB Support by Country, 1993-2017



1. UNCTAD (2014). [World Investment Report](#).
2. [The Boston Consulting Group \(BCG\). Global Asset Management 2019. Will These '20s Roar?](#)
3. For more information, see [Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions 2017](#).
4. IDB Invest (2018). [Infrastructure Investments and Private Investment Catalyzation: The Case of the Panama Canal Expansion](#). See also the [DEBrief](#).
5. The bubbles represent the number of syndicated loans by country (1993-2017): the larger the bubble, the more syndicated loans. The color represents the share of syndicated loans supported by at least one MDB in the period: darker blue indicates more syndicated loans with MDB support.

SUSTAINABLE DEVELOPMENT GOALS

17 PARTNERSHIPS FOR THE GOALS



