

RESEARCH KEY FINDINGS

Financial Innovation and Multilateral Development Banks

Prof. Anthony Bartzokas, UNU-MERIT



This overview is published in the framework of the fifth edition of the Finance in Common Summit in Cape Town, South Africa.

In this project we consider to what extent MDBs can play a catalytic role in the effectiveness of the mobilization of capital for sustainable investment with innovative products and proactive capacity building in the Global South.

Objectives & Research Questions

Given the limited hard (as well as local) currency financing in developing countries, the introduction of innovative measures to attract private sector capital is crucial to overcoming the investment financing shortfall for sustainable development.

The ongoing policy debate on the global investment gap for sustainability is focusing on the mobilization of available capital for the scaling up of investment. In this project we consider the intensive margin: to what extent MDBs can play a catalytic role in the effectiveness of this process.

Methodology

This project draws on desk research and case studies. We consider five potential areas for the diffusion of financial innovation, i.e., loan syndications, on lending facilities, private equity participation, infrastructure project de-risking and balance sheet optimization.

Our focus is on bottom-up initiatives for the diffusion of financial innovations at the process level through partnerships with development finance institutions in the global south and at the product level with aggregation of bankable assets for interested investors.

Results

- Operational experience and recent research confirm that the successful diffusion of financial innovation is synchronized with trends in commercial markets, when MDBs assume market creation roles.
- There is significant potential to scale up the MDBs' business origination by proactively sharing their unique lender-of-record status. This allows for the distribution of risk and mobilization of private sector capital.
- The development finance asset class provides an investment opportunity that achieves both financial returns and positive impact.
- An effective collaboration between the public and private sectors is essential to meet the SDGs and climate objectives, and the role of MDBs and DFIs presents institutional investors with opportunities to fulfil their impact mandates.

Recommendations

Establish a financial innovation transfer channel from MDBs to DFIs: Expected benefits are process related (efficiency and access to underserved markets) and product related (for example, with the aggregation of financial transactions supporting climate finance adaptation).

Leverage the unique position of MDBs and DFIs as intermediaries: MDBs and DFIs provide institutional investors with bankable impactful projects with market-equivalent risk-adjusted returns and safeguards in place. To become more effective intermediaries, they should seek to move towards a originate-to-distribute model.

Towards a streamlined financial innovation agenda: The climate change agenda is an opportunity for a streamlined approach on financial innovation with MDBs focusing on dynamic capabilities and a systemic approach for the diffusion of financial innovations

See: Bartzokas, A. (2023). Financial Innovation and Multilateral Development Banks.

Available here: <https://t20ind.org/wp-content/uploads/2023/07/Financial-Innovation-MDBs.pdf>