

Private Sector Mobilization

Coordinated by ODI and the World Resources Institute

1. Background

As a deliverable of the FiCS 2023, the Executive Committee agreed to set a Financial Innovation Lab to reinforce PDBs' catalytic role in directing financial flows towards sustainable investments.

The Global Research Network on Public Development Banks (GRN) could offer a broader reflection on the optimal use of blended finance. In this endeavor, it is necessary to better understand the regulatory frameworks in which PDBs operate, as well as the type of instruments they use to mobilize private capital. This would include more research on de-risking instruments, as well as PDBs' ability in channeling local currency financing. Closer attention to the role of EXIM banks could also highlight the specific role of trade flows with respect to development objectives. A related question is to explore PDBs' capacity in structuring efficient financial markets in emerging and developing economies.

2. Objectives of the work stream

The objectives of the work stream are as follows:

- Produce original research and analytical papers on PDBs.
- Prepare the contribution of the GRN to the FiCS 2024 and subsequent international conferences (COP 16, COP 30, FFD 2025,...).
- Foster interactions between researchers, think tanks, policy makers and practitioners, in particular with the FiCS' Financial Innovation Lab.
- Articulate research efforts to allow for continued exchanges and debates, and help structuring research projects that are useful to decision makers.

3. Research questions

The work stream on private sector mobilization could tackle the following research topics (complementary suggestions are welcome):

- **Does blended finance always maximize development outcomes?**
According to UN DESA, financing sustainable development is more a question of allocation rather than scarcity of resources. While the financial system concentrates trillions of assets under management, not enough financial flows are targeted towards

the strategic sectors ensuring sustainable development for all. In a context of high debt levels, partnering with private actors is instrumental in achieving the SDGs. However, little is known about the efficiency of blended finance and the conditions under which its developmental impacts are maximized.

- **How can regulatory frameworks and policy incentives encourage private sector participation in sustainable finance?** As PDBs are present in 155 countries, they are subject to varying regulations and reporting frameworks. More research is needed to explore the effectiveness of regulatory measures, such as tax incentives, disclosure requirements, and green finance regulations, in stimulating investments in sustainability initiatives alongside private actors.
- **To what extent can financial innovation support the mobilization of private capital for sustainable development?** While the concept of blended finance is better understood, there is still a dearth of research about the most effective instruments to help mobilize private capital and de-risk deals. Echoing the creation of the FiCS Financial Innovation Lab, research could question the strengths and weaknesses of existing PDBs' financial products and identify areas of improvement. On the liability side, special attention is needed to assess PDBs' capacity to leverage private capital through the use of green and sustainable bonds.
- **Does commercial finance yield additionality with respect to global development objectives?**
Decades of economic research highlight the role international trade in generating economic growth, yielding higher productivity, and contributing to the diffusion of technologies. Among the 530 PDBs, 10% have a mandate dedicated to supporting commercial activities. By supporting international trade, these institutions have the capacity to expand financial flows towards development objectives. Yet, not all countries benefit equally from trade. In this regard, what is the specific role of EXIM banks in optimizing the development outcomes of trade flows?
- **To what extent do PDBs play the role of knowledge banks?** Limited access to reliable data, information asymmetry, and opaque regulatory environments constitute important barriers to direct private financial flows towards development objectives. Building upon the seminal paper from de Aghion (1999), further research could explore the optimal conditions under which PDBs' can acquire and disseminate knowledge to private banks about investing opportunities.

4. Expected deliverables for the FiCS 2025

The GRN call for contributions allowed to identify the following analytical works related to private sector mobilization (PSM):

Researcher	On-going research	Contemplated research projects
Sam Attridge / Yunnan Chen (ODI)	<ol style="list-style-type: none"> 1) "Better understanding the financial additionality of blended finance by MDBs and DFIs" 2) "The future of infrastructure financing" 3) "Private sector mobilization: the case of PTSMI" 	1) "Better mobilizing local pools of capital"
Chris Humphrey (ODI)	Examining the unique financial constraints facing borrower-led multilateral development banks	
Valerie Laxton (WRI)	Identifying opportunities to mobilize additional private capital at scale for clean energy	
Nicole Pinko (CPI)	<ol style="list-style-type: none"> 1) "PDBs and green guarantees" (to be published soon) 2) "Private capital mobilization and climate adaptation" 	
Eduardo Fernandez-Arias (Peking University)		<ol style="list-style-type: none"> 1) "The economic implications of private sector mobilization" 2) "What are the conditions under which PSM is more effective than traditional financial intermediation?" 3) "What are PDBs' instruments to optimize private sector mobilization?"
David Ramos Munoz (European Banking Institute)		<ol style="list-style-type: none"> 1) "Analyzing the legal framework for implementation and enforcement of transition plans financed by public and private actors" 2) "Can prudential rules hinder PDBs' role in transition finance?"
Florian Léon (FERDI)	1) In the Shadows of Support: Unintended Outcomes of DFIs' Intermediated Lending in Africa	

	2) Literature review on Development Finance Institutions “The role of private sector mobilization in fragile states”	
Juan Martinez Alvarez (IDB)	1) Role of the Public Development Bank in financing private infrastructure in LAC 2) Promoting access to financial markets to medium and growth companies in LAC 3) Improving financing opportunities for SMEs: IDB experiences supporting guarantee schemes	

5. Interested contributors

The table below summarizes all the stakeholders that are explicitly interested in contributing to the work stream on private sector mobilization.

Other contributors are welcome.

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6. Contacts

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