ove Office of Evaluation and Oversight

Corporate Evaluation

Stocktaking of Private Finance Mobilization at the IDB Group

IDB   IDB | Invest

Inter-American Development Bank, 2024
Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

RE-585-1
February 2024

Corporate Evaluation

Stocktaking of Private Finance Mobilization at the IDB Group

Office of Evaluation and Oversight

IDB IDB | Invest

Contents

Acknowledgements

This document was prepared by Ernesto Cuestas (team leader), Sumiko Andrade Sakaguchi, Lucero Vargas, Priscila Vera, Laura Miranda, Julie King, and Melisa Wong. José Carbajo and Hans-Peter Lankes participated as senior external experts, and Gabriela Pérez Yarahuan provided methodological guidance. This document was prepared under the supervision of Ana María Linares, cluster leader, and the direction of Ivory Yong, OVE Director.

Acronyms and Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
BII	British International Investment
CABEI	Central American Bank for Economic Integration
CAF	Capital Adequacy Framework
CAF-B	Banco de Desarrollo de America Latina
CMF	Connectivity, Markets and Finance Division (of IDB)
CRF	Corporate Results Framework
CS	Country strategies
DELTA	Development Effectiveness Learning, Tracking, and Assessment
DFI	Development finance institutions
EBRD	European Bank for Reconstruction and Development
FI	Financial institution
FX	Foreign exchange
G20	Foreign exchange
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IFC	International Finance Corporation
LAC	Latin America and the Caribbean
LTD-PFM	Long-Term Direct PFM

MCPP	Managed Co-Lending Portfolio Program
MDB	Multilateral development bank
NSG	Non-sovereign-guaranteed
ORP	Office of Outreach and Partnerships
OVE	Office of Evaluation and Oversight
PCM	Private capital mobilization
PCS	Preferred creditor status
PCT	Preferred creditor treatment
PFM	Private finance mobilization
PPP	Public-private partnership
RMB	Resource Mobilization Unit (of IDB Invest)
SDG	Sustainable Development Goal
SG	Sovereign-guaranteed
SPD	Office of Strategic Planning and Development Effectiveness (of IDB)
UCP	Unfunded credit protection
WBG	World Bank Group

Executive Summary

In the past two decades, as public sector finance has proven insufficient to meet global development needs, private finance mobilization (PFM) has emerged as a key approach for development financing in Latin America and the Caribbean (LAC). Recognizing that relying only on profits, additional capital contributions, and grant resources from the donor community or public sector entities is insufficient to fund the growing development needs; multilateral development banks (MDBs) have looked at PFM as one of the ways to increase available development financing.

This stocktaking reviews the experience of the Inter-American Development Bank Group (IDBG) using PFM as a tool to obtain additional private sector resources for the operations it finances. OVE analyzed PFM at two levels: strategic and operational. The strategic level covers what the IDBG intended to achieve with PFM (objectives) and the approach selected. The operational level covers how the PFM approach was implemented and what has been accomplished to date. Given their different business models, PFM has evolved differently at the IDB and IDB Invest. OVE therefore examined them separately.

I. Understanding PFM

PFM is the work conducted by an MDB to bring in financing for an operation from a private entity. For this exercise, OVE used the harmonized MDB definition of PFM, which is the *financing from a private entity, on commercial terms, secured by an MDB, for an MDB-financed operation*. Although the terms "mobilization" and "PFM" are often used interchangeably, it is important to clarify that PFM is only one of the mobilization types that the IDBG conducts.

PFM can be structured at the operation level, portfolio level, or platform level. The operation level means bringing in private financiers to a specific investment transaction (e.g., through a syndication or B-loan). The portfolio level refers to cases when an MDB first originates a group of operations, funds them with its own resources, and then sells a pool of assets to other financiers. The platform level means the MDB sets up ad-hoc structures (e.g., an IDBG managed fund) with pre-defined investment guidelines and parameters.

PFM is not the only work that the IDBG conducts to attract private investment to borrowing countries and development projects; the IDBG also works with governments and market actors to improve countries' investment climate and market functioning. These activities are commonly referred to as *catalyzation*, and are key to unlocking private investment, and enabling PFM.

II. Strategic Approach to PFM

During the analysis period, mobilization (including PFM) became a priority for the Group. The Second Update to the IDBG's Institutional Strategy 2020-2023 made mobilization an area of operational emphasis. In that context, the IDBG adopted a Mobilization Roadmap (document GN-2988-1), which defined the operational priorities to boost mobilization capacity and volumes. Through the Roadmap, the IDBG aimed at enhancing operational processes related to mobilization: (i) programming and planning, (ii) partner engagement, (iii) instrument development, (iv) incentive creation, and (v) results tracking.

However, these actions were not anchored in a strategic framework that would define PFM development objectives or provide utilization and prioritization criteria. This led to an output-oriented focus. A strategic framework was needed to identify and address trade-offs, and to optimize the use of resources (e.g., defining when to use own account resources vs. when to use PFM). In addition, guidance was missing on to how to: (i) focus catalyzation interventions (e.g., investment reforms) where private investment is not yet feasible; (ii) identify PFM potential in key sectors and countries; (iii) develop a strong pipeline of PFM projects; and (iv) use PFM instruments strategically (i.e., with resource efficiency and trade-offs in mind).

For its part, in addition to Group level strategies, IDB Invest benefited from having mobilization embedded in the objectives that led to its creation, as well as from presenting PFM priorities and progress on its annual business plans. Although business plans have supported IDB Invest's efforts to develop a PFM portfolio, additional direction is needed to sharpen PFM additionality (e.g., how to introduce PFM in smaller or riskier economies). Also, the organization has yet to define criteria on how to optimize resources allocated to PFM efforts, especially in those instances that require financial de-risking (e.g., assuming subordinated tranches or a first-loss).

For PFM in SG operations, the IDB has not developed a specific strategy beyond the documents produced at the Group level. However, specific guidance is needed to understand the extent to which the IDB expects to conduct PFM, the instruments to be used, what the value proposition is for the different countries and sectors, as well as for potential co-investors.

III. PFM at the operational level at IDB Invest

During the analysis period (2016-2022), IDB Invest conducted 213 operations with a PFM component (direct and indirect) totaling US$22.3 billion, an amount equivalent to 73% of IDB Invest's own account commitments over the period. OVE analyzed IDB Invest's long-term direct PFM (LTD-PFM) portfolio, which accounted for US$10.1 billion, or 79% of PFM operations and 81% of the volume. LTD-PFM was mainly deployed in A and B economies or in countries with better risk ratings. OVE reviewed IDB Invest's experience across the processes the Mobilization Roadmap aimed to enhance.

From the PFM planning perspective, IDB Invest has transitioned from demand-driven PFM to mobilization-ready structures, which has facilitated mainstreaming. However, systematic estimations of PFM potential at the country level are missing. Planning is crucial to address the specific investment barriers of each country and create a sustainable pool of bankable projects.

During the period analyzed, commercial banks were IDB Invest's most frequent co-investors and accounted for over half of the LTD-PFM amounts. However, as the organization matured, it diversified its co-investor base by including institutional investors. The base is still concentrated, as diversification can be resource-intensive, with the most demanding cases being those that require IDB Invest to use its own capital to de-risk transactions. So far, IDB Invest has attracted co-investors by using less capital-intensive tools, like helping them bridge information asymmetries and manage non-financial risks.

From the client standpoint, OVE's interviewed counterparts report that PFM has enabled them to build relationships with new sources of financing and meet the required financing amounts for their projects. However, they added that PFM also increases transaction costs, which vary depending on the type of instrument selected. Therefore, the organization needs to be mindful of these costs.

Regarding PFM instruments, IDB Invest moved from relying 90% on its traditional B-Loan program catered to commercial banks in 2016 to a more diversified portfolio of instruments by the end of 2022. The instrument that has grown the most is the Unfunded Credit Protection (UCP),[1] given its lower transaction costs. In terms of newer instruments, B-bonds have been used to unlock capital markets for clients, although it is still a nascent instrument. Portfolio-level approaches are new to IDB Invest, but the organization has already conducted some initial operations. At the platform level, however, IDB Invest has not yet implemented this type of vehicle.

1 A UCP is a credit guarantee offered by an insurer to cover a portion of a loan or bond financed by an MDB. In the event of a credit default of an MDB client, the insurer repays the loan/bond principal amount up to the covered amount. The mobilization amount corresponds to the amount covered by the insurer.

In terms of institutional set-up, IDB Invest created a core team dedicated to delivering PFM. In parallel, it created an incentive structure through volume targets. PFM implementation has required an organization-wide effort involving the creation of systems, processes, and capabilities. However, the organization is showing signs of stress as it is managing more complex PFM structures with the relatively same processes, people, and systems.

Regarding results measurement, IDB Invest has set up PFM monitoring and tracking indicators. Also, it rewards PFM origination in the additionality score of operations. However, other aspects of PFM have not been captured yet, like mobilization at the portfolio level or an analysis of clients' ability to continue doing business with co-financers independently after IDB Invest's intervention.

IV. PFM at the operational level at the IDB

The analysis period (2016-2022) covered five SG operations totaling US$3.068 million that benefitted from a planned direct PFM component. In terms of indirect PFM, the IDB approved 41 operations that included indirect PFM of US$4.5 billion. In the case of the IDB, OVE also reviewed the PFM processes that the Mobilization Roadmap aimed to enhance.

From the planning and programming standpoint, PFM planning has been mainly at the individual operation level. Country Strategies (CS) have not included SG PFM, although they often discuss mobilization and partnership opportunities with donors, other public sector entities, and bilateral partners.

In terms of SG instruments, direct PFM at the IDB has been conducted exclusively through guarantees, which has been an instrument with limited use at the Bank. At the portfolio level, Management is exploring the use of UCPs to attract commercial co-investors and free-up capital to expand the overall SG lending capacity, although it is a work in process. For indirect PFM, the majority of resources (89%) consisted of parallel financing from local financial institutions associated with operations that the IDB conducts with national development banks.

Regarding direct PFM partners, the IDB has supported smaller economies with higher-risk sovereign ratings, demonstrating the potential of guarantees to support governments in accessing capital and financial markets. The IDB is also seeking to achieve direct PFM by using guarantees in public-private partnerships (PPP) structures to cover risks related to the sovereign guarantee (SG), but so far, no operation has come to fruition yet.

For results tracking, identifying operations with PFM has been manual. Also, the IDB is only tracking planned PFM (as opposed to materialized amounts), which makes it hard to measure progress and overstates results.

V. Comparative Analysis of PFM

PFM became a priority for MDBs, when in 2015, they recognized the need to bridge the SDG investment gap by tapping into new sources of finance. However, more recently, several independent panels commissioned by the G20 presidencies have highlighted that MDBs are likely operating below their PFM potential and that greater efforts are needed to increase it. In their view, MDBs need to adapt their business models to create PFM capacity and address the external factors that affect it (e.g., countries' investment conditions).

Albeit with different degrees of maturity, other MDBs are in a similar position to the IDBG, where PFM has been an approach identified primarily with the NSG side. For direct PFM in SG operations, guarantees have been the main instrument of other MDBs as well. For NSG operations, MDBs generally focus on direct PFM with an instrument toolkit similar to IDB Invest. Regarding newer PFM mechanisms, the IDBG is at a similar stage as other MDBs (experimenting with portfolio and platform approaches).

Based on the findings, OVE recommends:

For the IDBG:

1. **Develop a strategic framework to guide IDBG's PFM activities.** This framework should be constructed considering complementarity with other tools (e.g., catalyzation) to attract private investment to development projects. The framework should provide guidance on: (i) what the IDBG aims to achieve with PFM considering that mobilization per se should not be an objective, but rather a means to achieve a development objective; (ii) instances where PFM is more useful compared to other tools, (iii) criteria on use and prioritization; and (iii) how the IDB and IDB Invest will coordinate to provide an integrated IDB Group response to the needs of its clients.

2. **Include a diagnostic of PFM potential in CS, considering: (1) countries' investment conditions and (2) complementarity with activities to enhance the investment climate (e.g., catalyzation) and their sequencing.** The diagnostic should define the feasibility of conducting PFM in different countries, define priorities for PFM in SG and NSG operations, and identify the appropriate sequencing between PFM and catalyzation interventions. The diagnostic exercise should engage operational teams of both organizations.

For IDB Invest:

1. **When creating additional PFM capacity, prioritize countries and segments where the private sector is unlikely to go on its own and where IDB Invest has more additionality in facilitating investments.** When designing new products, investments in upstream advising, or seeking co-investment partners, prioritize economies that receive less private capital flows overall. This work must consider optimizing IDB Invest resources (capital or administrative resources like people, processes, and systems).

For the IDB:

1. **Provide strategic guidance regarding PFM in SG operations.** This includes: (i) defining, based on its comparative advantages, the IDB's goals with respect to PFM and its approach to achieving them, including an estimate of SG PFM potential; (ii) define the resources and the institutional roles and responsibilities that will be devoted to PFM operations.

2. **Shift PFM reporting from planned mobilization amounts to executed mobilization amounts, beginning with direct PFM structures.** This guidance is in line with the OVE's Evaluation of Guarantee Instruments' 2022 recommendations. It will ensure that the IDB has reliable information on actual PFM amounts and not only planned PFM amounts. To so do, the IDB will need to strengthen its information systems to capture the information and replace the manual system currently in use.

01

Introduction

1.1 In the past two decades, as public sector finance has proven insufficient to meet global development needs, private finance mobilization (PFM) has emerged as a key approach for development financing in Latin America and the Caribbean (LAC). Between the 2008 global financial crisis and the COVID-19 pandemic, financing needs in the region increased significantly as LAC faced a series of economic crises that left governments with scarce fiscal resources. In parallel, attracting donor funding to the region became more challenging as more LAC countries achieved middle-income nation status. Recognizing that relying only on profits, additional capital contributions, and grant resources from the donor community or public sector entities[2] was insufficient to fund the growing development needs, multilateral development banks (MDBs) looked to PFM as one of the ways to increase available development financing.[3] In 2015, the MDB-led initiative "From Billions to Trillions: Transforming Development Finance," called for MDBs to create stronger relationships with the private sector, including through PFM, to address development financing gaps.

1.2 This report presents the results of a stocktaking exercise conducted by the Office of Evaluation and Oversight (OVE) addressing the interest from the Boards of the Inter-American Development Bank (IDB) and IDB Invest.[4] The report seeks to provide information on the present state of PFM at the IDB Group (IDBG or the Group), as a mechanism to bring in direct private financing for IDBG-financed projects. It covers the period between 2016, when the Group adopted a harmonized definition of PFM and began systematically compiling PFM data , and 2022, the most recent year for which complete PFM data is available. The stocktaking analyzes the approaches, processes, and resources used by the IDBG for PFM deployment. As such, it does not include an assessment of the individual development outcomes of operations with PFM components.

1.3 This stocktaking comes at a critical time for the IDBG. The IDBG is searching for innovative ways to close the fiancing gap for development needs in LAC countries. In addition, this report is delivered as the IDBG is in the process of producing a new institutional strategy and IDB Invest prepares a capitalization proposal for submission to the Board of Governors at the 2024 Annual Meetings of the IDBG.

2 Historically, MDBs (especially their public sector arms) focused their mobilization efforts on attracting and leveraging grant resources from the donor community or financing from other public sector entities.

3 For example, in 2017, the governments of the G20 issued a joint statement with the MDBs reaffirming their commitment to optimize their capital and seek innovative ways to access additional development resources (G20, "Principles of MDB's strategy for crowding-in private sector finance for growth and sustainable development," 2017).

4 OVE's 2022-2023 Work Program (document RE-574-1).

A. Stocktaking scope and methodology

1.4 This report reviews the experience of the IDBG with PFM at two levels: strategic and operational. The strategic level covers what the IDBG intended to achieve with PFM (its objectives) and the approach selected. The operational level covers how the PFM approach was implemented and what has been accomplished to date. Given their different business models, PFM has evolved differently at the IDB and IDB Invest, and therefore, OVE examined them separately. The exercise drew on a set of guiding questions presented in Box 1.1.

Box 1.1. Stocktaking guiding questions

Strategic level questions:

How has the IDBG defined and operationalized its commitments to conduct PFM?

What have been the development objectives and business objectives of PFM across the organization?

What other approaches does IDBG have to crowd-in private sector investments?

What have been the contextual and external factors affecting the fulfillment of IDBG PFM targets?

How do other efforts to bring in public co-financing resources (e.g., donors, other MDBs) complement PFM efforts?

Operational level questions:

<u>PFM planning and programming:</u>

How are PFM opportunities identified at the IDBG at the operation, portfolio, and platform levels? How does this compare with other MDBs?

How have PFM opportunities been discussed in programming documents (e.g., IDBG country strategies or IDB Invest business plans)?

<u>PFM instruments:</u>

What are IDBG's PFM instruments and how do they compare with other MDBs?

What have been IDBG's PFM portfolio trends by instruments?

What actions has the IDBG taken to fulfill client and co-investor needs in terms of instrument portfolio?

How does the IDBG interact with other development finance institutions (DFIs) and MDBs to complement PFM instruments?

<u>Partnership creation and management:</u>

Who are IDBG's PFM clients and co-investors?

What PFM volumes is the IDBG mobilizing by investor type?

What are co-investors' requirements to participate in IDBG originated projects?

What is the client's perspective on PFM?

<u>Internal incentives and operational set-up:</u>

What are IDBG policies and operational set-up for PFM?

What are the targets and incentives to foster PFM at the IDBG?

What are the collaboration actions and levers between IDB and IDB Invest to foster PFM?

Monitoring and evaluation:

What are the monitoring and evaluation systems for PFM at IDBG?

How have M&E systems evolved over time?

What are the existing learning mechanisms at the IDBG?

Source: OVE Approach Paper - Stocktaking of Private Finance Mobilization at the IDBG (document RE-585).

1.5 OVE used a combination of methods to conduct this stocktaking. OVE conducted a literature review on the definition of PFM and reviewed the IDBG commitments concerning PFM. In addition, OVE analyzed the IDBG's strategic documents and conducted interviews with staff and senior management to understand the Group's PFM objectives and approach, as well as complementarity with other MDB tools to facilitate private investment. To examine PFM implementation, OVE used a combination of PFM data analysis, content review of IDBG documents, and interviews with PFM stakeholders (co-investors, clients, IDBG staff). In its analysis, OVE considered the business model characteristics of each institution. The data analysis relies on the operations that Management identified as having a PFM component according to the internal IDBG definition. Finally, the stocktaking included a benchmark analysis of PFM in other development finance institutions (DFIs) and MDBs.

Box 1.2. Stocktaking information sources

Internal document review: OVE reviewed IDBG strategy and corporate documents (e.g., Board and Governors' resolutions, strategies, roadmaps, business plans, and manuals) related to PFM activities with the objective of understand and reconstruct organizational objectives, understand the approach undertaken and the context in which PFM has taken place, as well as document the evolution of PFM.

Data analysis: OVE reviewed the aggregate PFM portfolio of IDB and IDB Invest to identify trends. The analysis included a review of PFM instruments used, the categories of clients and co-investors that participated in PFM transactions as well as a review of countries and sectors where PFM was conducted. In addition, supervision data was used to review materialized mobilization amounts, while risk data was used to analyze the relationship between a country (or operation) risk rating and PFM amounts.

Interviews: OVE conducted 75 semi-structured interviews with key stakeholders including: co-investors and private sector clients (28), IDBG staff (30), DFIs and other MDBs (11), and external experts (6).

Benchmarking: OVE interviewed managerial and operational staff at other MDBs and reviewed publicly available reports and evaluations on PFM from: the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG). The analysis reviewed how peer organizations have approached PFM in terms of development objectives and how they have tackled the five operational dimensions of planning, instruments, co-investors, organizational set-up, and monitoring and evaluation.

Literature review: OVE conducted a literature review on PFM instruments and approaches that included peer institutions, as well as think tanks and private sector companies that have an interest in PFM.

Source: OVE.

02

Understanding PFM

2.1 This chapter examines what PFM is and presents the analytical framework OVE used to analyze it. The chapter is organized in four sections. The first section covers the definition and different dimensions of PFM. The second discusses complementary approaches to PFM. The third summarizes how PFM was incorporated into IDBG's work at the strategic level. The fourth and final section presents the analytical framework that OVE used to guide this stocktaking exercise.

A. PFM definition and features

2.2 MDBs agreed on a harmonized definition of PFM, which is the basis of IDB's current definition and which is used in this exercise. MDBs jointly developed a "Methodology for Private Investment Mobilization Reference Guide,"[5] where PFM is defined as *financing from a private entity, on commercial terms, secured by an MDB, for an MDB-financed operation.* First, the definition requires that the financing is provided by a private entity. This may include, in some instances, public entities deemed as private if they have financial and managerial autonomy.[6] Second, the definition requires that financing be offered at market prices and conditions, which means that mobilization of resources in concessional terms is not considered PFM (e.g., grants or loans priced below market rates). Third, the definition calls for the participation of the MDB in the transaction, and depending on its role, PFM will be considered direct or indirect.[7]

2.3 Based on the role of the MDB, PFM is divided into direct and indirect. Direct PFM requires verifiable evidence of the MDB active and direct involvement leading to the investment commitment of other co-investors (e.g., through a fee or mandate letter). Indirect PFM is financing from private entities that happens in parallel to the MDB commitment. In such case, another party leads the structuring, and the MDB is only a co-investor in the operation. Some argue that the presence of an MDB in an operation, even

5 Based on the document "From Billions to Trillions: Transforming Development Finance" jointly prepared in 2015 by the AfDB, the ADB, the EBRD, the EIB, the IDB, the IMF, and the World Bank Group, the MDBs agreed on a methodology to calculate and jointly report private investment mobilization. The IDBG also explicitly uses this methodology for PFM reporting in the IDBG's Corporate Results Framework (CRF) 2020-2023.

6 A private entity is defined as a legal entity that is: (a) carrying out or established for business purposes and (b) financially and managerially autonomous from national or local government. Some public entities that are organized with financial and managerial autonomy are counted as private entities. Other examples include registered commercial banks, insurance companies, sovereign wealth funds and other institutional investors investing primarily on a commercial basis. Source: MDBs, "Harmonized Definition of Private Finance Mobilization," 2018.

7 Evidence of active and direct involvement include mandate letters, fees linked to financial commitment or other validated or auditable evidence of MDB's active and direct role leading to commitment of other private financiers.

if not playing an active structuring role, induces private parties to co-invest due to the so-called seal of approval or halo effect, which has led MDBs to track not only direct but also indirect PFM.

2.4 PFM can be structured at the operation, portfolio, or platform levels. The most common is at the operation level. This involves bringing in additional private financiers to a particular investment operation (i.e., deal-by-deal basis through a syndication, a B-loan, or a similar instrument). PFM can also be structured at the portfolio level. This involves processes in which an MDB first structures a group of operations, funds them with its own resources, and later sells a pool of assets to other financiers. This approach is convenient for institutional investors (e.g., pension funds) who do not have the capacity or appetite to invest in single assets. Portfolio-level PFM can also occur when an MDB tries to do a balance sheet or capital optimization by selling portfolio risk participations to commercial investors. Finally, PFM can also be structured at a platform level. In these cases, MDBs set up structures (e.g., an IDBG-managed fund) with pre-defined investment guidelines, parameters, and operational mechanisms so potential co-investors can co-finance transactions with lower transaction costs than appraising individual projects.

2.5 PFM can be analyzed from the perspective of international or domestic co-investors. Initially, MDBs' PFM efforts were catered to international investors (e.g., international banks) to bring in external resources for operations in countries where domestic financiers do not provide sufficient or adequate funding. In this sense, MDBs tried to address market failures that prevented international financiers from investing in borrowing countries (e.g., information asymmetries, weak regulatory frameworks, etc.). However, more recently, as borrowing countries have developed their own capital markets and more local financing is available, MDBs are also exploring PFM approaches to crowd-in local investors (both institutional investors and commercial banks) into development projects.

2.6 Over the course of this stocktaking, OVE found that, while different, the terms "mobilization" and "PFM" are often used interchangeably within the IDBG. PFM is only one of the mobilization types that the IDBG uses. According to the IDBG's Second Update to the Institutional Strategy 2020-2023 (UIS), mobilization is: (i) engaging third-party funds, which may be reimbursable or non-reimbursable; (ii) enhancing domestic resources mobilization by helping countries maximize their own resources and strengthen local financial and capital markets; and

(iii) mobilizing private finance from commercial sources including institutional investors through de-risking and co-investment.[8] PFM corresponds to the third component of the definition.

B. Catalyzation: a complement to PFM

2.7 From the development perspective, PFM is only one of the tools used to falicitate private investment. MDBs also work with governments and market actors to improve the investment climate and expand the pool of bankable projects, which is commonly referred to as *catalyzation*. It can include sector reforms, strengthening regulatory frameworks, and making critical investments in infrastructure to support market functioning (see Box 2.1). These types of activities are often key in enabling PFM and unlocking capital flows.

Box 2.1. Catalyzation

Catalyzation activities include:

Creation of market infrastructure, which refers to critical public investments needed for a market to flourish (e.g., investments such as transmission lines needed for private energy generation; secondary road networks that feed traffic for toll roads; and irrigation or flood management infrastructure needed for agriculture production.).

Investment facilitation, which includes support to policy reforms in specific sectors (e.g., by upgrading investment regulations, rationalizing administrative procedures, and reforming financial markets.). This is expected to help countries remove investment roadblocks and attract domestic and international capital flows.

Source: OVE, "Approach Paper Stocktaking of Private Finance Mobilization at the IDBG," 2023; MDBs, "Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions," 2017.

2.8 Among the MDB community, including at the IDBG, there is discussion about the extent to which private investments unlocked through catalyzation activities should be counted as part of PFM. The rationale is that catalyzation activities share a common objective with PFM: to facilitate private investment for development. To date, there is no consensus on how to account for these amounts and attribute them to a particular MDB effort. Compared to PFM, the investment amounts unlocked through catalyzation are more difficult to track due to attribution issues, such as: (1) less explicit documentary evidence to prove MDB attribution, and (2) the presence of external factors explaining results. To date, the MDB consensus is to only consider the investments that can reasonably be credited to an MDB

8 IDBG's Corporate Results Framework 2020-2023 and the Second Update to the Institutional Strategy 2020-2023).

intervention as PFM. However, in the context of the discussions of the new Institutional Strategy, the IDBG is developing the concept of "catalyitic mobilization" to conceptually capture the effects of catalyzation activities. In the course of this stocktaking, OVE found a lack of consistency in the way PFM is understood among staff, particularly at the IDB. In these cases the term "PFM" has a broder meaning, and is also associated to all the activities that the Bank conducts to facilitate private investments in borrowing countries.

C. PFM at the IDBG

2.9 The Second Update to the IDBG's Institutional Strategy (UIS) 2020-2023 (document AB-3190-2) made mobilization an area of operational emphasis. The UIS considered all types of mobilization (see paragraph 2.2) with the aim of obtaining additional resources to close financing gaps for achieving the SDGs. The UIS outlined a three-pronged approach for the IDBG to work on mobilization, with PFM as one of the pillars. The PFM pillar aimed "to mitigate the risks and address the market failures that hinder the commercial viability of riskier operations and lower income clients and countries."[9] The UIS was prepared within the context of IDBG commitments to the international community, as explained in Box 2.2.

Box 2.2. IDBG's PFM commitments with the international community

In 2017, the finance ministers of the G20 endorsed the principles of crowding-in private sector finance to give MDBs a common framework for increasing private investment in support of countries' development objectives. As a result of these agreements, MDBs produced the Joint MDB Statement of Ambitions for Crowding-in Private Finance (known as the Hamburg Declaration of Principles and Ambitions), specifying actions to operationalize PFM. In the context of the Hamburg Declaration, the IDBG committed to aligning mobilization definitions and reporting systems and to creating incentive-compatible mechanisms to reward staff for operations that generate private investment mobilization, among other things.

Source: G20, "Principles of MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development," 2017.

2.10 In 2020, the IDBG approved a Mobilization Roadmap (document GN-2988-1), outlining the operational priorities to increase mobilization capacity and volumes. The objective of this four-year Roadmap, applicable to all types of mobilization, including PFM, was to increase mobilization in all borrowing member countries.

9 Underlying this objective is the view that private finance for projects in member countries is limited because either the risk (real or perceived) is too high, or the financial return is too low. Thus, IDBG aimed to use projects risk/return profile to attract co-investors to projects.

To do so, it defined five lines of action: (1) programming and project origination, (2) engaging partners and providing partnership services, (3) developing innovative instruments, (4) creating internal incentives, and (5) tracking mobilization results.[10] The IDBG used this roadmap for both SG and NSG operations. Box 2.3 summarizes what was expected under each line of action.[11]

Box 2.3. IDBG's Mobilization Roadmap lines of action

1. **Programming and Project Origination:** The IDBG expected:

- Having mobilization reflected in sector and country plans, beyond the analyses of coordination with other financial institutions that were currently reflected at the time. With this analysis, the Group aimed to identify financial gaps and priorities for additional financing to facilitate strengthened engagement with financiers and private investors.
- Enhancing the number and volume of bankable projects that could be financed by multiple co-investors.
- Developing new operational modalities, including portfolio and platform mobilization. This consisted of revisiting and prioritizing guarantee instruments, as well as exploring new financing structures in which the IDBG retains a subordinated stake, including conversions to a first loss guarantee to crowd-in private financing.

2. **Engaging Partners and Providing Partnership Services:** This action aimed at expanding the co-investor base and cultivating deeper relationships. The IDB set as Key Performance Indicator (KPI) the number of new and recurring partners.
3. **Developing innovative instruments:** Here the IDBG aimed at enhancing the overall mobilization toolkit. PFM associated innovations pointed at tools that would de-risk investment projects like first loss guarantees and liquidity backstops. The IDBG set as KPI the number of new instruments.
4. **Creating internal incentives:** The IDBG sought to reorient internal incentives toward the mobilization of external resources, rather than exclusively prioritizing the deployment of its own financing. This action included identifying and rewarding internal champions and prioritizing training.
5. **Tracking mobilization results:** The priority was to develop mobilization metrics to gauge mobilization results and reward teams based on mobilization performance. In addition, the idea was to establish a consolidated measurement approach in line with international standards. The IDBG set as KPI the number of external reports.

Source: IDBG Mobilization Roadmap 2020-2023.

10 IDBG, "IDBG's Mobilization Roadmap 2020-2023" (document GN-2988-1), 2020.

11 Building on the 2020 Roadmap, in 2022, the Group conducted an analysis of its role in private sector and mobilization efforts (document GN-3066-3). This analytical paper reaffirmed the priorities of developing innovative PFM instruments, establishing project preparation facilities, increasing co-financing, enhancing incentives, and monitoring mobilization outcomes.

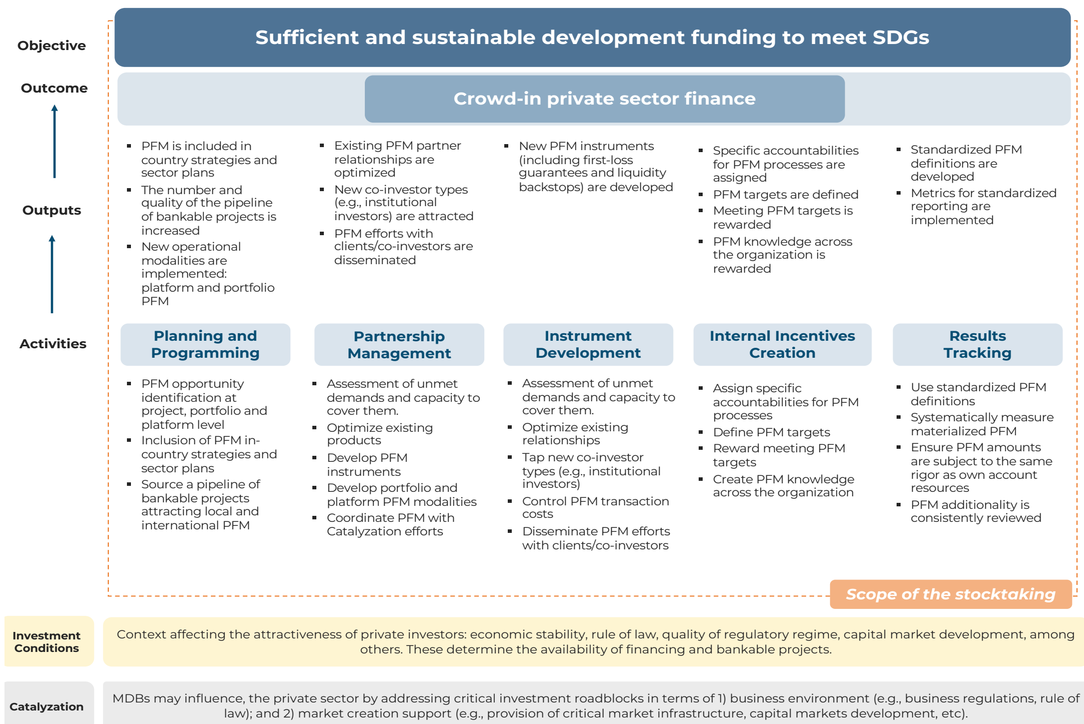
D. PFM analytical framework

2.11 Based on a review of relevant IDBG documents, OVE reconstructed the analytical framework implicit in the IDBG PFM efforts. Figure 2.1 shows that the IDBG focused on five lines of action, which were derived from the Mobilization Roadmap (document GN-2988-1): (1) PFM programming and planning, (2) engaging PFM partners (clients and co-investors), (3) developing innovative PFM instruments, (4) creating PFM incentives, and (5) tracking PFM results. By conducting these activities, the IDBG expected to crowd-in private sector finance towards development projects, which in turn would lead to the ultimate goal of having sufficient and sustainable funding to meet the SDGs.

Figure 2.1

OVE´s reconstructed analytical framework

Source: OVE, 2023*.



Note: *Based on IDBG, “IDBG’s Mobilization Roadmap 2020-2023,” (document GN-2988-1) 2020; IDBG, “Second Update to the Institutional Strategy” (document AB-3190-2), 2019; IEG “World Bank Group Approaches to Mobilize Private Capital for Development,” 2020.

2.12 The reconstructed analytical framework also reflects how countries’ investment conditions affect IDBG’s PFM capacity. PFM requires countries to have minimum investment conditions that allow MDBs to direct private capital to development projects. Investment climate variables may include economic stability, rule of law, quality of regulatory regime, and capital markets development, among others. These enabling conditions determine the availability of bankable projects in each country. When analyzing PFM operationalization, OVE considered the effect of countries’ investment conditions as factors that influence the organization’s capacity to conduct PFM.

03

Strategic Approach to PFM

3.1 This chapter analyzes key aspects of the strategic approach that guided the IDBG's PFM efforts. The first section reviews the relevance of the objectives and strategic approach of the IDBG as a whole derived from the main IDBG documents on PFM, in particular the extent to which such approach was adequate in guiding PFM efforts towards achieving development effectiveness and efficient use of resources. The second section discusses the strategic approach adopted by IDB Invest, while the third examines the strategic approach at the IDB.

A. The IDB Group

3.2 Following the joint MDB Hamburg Declaration, the IDBG set out to operationalize PFM with a focus on increasing mobilization volumes as well as promoting de-risking operations. The IDBG Mobilization Roadmap (document GN-2988-1) defined five lines of action covering activities related to mobilization planning, instruments, partnerships, organizational setup, and tracking. These activities, which included PFM, aimed to generate outputs that were expected to crowd-in private sector financing and thus contribute to the goal of having sufficient and sustainable development funding for meeting the SDGs, as shown in Figure 2.1 above. In addition, for PFM, the Group aimed at de-risking projects to make riskier operations and lower-income clients and countries commercially viable.

3.3 However, the five lines of action were not anchored in a strategic framework to guide PFM utilization and prioritization. The World Bank Group, for example, has the Cascade Approach to guide the allocation of PFM and reserve MDB resources to areas where the private sector is unable or unwilling to invest. The Cascade first seeks to mobilize commercial finance, enabled by upstream reforms where necessary. Where risks remain high, the priority is to apply guarantees and risk-sharing instruments. Official and public resources are applied only where market solutions are not possible through sector reform and risk mitigation.[12] This framework allows the organization to guide the allocation and prioritization of PFM vis-á-vis internal MDB resources.

3.4 The lack of an IDBG strategic framework for PFM and explicit development objectives led to an output-oriented focus. The Roadmap focused on the process of PFM and measuring basic outputs like the number of mobilization partnerships, new instruments, and adopting reporting standards. This showed the organization's intention of overcoming inertia and enhancing mobilization (including PFM) capacity. However, it did not

12 Forward Look: A Vision for the World Bank Group in 2030—Progress and Challenges, The World Bank Group 2017.

delineate what development objectives the instrument was expcted to contribute beyond generating more private financing. A strategic framework with explicit development objectives for PFM is important to guide use and prioritization.

3.5 In addition, the criteria for using PFM instruments were often vague and revealed trade-offs that were neither fully considered nor addressed. The Roadmap provides too little guidance on several aspects. For instance, instruments such as first-loss guarantees have higher capital requirements compared to other PFM tools, but the document does not provide criteria for their use and prioritization. Equally, it does not provide clarity as to when to fund projects with own account resources vs. with PFM. Finally, OVE found that guidance was lacking on how to focus catalyzation interventions (e.g., investment climate reforms) where private investment is not yet feasible; identifying PFM potential in key sectors and countries; developing a strong pipeline of PFM projects; and using PFM instruments strategically (i.e., with resource efficiency in mind).

3.6 Finally, there was no guidance on coordination activities between the IDB and IDB Invest to foster PFM. The Mobilization Roadmap acknowledged the significance of sector and country investment conditions as enabling factors for private investment and PFM. However, it fell short of defining actions to systematically coordinate between the IDB and IDB Invest along a continuum that would go from catalyzation-type interventions to individual PFM transactions. OVE found some examples of coordination between IDB and IDB Invest, but they appeared to be ad-hoc and not systematic. Box 3.1 presents one of these examples.

Box 3.1. Chile case: IDBG support to the electric sector in Chile

In August 2023, IDB Invest closed a US$1.3 billion transaction in the Chilean electricity sector of which 90% was direct PFM. This operation was the result of a series of coordinated IDBG interventions.

Context: During the last 10 years, Chile's electricity sector has made significant investments in renewable energy sources (e.g., solar and wind projects). These investments are expected to yield a reduction in electricity costs over the medium term. However, to stabilize short-term energy prices for end-users (which contributed to social unrest in 2019), the Government of Chile partnered with the IDBG to find a bankable solution that could be financed by the private sector.

Law: In late 2019, the Chilean Government passed Law 21.185 to generate relief for electricity end-users by advancing cost reductions of new energy technologies and stabilizing prices to end users. The new law entailed a financing gap from energy distribution to energy generation.

The IDBG catalyzation support: Over the last 10 years, the IDB has provided advice to the Government through recurrent technical cooperations and policy-based lending to support advancing the regulatory framework for clean energies and unlock investments in renewable energy generation. For its part, IDB Invest worked with companies in the energy sector to prepare a bankable framework for financing the stabilization of prices. This work was critical in preparing the groundwork to set up a successful transaction.

PFM transaction: IDB Invest has concluded two successful mobilizations in this case. The first one in 2021 raised US$394 million from institutional investors, and the second one under a B-Bond structure, raised an additional US$1,106 million. For the August 2023 transaction, early engagement of the IDB Invest mobilization team proved critical to devising a financial structure that would allow capital markets participants to enter the transaction.

Conclusion: IDB Invest was able to set up such an ambitious transaction, in part, because the country had an investment grade risk rating and an adequate investment environment. But, it also benefitted from IDBG (both IDB and IDB Invest) catalyzation work in preparing the regulatory framework. Thus, prior engagement with the government and market participants facilitated PFM.

Source: OVE, with information from the Economist Intelligence Unit and Chile's Independent Country Program Review, 2022.

B. IDB Invest

3.7 In addition to strategic guidance at the Group level, IDB Invest benefited from having mobilization embedded in the objectives that led to its creation. The Renewed Vision (CA-556)[13] is IDB Invest's main strategic document. It lays out the operation principles for the organization. Mobilization appeared as one of the five impact channels for the organization. IDB Invest expected that it would conduct mobilization at scale and play a role in attracting investors to the region.[14] More quantitatively, the Renewed Vision set a projection of mobilizing US$65 billion over a 10-year period (2015-2025) or 1.9 times the amounts to be financed with IDB Invest's own account (US$34 billion). Unfortunately, this projection did not separate between direct and indirect mobilization and did not separate between PFM and mobilization of public sector resources, instead giving an order of magnitude of the overall mobilization goal.

3.8 IDB Invest's annual business plans reflected PFM's increased strategic importance amid capital constraints. Priority increased when the pandemic revealed IDB Invest's capital limits, and it sought to become a mobilization-focused organization. Its 2020-2022 Business Plan (document CII/GA-80-2) stressed the need

13 This document refers to the Governors' resolution that approved the consolidation of the IDBG's private sector operations in the Inter-American Investment Corporation or IDB Invest. Inter-American Investment Corporation, "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDBG Private Sector Merge-Out," 2015.

14 Paragraph 2.2 of the document "Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDBG Private Sector Merge-Out," 2015.

to become an asset manager, not just a pure lender. One of the most important changes brought about by this aspiration is that the organization changed its operational success metric from own resources to include mobilized amounts. At the same time, it recognized that prioritizing mobilization would affect project structuring, product creation, and client relationships. Hence, subsequent business plans aimed at providing guidance for designing projects for mobilization, attracting more co-investors, and creating new PFM products.

3.9 More recently, the new business model proposal for IDB Invest aims to guide an "originate to share business model." This model consists of maximizing mobilization so that IDB Invest retains at least a minimum exposure required to track the impact of an investment and work with the client to manage development objectives through repayment. The model also reflects the idea of freeing up capital to finance high-impact projects outside the risk-appetite range of co-investors.

3.10 The business plans provided useful but still limited guidance for IDB Invest to jump start and begin prioritizing PFM. First, as PFM volumes have naturally concentrated in larger economies with better risk ratings, business plans provided little clarity on how IDB Invest would introduce PFM mechanisms to enhance mobilization in smaller countries or riskier economies. Second, while IDB Invest highlights that there is a need to increase upstream advisory for broadening the availability of bankable projects,[15] there is currently little guidance on how to facilitate PFM in sectors and countries where investors have more difficulty arriving on their own (i.e., without MDB or policy support).

3.11 In terms of efficiency, OVE found that current strategic documents do not provide sufficient criteria to optimize PFM. PFM de-risking tools (financial and non-financial) can be resource-intensive in terms of people, processes, and systems. In the case of financial de-risking (e.g., taking subordinated tranches or first-loss) capital is required for the risk-absorption function. So far, IDB Invest does not have a framework to optimize PFM and ensure that the organization chooses

the funding mechanism (either through own account or PFM) that best meets the dual mandate of the organization (maximize impact within a framework of financial sustainability).

15 According to IDB Invest's capitalization proposal upstream advisory includes "activities to strengthen transactions, clients, and markets that are not yet bankable, and ensure its impact goes beyond that of individual projects and generates change at the sector or country level."

C. The IDB

3.12 The IDB has not developed specific guidance to implement PFM beyond the strategies and roadmap produced at the Group level. The IDBG's Update of the Institutional Strategy (document AB-3190-2) only offers a general overview of the Group's mobilization approach. The Mobilization Roadmap (document GN-2988-1), which was designed to provide operational orientation, had too broad of a scope to guide PFM in SG operations. Despite these limitations, it stated the intention of developing innovative instruments to leverage IDBG capital to crowd-in private investors, a goal that was applicable to both the IDB and IDB Invest.

3.13 Compared to the mobilization of resources from public sector partners and donors, PFM at the IDB is a less explored area. The IDB historically has focused on mobilizing resources through grants, co-financings, and parallel lending at concessional terms from partner governments, public finance institutions, or private sector foundations. For example, during the 2016-2022 period, these efforts led to US$6.6 billion in additional financing, which has been executed through over 1,100 operations, including a mix of technical cooperations, loans, and grants. This type of mobilization benefits from processes, systems, and personnel to (1) attract these funds, (2) facilitate the dialogue between partners and operation teams, (3) supervise and manage the deployment of mobilized resources, and (4) conduct the accounting and reporting.

3.14 The IDB business model affects the availability of SG PFM instruments, but the potential to broaden the PFM toolkit has not been sufficiently discussed. MDBs and commercial investors operate under different rules in SG operations, which affects their pricing and risk profiles. An MDB typically charges a uniform price to all countries served (i.e., all borrowers pay the same "cooperative" rate) and benefits from preferred creditor treatment (PCT). In contrast, private investors charge risk-based rates (which will typically differ for different countries) and lack PCT. These differences make using traditional PFM co-financings or B-loan structures in an SG context less straightforward. As a result, MDBs have relied on guarantees (including UCPs) as the main PFM instrument. Interviews with experts and staff from IDB and other MDBs showed that the options to broaden the SG PFM toolkit beyond guarantees and UCPs have barely been discussed. For the IDB, this lack of discussion occurred despite the Mobilization Roadmap expectation of exploring new PFM products.

3.15 In sum, conducting PFM in the context of SG operations presents challenges for the IDB to consider when refining its approach to PFM. Elements to be considered include: (1) a definition of the instrument toolkit for PFM (i.e., identifying if there are instruments other than guarantees to conduct PFM); (2) the specific organizational and administrative resources allocated to develop a SG PFM portfolio; and (3) how to analyze the PFM potential in countries and sectors. From the monitoring point of view, OVE found that there are no quantitative estimates of the PFM potential. For example, during interviews, OVE found that staff do not have an order of magnitude of the investments that can be facilitated through PFM.

04

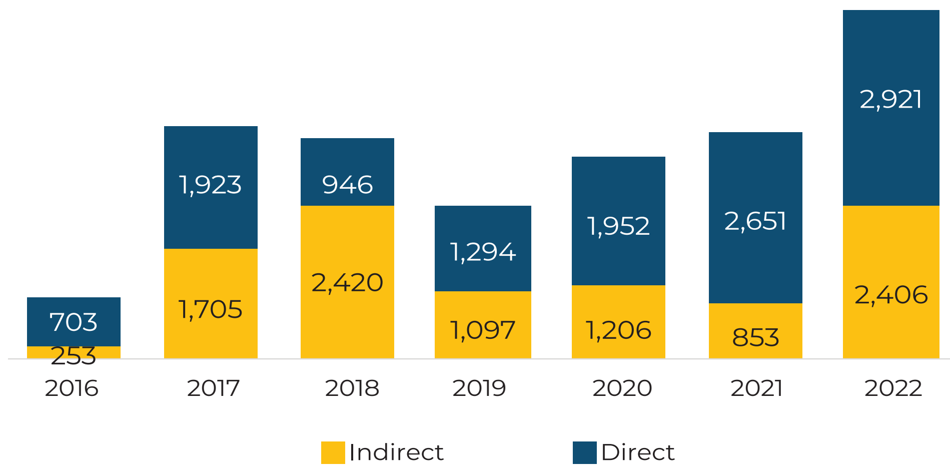
PFM at the Operational Level at IDB Invest

4.1 This chapter analyzes how IDB Invest has operationalized PFM. The first section presents an overview of the PFM portfolio. The second analyzes how the five lines of action adopted by IDBG have been operationalized in IDB Invest: (1) planning and programming, (2) partnership management, (3) PFM instrument development, (4) Internal incentives creation, and (5) results tracking. OVE analyzed PFM at the operation, platform, and portfolio levels whenever possible.

Figure 4.1

Evolution of Comitted Amount (US$ millions) for Direct and Indirect PFM

Source: OVE, based on data from IDB Invest.



Note: Blended Finance is excluded from the numbers presented in these figures.

4.2 During the analysis period (2016-2022), IDB Invest conducted 213 operations with a PFM component (direct and indirect) that totaled US$22.3 billion, an amount equivalent to 73% of IDB Invest's own account commitments over the period.[16] Of this, US$12.4 billion (or 55.5% of the total PFM), equivalent to 173 operations (81% of the total), corresponded to direct PFM. That is, an operation that benefited from third-party resources attributable to IDB Invest action as evidenced by a fee, a mandate letter, or a similar document. The remaining US$9.9 billion (40 operations) corresponded to indirect PFM in the form of parallel lending that accompanied IDB Invest operations (in which the organization did not have a leading role in these operations).

4.3 When analyzing IDB Invest's portfolio, OVE focused on long-term[17] direct PFM (LTD-PFM). Overall, long-term finance is scarcer compared to short-term. This type of PFM is the most challenging to attain, and the most needed type of resources to close financing gaps. With respect to direct PFM, by definition, it is more attributable to IDB Invest's efforts and is the metric

16 The percentage is 176% if only long-term commitments are considered.

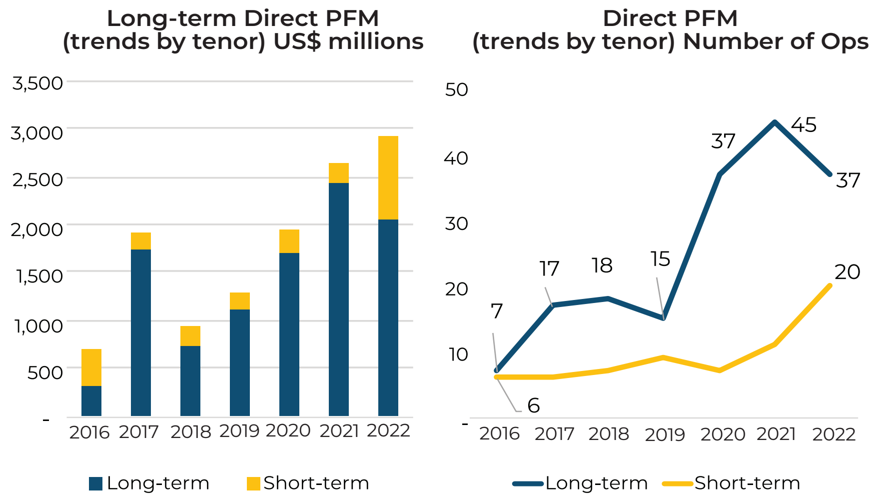
17 In the IDBG Long-term finance is referred to operations with tenor greater than 12 months.

that IDB Invest tracks as a KPI to account for PFM efforts. Most IDB Invest operationalization efforts and resources have been devoted to this type of mobilization.

Figure 4.2

Evolution of LTD-PFM by tenor

Source: OVE with data from IDB Invest.

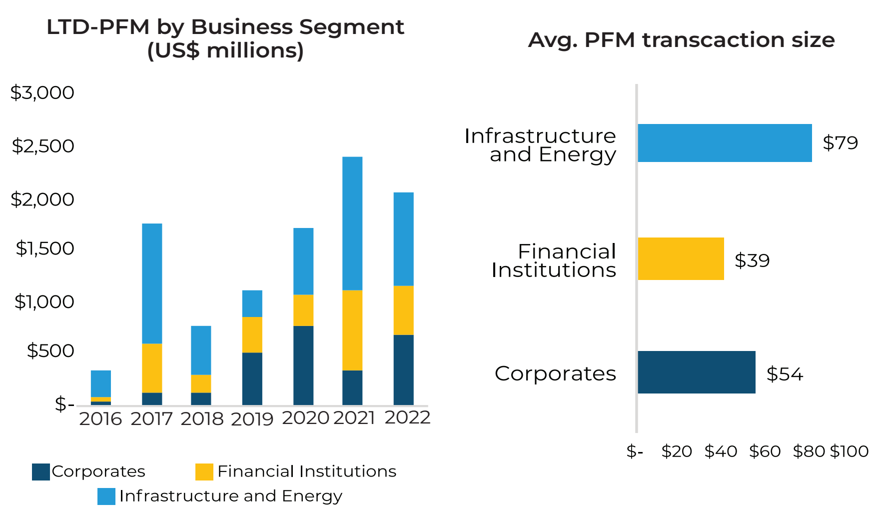


4.4 LTD-PFM commitments corresponded to US$10.1 billion, equivalent to 79% of the total number of PFM operations and 81.3% of the total volume. Short-term direct PFM totaled US$2.3 billion during the period, explained primarily by the mobilization of commercial banks to the Trade Finance Facilitation Program (TFFP).[18] The share between ST and LT direct PFM remained relatively stable during the period, except for 2022, when the mobilization in the TFFP program hit a historic maximum due to client demand and additional mobilization efforts in the context of the post-pandemic recovery (see Figure 4.2).

Figure 4.3

Evolution of LTD-PFM by segment

Source: OVE with data from IDB Invest.



18 The TFFP is a program under which IDB Invest provide short-term loans to local banks to finance portfolios of eligible trade transactions, at the same it provides credit guarantees to global banks to mitigate any risk associated with trading instruments issued by banks in LAC. The TFFP network is comprised of approximately 100 banks in the Latin American and Caribbean region and over 100 correspondent banks worldwide.

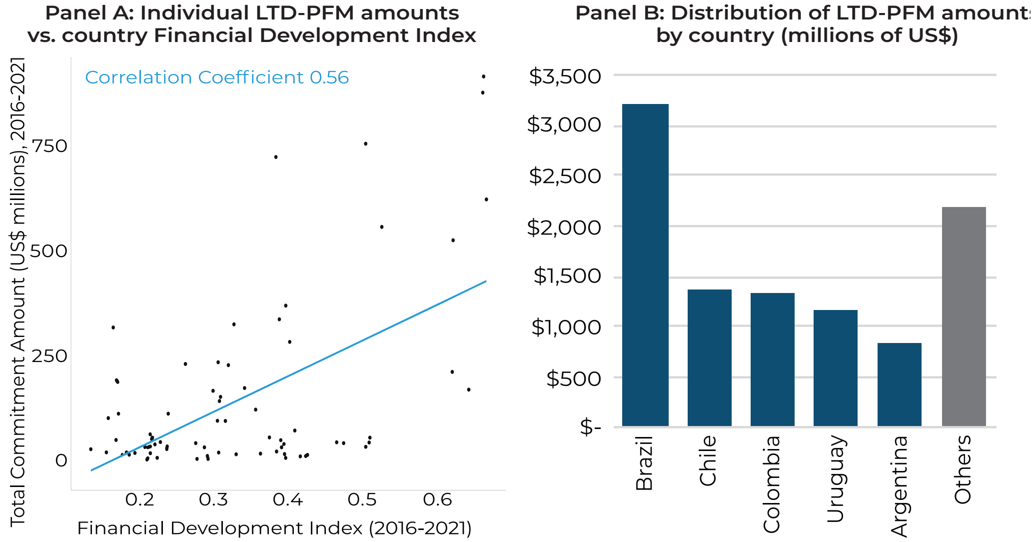
4.5 By segments,[19] the infrastructure and financial institutions (FI) segments used LTD-PFM similarly, but infrastructure had much larger operation sizes (see Figure 4.3). The infrastructure segment had 38% of the LTD-PFM operations and FI had 39%. But the volume gap was large. While Infrastructure had almost 50% of the LTD-PFM volume, FI had only 26%. Infrastructure volumes were higher because these projects typically need more co-investors with larger co-investments (US$79 million versus US$39 million in FIs and US$54 million in corporates). Corporates had 24% of the operations and 25% of the LTD-PFM volume. This is because it was a new business segment (created in 2016), and PFM operations in this segment only gained traction after 2019.

4.6 LTD-PFM volumes were concentrated in A and B economies or countries with better risk ratings, more so than IDB Invest's own account portfolio. The top five countries in the own account portfolio had 71% of the volume, while the top five countries in the PFM portfolio (see Panel B of Figure 4.4) had over 78% of the volume. These were A and B countries (Brazil, Chile, Colombia) and economies with a rating above "BB-" (Brazil, Chile, Colombia, and Uruguay). The exception is Argentina, which has a sovereign risk rating below "B". However, most of its PFM volume (75%) was mobilized in 2016-2018, when its risk rating was "B" or better. In addition, countries with more developed financial markets attracted larger PFM operations (Panel A of Figure 4.4), which is an expected finding given that PFM potential largely depends on countries' investment conditions.

Figure 4.4

PFM concentration by country and financial market development

Source: OVE with data from IDB Invest and IMF Financial Market Development Index



Note: Mobilization ratio is the amount of PFM per dollar of own account.

19 IDB Invest segments are infrastructure and energy, financial institutions, and corporates.

B. Implementation

1. Planning and programming

4.7 This dimension consists of how IDB Invest incorporated PFM in its operational planning. For example, the IDBG Mobilization Roadmap (document GN-2988-1) indicated that mobilization planning entails identifying financing gaps and priorities for mobilization. In addition, it stated that mobilization must be integrated as a key element of the plans of each country and each sector.[20]

4.8 PFM planning is crucial to addressing the specific investment barriers of each country and create a pool of bankable projects. As shown in the previous section, co-investors favor less risky or larger markets with scale benefits. Therefore, the organization needs to plan strategically to not only increase volumes, but also overcome market failures and attract co-investors to overlooked countries and sectors. For this, IDB Invest can use its additionality to: (1) reduce information gaps, (2) modify project risk profiles, and (3) collaborate with clients to create viable projects.

4.9 At the operation level, IDB Invest planning has shifted from a demand-driven approach to mobilization-ready structures, facilitating PFM mainstreaming. During the first years of operation (2016-2019), IDB Invest mostly did PFM on demand. As PFM became more central (2020 onward), IDB Invest shifted its operational design to incorporate PFM as a feature. For instance, the value proposition of the FI segment now includes PFM as a default feature. In fact, the data shows that FI transactions with a PFM component have risen steadily since 2016.[21] Likewise, in the infrastructure segment, Management indicated that it now originates transactions with PFM in mind. To do this, IDB Invest's Resource Mobilization Unit (RMB) is seeking to engage earlier in the operation design and set the financial structure (instrument, tenor, security, and pricing) with an eye on making it viable for co-investors investors.

4.10 However, PFM potential at the country level is not systematically assessed. OVE used computer-assisted text mining to review the 50 CS valid during 2016-2022 and examine if PFM was being considered. CS systematically included IDB SG interventions for enhancing investment climate and regulations. However, they do not analyze PFM potential, except for specific cases of projects that could include PFM. OVE did not find an analysis of: (1) the extent to which countries' investment environment

20 IDBG, "IDBG's Mobilization Roadmap 2020-2023," (document GN-2988-1), 2020.

21 The percentage of long-term FI operations with a PFM component increased from 20% for the period between 2016-2019 to 50% in the period between 2020-2022.

affected PFM viability, (2) co-investor demand, (3) the capacity of countries to produce bankable projects, or (4) an assessment of how PFM could affect local financial markets. The Mobilization Roadmap explicitly indicated that the Group would conduct planning at the country and sector level focused on "identifying financial gaps and priorities for additional financing."

2. Partnership management: co-investors

4.11 Attracting co-investors implies cultivating a co-investor base diverse enough to make financing available in sufficient amounts and in the terms and conditions demanded by development projects. For example, IDB Invest's 2023 Business Plan Update (document CII/GA-84-2) recognized the need to attract new co-investors as one of PFM's priorities. A potential target often mentioned in literature are institutional investors, such as pension funds, insurance companies, and international and domestic capital markets, who can support development projects with adequate amounts and longer tenors, especially for sustainable infrastructure.[22] This section analyzes how IDB Invest has managed its co-investor base to offer financing in the terms and conditions demanded by development projects.

4.12 Bringing in co-investors entails supporting them to overcome investment barriers. Co-investors face challenges when investing in the region due to market failures, information asymmetries, and less-than-optimal investment climates. Challenges mainly involve country risk, lack of regional knowledge, and project-specific financial and non-financial risks that reduce investment appetite. IDB Invest has a role in helping co-investors overcome these challenges. Table 4.1 shows a proposed framework for the potential IDBG support to co-investors. These tools aim to meet their investment, financial structure, and risk appetite needs.

Table 4.1. IDB Invest support to co-investors

Types of risks co-investors need to address	Potential IDBG support
Financial risks • Client and market knowledge • Transaction structure • Foreign exchange (FX) risk	**Client knowledge:** Given its field presence and LAC and sectoral knowledge, IDB Invest provides critical support in selecting credit-worthy clients. **Transaction structure:** This entails providing high quality transactions in terms of loan structure, security package, and financial covenants. **FX risk:** IDB Invest can provide local currency solutions to reduce the exposure to FX risk.

22 See, for example, Kahn, Charles M., Anderson Caputo Silva, and Gonzalo Martinez Torres. Literature Review and Framework for Institutional Investor Mobilization. World Bank, 2023.

Types of risks co-investors need to address	Potential IDBG support
Non-financial risks · Integrity · Corporate Governance · Environmental and social (E&S) risk	**Client knowledge:** Given its field presence and LAC and sectoral knowledge, IDB Invest provides critical support in selecting credit-worthy clients. **Transaction structure:** This entails providing high quality transactions in terms of loan structure, security package, and financial covenants. **FX risk:** IDB Invest can provide local currency solutions to reduce the exposure to FX risk.
Pipeline construction and sharing	Interviewed co-investors did not cite pipeline sharing as a main attribute of IDB Invest's value added, but when asked, they would appreciate more consistency in sharing pipeline and transaction opportunities.
Risks mitigated through upstream work · Client preparation · Legal framework · Regulations · Rule of law	**IDB Invest level interventions:** Working with clients and/or industry associations to build capacities to structure mobilization ready structures. **IDB (SG operations) policy level interventions:** Working with governments in strengthening conditions for private sector investment (e.g., competition laws, regulations, and institutions; tax and royalty policies; judicial integrity; market access rules and trade facilitation policies). **IDB (SG operations) market-level interventions:** SG loans to provide public goods such as transmission expansion and dispatch capacity in the power sector needed for private power generation; secondary road networks that feed traffic for toll roads; and regulating dams that allow for hydroelectric facilities downriver. Similarly, public investment to deepen market participation across sectors (among others, energy, agriculture, tourism).

Source: OVE with information obtained from input and interviews with co-investors and staff.

4.13 During the analysis period, IDB Invest accessed two broad categories of co-investors: commercial banks and institutional investors. Commercial banks can be divided into international banks (i.e., banks with capital that is not from LAC) and regional and local banks (i.e., banks originally from the region). The second category (institutional investors) includes a wide array of companies: (1) insurance companies, (2) pension funds, (3) private credit and equity investors, (4) impact investors, and (5) capital markets participants.

4.14 International commercial banks have been the backbone of IDB Invest's co-investor base and have accounted for 51.4% of the LTD-PFM amounts during the analysis period albeit in a concentrated structure. IDB Invest did US$5.2billion of LTD-PFM with 39 banks. Five banks (13%) concentrated 54 of the 129 operations with this investor type. Two banks were IDB Invest's top partners in 31 operations with US$1 billion and US$200 million co-investments, respectively. This result is expected since IDB Invest began with a limited PFM set-up and few international banks as co-investors.

4.15 However, commercial banks face regulatory restrictions that impose a limit on their risk absorption capacity, and their ability to match the financial terms and conditions projects need. Most of the LTD-PFM volume with international banks went to A and B countries and/or jurisdictions with better risk ratings. These countries concentrated over 80% of the PFM amounts that had an international bank as co-investor. This is because international banks face regulatory and risk limitations. For instance, capital adequacy regulations raise the cost of investing in longer tenors (over five or seven years), in riskier operations (risk rating below "BBB+"), and in overseas markets. This reduces the supply of co-investors and their capacity to address projects' needs. In addition, some jurisdictions do not fully recognize the regulatory benefits of MDB co-financing (e.g., the preferred creditor status (PCS)). Box 4.1, presents Citibank's (a global bank) suggestions for MDB reform so that they can participate in more PFM transactions.

Box 4.1. Citi's priorities for MDB reform

Citi, a leading global financial institution, released a paper advocating for reforms within MDBs and DFIs to mobilize private capital. Citi emphasizes the crucial role of cooperation and work between MDBs/DFIs and the private sector to address MDB's capital constraints and achieve the SDGs.

Therefore, Citi proposed reforms/actions based on the G20 CAF report[a] into five topics: product reform, program expansion, requests to shareholders and regulators, access to donor funding, and staff incentives.

Citi envisions that MDBs should aim at conducting:

(1) product reforms that entail, MDBs taking subordinated tranches to enhance operations' rating, offering political guarantees, improving the flexibility of contracts, taking construction risk in infrastructure products, and other actions. **(2) expansion of their lending program** by doing capital recycling (e.g., through portfolio PFM), pushing for private sector enabling reforms, increasing the use of blended finance, and so forth. **(3) supporting co-investors with regulatory reform**, especially by sharing portfolio risk data and working with regulators to give more credit to MDB supported structures, **(4) enhancing access to donor funding**, and **(5) incentivizing PFM**, especially by shifting the incentive focus from "own account lending" to overall lending.

[a] G20, "Boosting MDB's investing capacity: An Independent Review of Multilateral Development Bank's Capital Adequacy Frameworks," 2022..

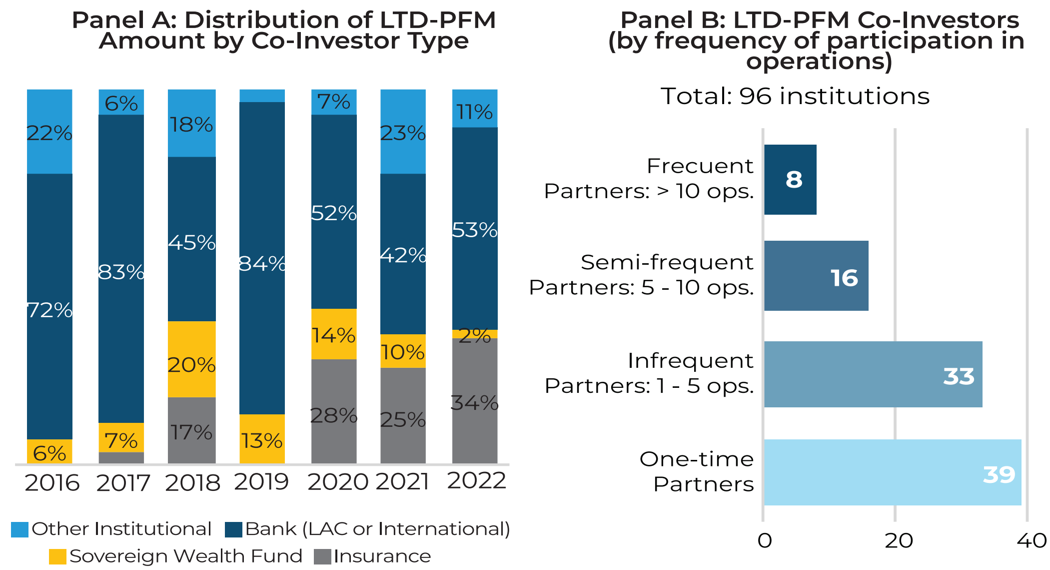
Source: OVE, with information from Citi: Banking, Capital Markets, and Advisory, Public Sector Group, "Mobilizing Private Capital: Where to Start with MDB and DFI Reform," 2023.

4.16 Other co-investors such as regional LAC banks, impact investors, and private credit funds have fewer restrictions but have smaller scale. Regional LAC banks can invest in other jurisdictions without a permanent presence, but they are smaller than global banks. Flexible investors such as impact investors and private credit funds are IDB Invest's partners in innovative transactions (e.g., thematic bonds), high-risk countries, or limited-supply structures (e.g., subordinated debt), but their scale is small. PFM with these two types of co-investors corresponded to 11.6% of the LTD-PFM amounts and 20% of operations.

Figure 4.5

LTD-PFM concentration by co-investor type

Source: OVE, based on data from IDB Invest.



Notes: "Other Institutional" includes Impact Investors, and Private Funds (Credit or Equity), and "Sovereign Wealth Fund" corresponds to the IDBG-managed fund "China Co-Financing Fund for LAC" funded by China's State Administration of Foreign Exchange (a sovereign wealth fund).

4.17 Thus, IDB Invest has been seeking to partner with institutional investors such as insurers, asset managers, and pension funds that can provide longer-term financing at the scale needed by projects. Of all the categories of institutional investors, IDB Invest has partnered more systematically with insurance companies. This type of investor has become a good fit for IDB Invest since the organization needs to diversify its risk exposures in sectors and countries. This allows insurers to participate in multiple financial structures and portfolio segments. Insurance companies also tend to match IDB Invest tenors fully. However, opportunities with these partners have limitations as well. The way that IDB Invest works with insurers is by swapping project exposure with insurer exposure, limiting the mobilization amount per insurer. Currently, IDB Invest is near exposure limits with some of them. Hence, IDB Invest is now aiming to tap into capital markets and attract other types of co-investors by supporting clients in bond issuances. IDB Invest plans to do this more systematically in the upcoming years with a focus on debt capital markets. Box 4.2 provides more details of the main types of institutional co-investors, their partnership rationale, and their pros and cons.

Box 4.2. Mobilizing institutional investors

Pension funds: Potential co-investors because of two needs: (1) to match their long-term liabilities with pensioners with long-term assets (e.g., MDB's infrastructure projects), and (2) to diversify the geography and sectors of their portfolios. However, international pension funds usually have regulatory and internal requirements to invest abroad. The requirements that affect MDB's investments are usually: (1) the investment grade transaction requirement (risk rating of BBB+ or better) and (2) using a bond structure.

Domestic capital markets: Offer the opportunity for MDBs to help channel domestic resources to development projects. They already operate in borrowing countries and offer local currency.

Private credit and private equity funds: Unregulated flexible vehicles that can co-invest with MDBs in traditional and non-traditional structures (for example, equity, mezzanine, subordinated debt, etc.). They also can take on higher credit risks (for example, sub-investment grade). The challenge of bringing-in these types of investors is that the market is relatively small for developing and emerging markets, and they usually require high returns that MDB-originated transactions cannot always produce.

Impact investors: These are private sector vehicles designed to produce double returns: both (1) development impact and (2) financial returns. These investors have an appetite for even the riskiest geographies or structures. However, these companies or funds tend to be small and have higher costs of funding (thus requiring higher yields from projects).

Source: OVE, with information from interviews to co-investors, other MDBs and World Bank Group, "Equitable Growth, Finance & Institution Insight "Literature Review and Framework for Institutional Investor Mobilization," 2023.

4.18 The shift towards diversification and inclusion of institutional investors has yielded results, although the co-investor base is still concentrated as diversification can be resource intensive. During the analysis period, IDB Invest reduced its reliance on commercial banks from 72% to 53% of LTD-PFM volumes (Panel A of Figure 4.5). Also, for this exercise, OVE identified that IDB Invest conducted LTD-PFM by partnering with 96 institutions (Panel B of Figure 4.5). However, most were one-time partners (40%). Frequent partners (institutions with at least five co-investment operations) have been the minority (25%). So far, IDB Invest has favored continuous relations with a few partners to optimize resources. Cultivating relationships takes time and resources because co-investors need to become familiar with IDB Invest's due diligence process, risk profile, and financial structures. In addition, some co-investors demand producing ad-hoc financial products, which adds complexity to the process and can require building new capacities.

4.19 The most demanding co-investors and co-investment opportunities require IDB Invest to use its own capital to de-risk transactions. IDB Invest can attract co-investors by taking a first-loss or subordinated tranche, lowering the risk profile of an investment. However, these operations tend to be costly, as subordinated tranches need more IDB Invest capital. While these structures may achieve the risk rating (e.g., investment grade) required by potential co-investors, IDB Invest will need to prioritize to determine whether the mobilization has the merits vis-a-vis other less-resource intensive options to fund a transaction. IDB Invest has not yet used structures that entail financial de-risking since capital has been limited.

4.20 So far, IDB Invest has attracted co-investors using tools that are less capital intensive, such as helping them bridge information asymmetries and de-risking non-financial risks. Most of these tools benefit from economies of scale since IDB Invest already uses them for the investments it conducts with its own account. Interviewed co-investors mentioned that IDB Invest's structuring standards already support de-risking for non-financial risks (e.g., integrity risk, corporate governance risk, as well as environment and social risk). In addition, presence in the region, closeness to governments, and thorough knowledge of clients were attributes frequently mentioned by co-investors.

3. Partnership management: clients

4.21 From the client's perspective, interviewed counterparts reported that PFM has allowed them to build relationships with new sources of financing or meet required transaction amounts. Although the number of interviewed clients is a small sample of the PFM portfolio, FI clients reported that building relationships with new financiers was critical to engaging in a transaction with a PFM component. FIs expect that including co-financing in an IDB Invest operation, with time, will allow them to build long-term bilateral relationships with other financiers. In the case of infrastructure, interviewed clients indicated that meeting the right financing amount and tenor took precedence over forming relationships with other financiers. In most cases, interviewed clients had a positive view of IDB Invest's convening power and of the efforts to bring new financiers and to find structures that allow them to fully fund projects.

4.22 However, like any operations with multiple participants, PFM adds transaction costs to clients, depending on the type of instrument selected, and the organization needs to remain mindful of these costs. According to interviewees, in one extreme are insurance and sales of assets in secondary markets. In these cases, the mobilization is "silent to the client" (i.e., the client does not know that the mobilization is happening). As a result, it does not involve additional transaction costs in terms of due diligence requirements, reporting, and managing the relationship with multiple financiers. On the other extreme are parallel loans, which typically require clients to interact with multiple funders. This may involve additional contract clauses and managing supervision requirements of multiple funders. Interviewed clients expressed that adequate processing times, procedures, and supervision requirements are critical to accepting a transaction with a PFM component that involves multiple financiers.

4. Instrument development

4.23 PFM instruments are the financial products IDB Invest develops to attract co-investors. OVE summarized IDB Invest's PFM instrument categories based on their characteristics, including a description of the product and when it is used. These instruments are: (1) B-Loans; (2) A-Loan Participations; (3) B-Bonds; (4) Partial Credit Guarantees; (5) Unfunded Credit Protections (insurance); and (6) Co-financings (parallel loans) (see Table 4.2).

4.24 Having an adequate offering of instruments entails meeting co-investors' needs while maintaining operational efficiency. According to interviewed experts, the challenge for MDBs is progressing from PFM products structured at the operation level towards portfolio and platform solutions.[23] The rationale is that portfolio and platform solutions are expected to promote standardization in favor of cost efficiency. In operation-level structures, the challenge is to balance standardization with tailor-made structures.

Table 4.2. A taxonomy of IDB Invest's PFM instruments

Instrument	Definition
B-Loan	B-loans are a form of financing that is funded by two loans: an A-Loan, which corresponds to the portion of the financing funded by IDB Invest's own account, and the B-loan (or loans) that is funded by other market participants (typically a bank or banks). This instrument facilitates investments by using a standardized contract that allows multiple co-investors to participate in a single transaction (reducing transaction costs for the client). Co-investors benefit from IDB Invest's privileges and immunities, including preferred creditor status (PCS). The PCS facilitates the entrance of international co-investors in US dollar transactions because it facilitates the repatriation of US dollars in times of macroeconomic stress.*
A-Loan participation	This financing corresponds to the sale of a portion of the A-loan (see B-loan product) after the transaction has been originated and disbursed. It is a type of portfolio mobilization.
B-Bond	A modification of the traditional A/B structure, a B-bond uses a structured finance vehicle to incorporate co-investors in a bond format.

23 Literature is also pointing in this direction. See for example: Humphrey, Chris, et al. Taking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development. Center for Global Development, 2023.

Instrument	Definition
Partial credit guarantees	This guarantee covers a portion of a loan or a bond issuance of an IDB Invest client. In the event of a default of the borrower/issuer, IDB Invest repays investors for the guaranteed portion. The mobilized amount corresponds to the overall transaction amount net of the IDB Invest guarantee.
Unfunded credit protection (Insurance)	It is a credit guarantee typically offered by an insurer to cover a portion of a loan or bond financed by IDB Invest. In the event of a credit default of an IDB Invest client, the insurer repays IDB Invest the loan/bond principal amount up to the covered amount. The mobilization amount corresponds to the amount covered by the insurer. Internally, the product allows IDB Invest to expand the investment amount beyond what is available on its balance sheet, to offer a client the required transaction amount. It also helps provide economies of scale to the organizations' treasury and liquidity management by funding larger transactions.
Co-financing or Parallel loan	Separate loans or financings can accompany an IDB Invest financing package. Unlike an A/B bond where IDB Invest is the only lender of record, in a parallel financing, each investor is a lender to a borrower. This mechanism is used when an A/B structure is not used. Considerations: If IDB Invest leads the syndication as evidenced by a fee and a mandate letter, the parallel lending is counted as direct mobilization.

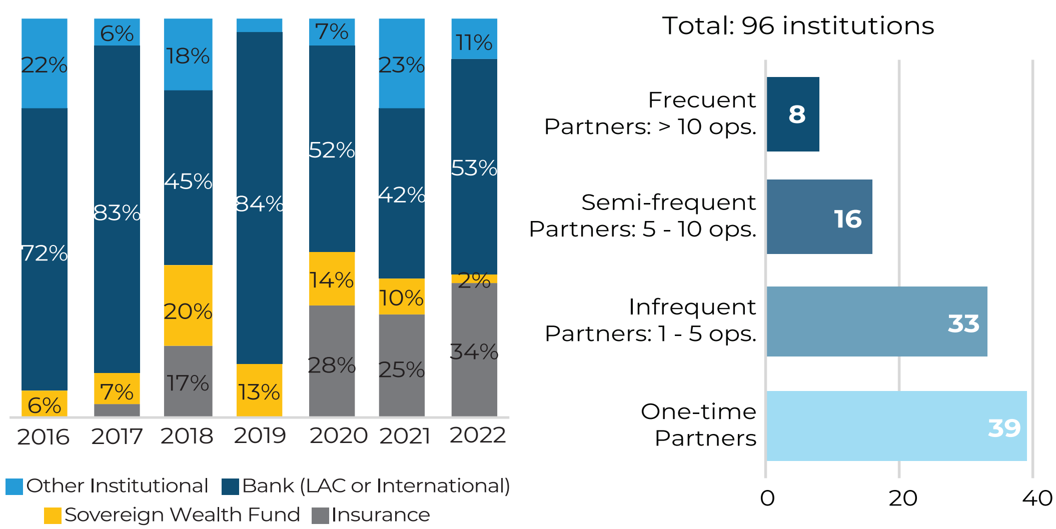
Source: OVE, with information from IDB Invest.
Note: *According to Fitch, as part of MDBs' PCS, the servicing of MDBs' non-sovereign loans is protected against restrictions on foreign exchange. Fitch, "Sovereign Defaults by Creditor Reflect MDBs' Preferred Creditor Status," 2020.

4.25 When IDB Invest started operations in 2016, it relied 90% on its traditional B-loan program catered at commercial banks. However, as the organization matured, it has deployed a broader range of more complex products. At year-end 2022, the organization had a more diversified mix of instruments. For example, B-loans, co-financings, and insurance made up 63% of the total volume (78% of operations).

Figure 4.6

Distribution of Direct Mobilization Comitmments (US$) by Instrument*

Source: OVE, based on data from IDB Invest.



Note: [a] "Other" includes: B loan of Co lender, debt security, and equity.

4.26 The instrument that has grown the most is the Unfunded Credit Protection (UCPs)[24] given its lower transaction costs[25] and insurers' favorable risk appetite. The instrument took off once the organization capital limits started to be a constraint for organizational growth (2020 onwards). LTD-PFM amounts in UCPs grew from zero in 2019 to US$1.45 billion in 2022 (23% of the total LTD-PFM volume during 2020-2022). IDB Invest sought to use this product to manage credit exposures and to meet clients' funding needs. Box 4.3 showcases an example of how a UCP helped IDB Invest meet client needs.

Box 4.3. A UCP in practice: Supporting a Bank in the Caribbean

In 2020, amid the COVID-19 crisis, IDB Invest mobilized three insurers to a bank operating in the Caribbean. The stakes were high because, at the time, the country had a sovereign risk rating of "B+" while the bank had a rating of "B" (well below the investment grade threshold). Thus, international commercial banks, including a leading MDB, had difficulty taking on a five-year operation. At the same time, IDB Invest's risk parameters could not take the full ticket amount of US$35 million as it would represent approximately 12% of the client's loan portfolio. With the UCP covering a significant portion of the risk of the transaction, IDB Invest was able to fully fund the ticket.

In addition, IDB Invest went further and, post-origination, also invited (and charged a fee to) a DFI for a US$20 million co-financing. The mobilization team also brought in impact investors in a B-loan structure of US$31 million (albeit with a shorter tenor). With the proceeds of this structure, this mid-sized bank had additional funding to support its micro, small and medium-sized enterprise clients in the aftermath of the sanitary crisis.

A limitation in this case is that the UCP instrument would not allow the client to open a relationship with the insurers directly since the latter operates on an unfunded basis, thus requiring IDB Invest or another financial institution to act as an intermediary. IDB Invest compensated for this limitation by introducing other co-investors to the client.

Source: OVE, with information from IDB Invest.

4.27 In terms of newer instruments, B-bonds have been the tool to attract institutional investors and unlock capital markets for IDB Invest clients, although it is still a nascent instrument. During the analysis period, only US$689 million (8 operations) benefited from this instrument. However, an important portion of the 2023 PFM volumes will come from two B-bonds corresponding to two large transactions: one in Chile (US$1.3 billion of direct PFM) and another in Costa Rica (US$400 million of direct PFM). B-bonds can bring in institutional investors that, for regulatory reasons, cannot use loan structures to participate in operations. According to interviewed MDBs and industry experts, to meet the scale

24 See definition in Table 4.2

25 In a UCP, IDB Invest fully funds a transaction, while in parallel negotiates a risk participation from an insurer. This simplifies the transaction for the client, who only negotiates with IDB Invest, lowering transaction costs. Insurance policies are usually standard, which also facilitates the negotiation and processing for IDB Invest.

demanded by sustainable infrastructure, MDBs will have to focus their efforts on capital market solutions because they offer the depth and tenors needed in these types of investments.

4.28 At the platform level, IDB Invest has not yet launched an instrument, but the organization is exploring mechanisms. Platforms are standardized facilities where IDB Invest and co-investors agree on predefined investing criteria and delegate origination and supervision to IDB Invest (e.g., a managed fund). So far, IDB Invest has not been able to establish an investment platform for private resources, but it has acquired valuable experience managing third-party funds from the public sector, such as the crossbooking[26] and the China Co-Financing Fund for Latin America and the Caribbean.[27] More recently, IDB Invest has been in conversation with insurance companies to develop platforms (in a similar fashion to the International Finance Corporation's (IFC) Managed Co-Lending Portfolio Program (MCPP)),[28] but it is still an ongoing conversation. At the same time, in 2023, the Board approved a US$5 million budget for IDB Invest to develop the business and operational plan of an equity mobilization platform (document CII/GN-526).[29]

4.29 PFM Portfolio-level approaches are new to IDB Invest, but they have already gained traction. In 2023, IDB Invest participated and won the MDB Challenge Fund[30] to obtain additional budgetary resources to structure a synthetic securitization. With this transaction, IDB Invest expects to bring in investors willing to gain exposure to a pool of assets already originated. This would allow IDB Invest to free up capital for new investments. IDB Invest has also been deploying A-loan participations, which are sales of already originated assets of US$292 million in nine

26 When IDB Invest consolidated the Group's private sector operations in 2016, the reorganization included the crossbooking mechanism, which is a co-financing agreement through which the IDB co-invested in IDB Invest projects following a series of pre-established rules. Likewise, the agreement delegated IDB Invest to manage and supervise the legacy private sector operations in IDB's balance sheet.

27 The fund totaled US$1,500 million. The fund was critical to PFM efforts, especially in the first years of operations of IDB Invest (during 2016 – 2019, 39 operations, totaling US$873 million, benefited from a co-financing from this fund).

28 The Managed Co-Lending Portfolio Program (MCPP) corresponds to IFC's investment platform that has pre-agreed investment criteria. See Section Chapter 5 of this document where there is a Box about the MCPP.

29 According to Management, it is initially expected that the platform Collaborative Capital Platform for LAC ("C2LAC") will be structured as a private, independent, asset manager platform with no single controlling shareholder and a mandate to launch and manage large-scale LAC-focused investment funds. The Platform will be based on the experience of similar initiatives around the world of collaborative models for long-term investing, and IDB Invest can participate as co-investor or by bringing in the platform to its own operations.

30 The MDB Challenge Fund's is a US$5.25 multilateral fund to support MDBs in the adoption of recommendations included in the G20 Independent Review of MDBs' Capital Adequacy Frameworks report released in July 2022. The overall goal of the fund is to accelerate MDB financing for the SDGs and the Paris Climate Agreement.

operations. In addition, some UCPs and risk participations have been contracted after origination.[31] From a risk point of view, these operations allow for freeing up capital. From an operational point of view, they can help IDB Invest fund a client's need, and bring in the investors afterward (e.g., when a construction or political risk has subsided).

5. Internal incentives creation

4.30 IDB Invest created an incentive structure through volume targets. When IDB Invest started operations in 2016, origination targets were established only for the amounts financed through IDB Invest's balance sheet. Mobilization was seen as a desirable feature of operations but did not have specific targets. Starting in 2020, it took a more central role. Origination segments (corporates, FIs, and infrastructure) began having specific mobilization targets. Furthermore, mobilized amounts started having the same value as own account amounts in terms of career incentives.

4.31 Other factors like IDB Invest's own size and capacity favored PFM. Another factor that favored PFM was IDB Invest's overall size (US$6.5 billion as of 2022) in Development Related Assets (DRAs) and its own limited capital base (US$2.9 billion in 2022), which is a fraction of other organizations like the IDB or the IFC. Also, the provision of the sunset clause of the crossbooking arrangement[32] further encouraged Management to prioritize PFM to maintain sustainable lending levels. The capital limitations also meant that client, country, and risk concentration limits demanded that organizations start prioritizing mobilization.

4.32 In addition, IDB Invest established a core team dedicated to delivering PFM at the operational level. The team has specialized skills in PFM structures and in building relationships with co-investors. For example, the most senior roles in this unit all benefit from careers spanning more than 20 years either in the private sector or in syndications. Having a specialized unit has benefitted IDB Invest because it allows the team to manage the relationships with co-investors, and, more recently, has assigned a headcount specialized in developing new products. Overall, the team has grown from 4 in 2016 to 9 in 2023 (approximately 2.5% of the IDB Invest workforce).

31 The data OVE used did not define which operations with a UCP/Risk participation component were contracted post-origination.

32 The crossbooking arrangement refers to the process in which loans will be originated by IDB Invest but totally or partially funded by the IDB. This was part of transitions measures for the consolidation of IDBG's private sector operations in IDB Invest.

4.33 However, implementing PFM at IDB Invest has required an organization-wide effort in terms of systems, processes, and capabilities. PFM planning and origination is just the tip of the iceberg. As recognized by Management in its business plans, conducting PFM requires setting up the organization to facilitate these operations. During the interviews accompanying this study, several co-investors and peer MDBs confirmed this assessment. For example, processes and legal contracts should be adapted to reduce transaction costs and facilitate clients' willingness to engage in more complex structures that involve multiple investors. Also, development effectiveness assessments need to be extended to the mobilized portions of the transaction. In addition, the organization needs to supervise third-party financings. Overall, PFM involves efforts, albeit with different degrees of involvement, of the whole organization.

4.34 In terms of operation processing capacity, the organization is showing signs of stress that need to be addressed. In line with the findings of the IDB Invest Evaluation (document RE-577),[33] PFM efforts are also affected by the organizations' current processing capacity. During the analysis period, IDB Invest's assets under management (excluding its own account) increased from US$11.1 bn in 2016 to US$18.6bn in 2022 (68%). In parallel, the complexity of mobilization structures also increased. As a result, according to Management, investment priorities for PFM include the automatization of processes related to b-lender management (to avoid manual processes that increase operational risk), and the development of a governance structure that delegates decision-making processes regarding mobilization (e.g., to facilitate the decision-making on secondary sales, to create new products, etc.).[34]

6. Results tracking

4.35 The tools in IDB Invest's Impact Management Framework track operations with PFM components. The operations that include PFM components are tracked by the Development Effectiveness Learning, Tracking and Assessment (DELTA)[35] score. This tool allows Management to identify the operations that will benefit from a mobilization component and supervise whether it has materialized. In addition, the RMB unit tracks the specific details

33 OVE, "Corporate Evaluation: Evaluation of IDB Invest," 2023.

34 In its 2023 Business Plan Update (document CII/GA-84-7) IDB Invest highlighted its intention to strengthen the mobilization backbone by automating manual processes and building a pricing model mechanism.

35 DELTA is one of the tools included in IDB Invest's Impact Management Framework which shows a standardized rating for each one of the operations. DELTA aims to measure the development impact of the operations, ex-ante and during supervision. (OVE, "IDB Invest Evaluation- Annex III Background Note: Impact Management Framework," 2023).

of the mobilization, including the (1) amount mobilized, (2) categorization of the mobilization between direct and indirect, (3) co-investors, and (4) the mobilization instrument.

4.36 The Impact Management Framework creates origination incentives by rewarding the additionality score of operations, correctly identifying that attracting PFM in higher risk jurisdictions is more challenging. The DELTA score on its financial additionality section includes a sub-rating to assess the additionality of the PFM component. According to the DELTA guidelines, PFM will be rated based on three main criteria, the country in which it takes place and its level of development, the mobilization ratio, and whether it is direct or indirect mobilization.[36] For a mobilization to be rated as exceptional (the highest rating), it should qualify as direct one with a ratio that must be two to one (2:1) or more in an A/B country, or one to one (1:1) or more in a C/D country.[37]

4.37 However, the Impact Management Framework does not yet explicitly require that mobilized funds are subject to the same development effectiveness standards as own account resources. Although IDB Invest staff interviewed indicated that both mobilized and own account resources are treated with the same rigor from the development effectiveness standpoint (i.e., they both need to contribute to valid development objectives), the DELTA guidelines are silent on this point. It is important to explicitly require mobilized funds to be treated with the same rigor to eliminate room for interpretation, ensure consistency and foster development effectiveness.

4.38 Concerning PFM tracking, IDB Invest systems do not systematically capture some important information. For example, PFM at the portfolio level or during secondary sales is not yet systematically tracked in the DELTA scorecard. Other development aspects of PFM, such as the extent to which IDB Invest is attracting co-investors that would not invest in projects on their own, or the ability of clients to continue doing business with co-financers on their own after IDB Invest's intervention are not being captured either.

4.39 In terms of co-investment information, more recently IDB Invest has produced data on the financial conditions of PFM structures, which is critical information to compare PFM vs. prevalent market conditions. IDB Invest's platform to process operations now tracks financial conditions of PFM structures (e.g., tenors or repayment schedules). This information is critical to know the tenor, and pricing of the mobilization structure.

36 DELTA guidelines rate the resource mobilization subcomponent in three categories: "Exceptional," "Yes," and "Somewhat."

37 IDBG, "DELTA Guidelines- Impact Management Framework."

05

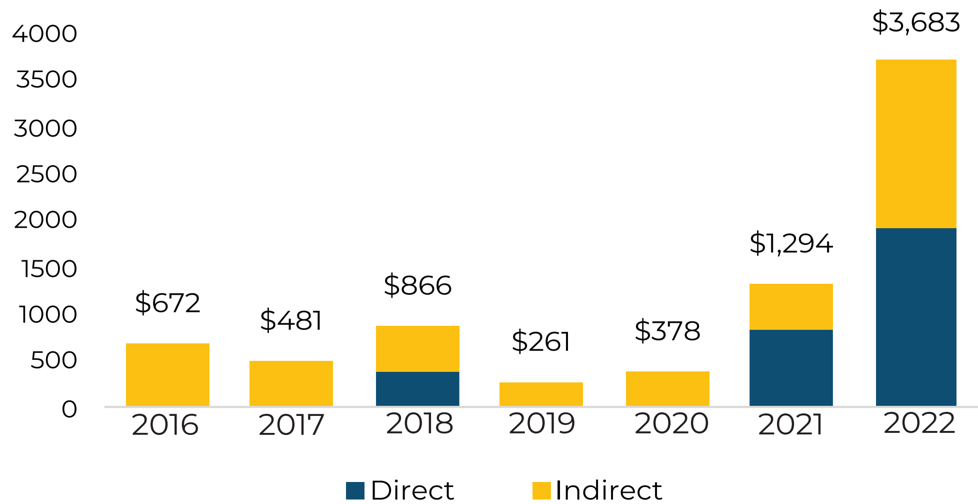
PFM at the Operational Level at the IDB

5.1. This chapter analyzes how the IDB has operationalized PFM. A first section examines IDB´s PFM portfolio, including both direct and indirect PFM. In the second section, OVE analyzes the following operational dimensions of direct PFM:[38] (1) planning and programming, (2) partnership management, (3) PFM instrument development, (4) internal incentives creation, and (5) results tracking. These dimensions are aligned with the Mobilization Roadmap actions to increase mobilization. OVE analyzed PFM at the (1) operation and (2) portfolio levels.

Figure 5.1

IDB's SG PFM Portfolio

Source: OVE, based on IDB SPD private co-financing database.



A. PFM portfolio overview (SG operations)

5.2. The analysis period (2016-2022) covered five SG operations that totaled US$3.068[39] million and benefited from a planned direct PFM component. The IDB has used guarantees as the exclusive instrument to conduct direct PFM. During this period, the organization issued five guarantees that were meant to help borrowing countries attract additional financing by reducing the risk profile of their debt issuances. Operations corresponded to policy-based guarantees[40] (BA-U0001, BH-U0001, and EC-U0005) and one partial credit guarantee[41] (EC-U0001) to support Ecuador in the issuance of a social bond. (See Table 5.1).

38 Indirect PFM, because of its nature, does not entail specific Bank actions to bring in private capital and therefore how it is operationalized is not analized.

39 This is the total amount of the sum of planned mobilization of SG guarantees in table 5.1.

40 This type of guarantee is intended to provide risk mitigation to commercial lenders with respect to debt service payment defaults by government. The IDB issues a guarantee in favor of commercial lenders to cover a borrowing country's credit risk. In turn, the government issues a counter-guarantee in favor of the IDB.

41 Covers part (or exceptionally all) the funds provided by financiers, effectively covering risks that might affect their repayment. These are designed to assist governments and their entities in accessing new sources of debt financing with longer maturities than

Table 5.1. IDB SG PFM portfolio

Project	Year/ Country	Guarantee Terms (at approval)		Status	Mobilization		
		Amount (US$ m)	Tenor (years)		Planned	Actual	Actual/ Planned
Financing Low-Income Housing in Ecuador (EC-U0001)	2018/ Ecuador	300	25	Active	375	100	26%
Program for Development and Economic Recovery in Ecuador (EC-U0002)*	2021/ Ecuador	400	20	Inactive	800	0	0%
Sustainable Development and Biodiversity Program in Ecuador (EC-U0005)	2022/ Ecuador	85	20	Active	950	887	93%
Program to Support Environmental and Economic Development in Barbados (BA-U0001)	2022/ Barbados	100	20	Active	93	50	54%
Building a Social and Inclusive Blue Economy in The Bahamas (BH-U0001)	2022/ Bahamas	200	20	Active	850	185	22%

Source: IDB Data warehouse and guarantee proposals.
Note: [a]Up to guarantee amount.
* This operation was reformulated, however the systems are still reflecting this as planned mobilization.

5.3. The IDB approved 41 operations between 2016-2022 that included indirect PFM in the form of parallel lending of US$4.5 billion. The portfolio of operations with financial intermediaries captured US$4 billion of the planned PFM amounts (89%) in 36 operations. In these instances, IDB resources are channeled through national development banks. These banks on-lend IDB funds to private financial institutions (e.g., commercial banks, cooperatives, etc.), which in turn channel the on-lent IDB resources to final beneficiaries (e.g., small and medium enterprises or households) to facilitate access to finance. In that process, IDB's financing is complemented with parallel funding from the intermediary's own resources. This parallel funding constitutes the indirect PFM component (Box 5.1). Whether such indirect PFM commitments materialized or not cannot be verified given that the Bank does not currently report them in PFM information system.

would otherwise be available.

Box 5.1. Projects with an indirect PFM component

Below are two examples of SG operations whose design also includes directing private investment to development projects. In both cases, the scope of the Bank's work is not associated with structuring and securing the private investment (thus, it is not direct PFM), however, its presence may have facilitated attracting additional capital through the so-called "halo effect."

Work through national development banks: the IDB provides funding to national development banks through Global Credit Operations (GCR), which in turn channel this financing to local FIs so that they can on-lend resources to final beneficiaries. An example of this type of operation is the Global Credit Program for Safeguarding the Productive Sector and Employment in Uruguay (UR-L1171). In this project, the IDB provided US$80million funding channeled through the "Sistema Nacional de Garantías para Empresas" for FI. In turn, this funding was accompanied by additional US$270 million from local FIs to extend US$350 million in credit. The complementary funding from FIs is the indirect PFM (or parallel lending) as the role of the Bank did not include securing the additional financing. The validated Project Completion Report PCR) has a rating of "Highly Successful" in part because the program exceeded the amount of accompanying financing from local FIs.

Infrastructure projects: The only infrastructure operation with indirect PFM (parallel funding) in IDB's PFM database is a US$70 million SG loan to Empresa Metro de Bogota in 2018. The loan would cover the pre-investment costs of the Metro de Bogota – Linea 1 (CO-L1234) in combination with a US$126 million co-financing from other MDBs. For the construction, operation and maintenance of line 1, a private concessionaire needed to raise US$1.3 billion in commercial loans and equity. Given that the scope of the Bank's work is not associated with structuring and securing the private investment, this operation is not considered to have a direct PFM component. However, part of the SG operation rationale is that IDB's participation would signal MDB support to the project and facilitate the private investment.

Source: OVE, with information from the IDB.

B. Implementation

1. Planning and programming

5.4. PFM planning in SG operations requires considering borrowing countries' capacity to manage a potentially larger country program with resources from IDB's own account and mobilized resources. PFM could allow countries to access additional funding for development projects. While this can help close gaps in financing, it must be balanced with countries' fiscal and execution capacities. Thus, it is necessary to design mechanisms to prioritize and define which projects are more suitable to benefit from PFM. For example, the WBG's "cascade approach" mentioned in Chapter 3 can serve as an example for planning and optimizing mobilization. The cascade first seeks to mobilize commercial finance. Then, if risks remain high, the priority is to apply guarantees and risk-sharing instruments. Public resources are reserved only where market solutions are not possible.[42]

5.5 So far, PFM planning has been mostly at the individual operation level. In the cases of guarantees, planning has been a combination of a demand driven approach from the financial point of view (a borrowing government requiring support) and the Bank pushing the instrument (guarantee) as well as the thematic agenda (for example, the debt for nature exchanges).[43] However, there is no systematic approach where PFM opportunities are analyzed in country program design.

5.6 Country strategies (CS) have not included SG PFM, although some of them often discuss mobilization and partnership opportunities with donors, other MDBs, and bilateral partners. During its review of the CS produced during the 2016-2022 period, OVE found that there hasn't been a reflection about the specific potential to conduct SG PFM in each of the borrowing countries and how they may add value to governments. In some instances, IDB analysis in CS has included complementarities with other development agencies and MDBs but does not discuss the extent to which PFM can support the Bank's program.

2. Instrument development

5.7 Direct PFM in SG operations has been conducted exclusively through guarantees, an instrument that has a recent evaluation. As explained in Chapter 3, the business model of MDBs' SG windows has more limitations to include private co-investors directly into the transactions largely because the risk-return profile is different from what commercial investors offer governments. Therefore, guarantees have been the exclusive instrument of direct PFM in SG operations. OVE evaluated this instrument in 2022 (document RE-559-1), and this stocktaking draws on the findings of that exercise (Box 5.2). The main finding is that the use of guarantee instruments has been low, both at the IDB and at other multilaterals. OVE found both supply-side constraints (e.g., little incentives and internal knowledge of the instrument) and demand-side constraints (e.g., borrowing countries have little incentive and knowledge of the instrument).

42 WBG, "Froward Look: A Vision for the World Bank Group in 2030- Progress and Challenges" 2017.

43 Debt-for-nature exchanges are financial transactions in which the IDB provides issues a guarantee to improve the risk profile of a government's debt issuance. The guarantee aims at obtaining overall savings in the debt service costs, which should be used by the issuing government in local investments in environmental conservation measures.

Box. 5.2 Summary of OVE's evaluation findings of SG guarantees

Limited use: There has been little use of guarantees by MDBs, despite recurrent calls by the G20 and others to expand the use of guarantees to leverage MDBs capital by mobilizing more private resources for developing and emerging economies.

Lack of demand-side incentives: For the IDBG, guarantees and loans occupy the same space in the client's lending allocation (i.e., a guarantee reduces one-to-one the amount of the IDBG loans available to a borrower). Under these circumstances, most borrowers prefer taking a loan rather than requesting a guarantee, which is a product they are less familiar with. In addition, the IDBG's capital allocation policy also drives the pricing, as the goal to equalize the return on capital across loans and guarantees often leads clients to prefer loans over guarantees due to the higher transaction costs and the complexity of the latter.

OVE did not find evidence to support changes in the current IDBG's capital allocation and pricing policies. These policies are driven by the requirements of credit agencies as much as by the prudent risk management that characterizes the IDBG and other MDBs.

Supply side constraints: IDBG management and staff have little familiarity with guarantees, and incentives favor working on loans, which are better understood, simpler to process, and more likely to materialize. Few staff at the IDB and IDB Invest are knowledgeable about the process and documentation involved in providing a guarantee, or about their terms and conditions.

Need to improve results measurement and tracking: The IDBG does not systematically measure resource mobilization from guarantees. Data necessary to estimate the SG guarantee to resource mobilization are not available. For some operations, there is information about planned mobilization, but not about realized mobilization. Data for NSG guarantees are not reported at the project level, nor are they readily available in aggregate.

The specific recommendations made to the IDB were:

- Monitor and report on SG guarantees' resource mobilization and associated financial terms.
- Design and implement a time-limited pilot scheme that offers borrowers guarantees with a reduced impact on their country's lending envelope.
- Designate a group of staff experienced in structuring guarantees to serve as a focal point for SG guarantees.

Source: OVE, "Evaluation of Guarantee Instruments at the IDBG," 2022. .

5.8 Since OVE's evaluation, there has been some progress in the use of guarantees, although remains a nascent product. Since 2021, the Bank has continued to approve three additional guarantees (see Table 5.1), although the instrument remains below 5% of overall approvals. In addition, following OVE's recommendation, the Bank has made efforts to increase the organizational awareness of the product. For example, OVE had access to presentations made to sector and country teams, as well as to borrowing governments. In addition, the organization has designed the time-limited pilot scheme, which offers borrowers guarantees with a reduced impact on their country's lending envelope to incentivize the use of the product.

5.9 At the portfolio level, management is exploring other instruments, such as UCP, to attract commercial co-investors and free up capital to expand the overall SG lending capacity. As a result of the recommendations from the G20 Independent (the Capital Adequacy Framework report or CAF report),[44] the IDB has started analyzing the possibility of bringing in private insurers (through the UCP product). This mechanism would allow sharing a portion of the portfolio exposure with commercial insurers, potentially increasing IDB's lending headroom. So far, Management has prepared a framework to conduct such operations (document GN-3143-1) and has confirmed that private insurers have agreed to consider the PCT in the pricing of the guarantee. The progress in getting recognition of the PCT is important because it can allow the IDB to pay insurance premiums in line with its "cooperative" pricing model.

5.10 Portfolio mobilization also serves to manage risk exposures and offer potential co-investors a diversified portfolio of investments. Given that the IDB is a regional bank with 26 borrowing countries, it is natural that some countries will likely accumulate higher exposures. In addition to bringing in other co-investors to share the risk of a mature portfolio, it can allow the IDB to manage country concentrations making headroom for new lending operations. Box 5.3 shows an instance in which the IDB has partnered with other public sector institutions to conduct a risk participation agreement.

Box 5.3. IDB's experience with portfolio mobilization with other public sector entities

To illustrate that the IDB has the capacity to set up portfolio mobilization operations, in 2020, the government of Sweden, through the Swedish International Development Cooperation Agency (SIDA), agreed to launch a Guarantee of up to US$100 million from Sweden that would assume risk participation in an existing SG portfolio. This enabled the IDB to increase lending up to US $300 million for new projects.

This guarantee used to cover the existing exposure is considered public mobilization, and therefore it is not part of IDBG's PFM efforts. Nevertheless, this mechanism allowed the goal of transferring credit risk off the IDBG's balance sheet while creating additional lending capacity. IDB's next step is to use this mechanism with commercial investors in a PFM structure.

44 The Capital Adequacy Framework (CAF) report refers to the G20 Independent Panel for Review of MDB's CAF which was mandated to provide credible and transparent benchmarks on how to evaluate MDB's CAF, enable shareholders, MDBs, and Credit Rating Agencies (CRAs) to develop a consistent understanding and enable shareholders to consider potential adaptations to maximize the MDBs' financing capacity. The CAF recommendations include, among others, adapting definitions of risk appetite, financial innovation, and engagement with CRAs. Source: G20, "Boosting MDB's investing capacity: An Independent Review of Multilateral Development Bank's Capital Adequacy Frameworks," 2022.

[a] IDB, "Boosting MDB's Investing Capacity. An Independent Review of Multilateral Development Bank's Capital Adequacy Frameworks. Management Response and Action Plan. Volume 3. Implement Innovations to Strengthen MDB Capital Adequacy and Lending Headroom," 2023.

Source: OVE, with information from the IDB.

5.11 There has been discussion at MDBs as to whether investment amounts unlocked through PPP transaction advisory should be counted as PFM. The harmonized PFM definition does not include PPP transaction advisory operations, but MDBs, like the IFC,[45] consider them as part of its PFM activities. The IFC's rationale is that in these cases, MDB support to structure the PPP is critical for the project to materialize, and there is typically documentary evidence to credit the MDB intervention. At the IDB, PPP transaction advisory is not counted as PFM in line with the guidance provided by the harmonized PFM definition. The harmonized definition only considers those cases where the Bank has an active role in securing the financing for the PPP to be PFM.

3. Partnership management

5.12 From the borrowing governments' point of view, direct PFM has supported smaller economies with higher risk sovereign ratings, which shows the potential of the instrument. The IDB has used guarantees to facilitate borrowing governments' access to capital markets and advance the climate agenda. For example, the IDB supported Ecuador and Barbados (both with sovereign risk ratings below the "B" threshold) in debt for nature exchanges and helped The Bahamas access capital markets in the aftermath of the COVID-19 crisis (see Box 5.4). The IDB also helped Ecuador launch its first social bond through a guarantee that covered part of the issuance. This is different from the case of NSG operations where PFM amounts were concentrated in larger economies with more developed financial markets. These transactions had high visibility,[46] and according to Management, market interest in the IDB supported transactions increased following these operations.

45 According to IFC's FY2023 anual report: "Advisory mobilization includes third-party private financing that has been mobilized for Public Private Partnerships, as a result of IFC's role as lead transaction advisor. It also includes Corporate Finance Services, for projects in which IFC has provided transaction advisory services to help private sector clients expand into new markets, diversify and restructure operations or bring in new equity investors."

46 For example, Ecuador's Social Bond, and the Barbados Debt for Nature Swaps have earned awards from the media outlet Environmental-Finance.com.

Box 5.4. The Bahamas case: The complementarity of the different approaches to crowding-in the private sector to development projects

Building a Social and Inclusive Blue Economy in The Bahamas, (BH-U0001/2022), Promoting a more productive and healthier ocean in the Bahamas.

Context: As a result of the pandemic, The Bahamas had an economic downturn greater than 20% of its GDP. Structurally, its economy disproportionally depends on the tourism sector, which is already mature. As a result, the country needs to bring in investment in other sustainable economic activities, especially in a context of high vulnerability to the effects of climate change.

IDB intervention: In 2022, the IDB approved a policy-based guarantee (PBG) with the objectives of boosting the Bahamas' blue economy (i.e., activities related to the sustainable use of marine resources) while ensuring marine conservation.

PFM Analysis: The country faced two financing options: (1) obtaining an SG loan for the full amount that the government's treasury needed to fulfill its obligations, or (2) obtaining a guarantee from the IDB that would cover a portion of a capital market issuance (up to US$200 million), which could potentially bring in additional resources from the private sector. The government opted for the latter. With the guarantee, Bahamas was able to raise an additional US$185 million from other investors. The issuance totaled US$385 million in a dual-tranche sovereign bond with a mobilization ratio of 1.93 to 1.

Conclusion: The PBG enhanced the government's access to capital markets by partially mitigating credit risk and enhancing the country's creditworthiness. The guarantee assured private sector lenders against a debt service default, facilitating the influx of additional private resources.

Source: OVE, with information from BH-0001 Loan Proposal and The Bahamas' ICPR, 2023.

5.13 The IDB is also seeking to achieve PFM through the use of guarantees in Public-Private Partnerships (PPP) structures to cover SG-related risks. For example, in other MDBs (particularly the ADB and the WBG), the use of SG guarantees has been used in infrastructure projects. In these cases, the guarantees have covered government-associated risks (e.g., non-payment of offtake obligations) to make the structure viable (Box 5.5). In the case of the IDB, OVE found evidence that the institution is trying to move forward with this type of operation, but so far, no operation has come to fruition. Management expects to continue the efforts to promote the instrument in these types of projects.

Box 5.5. The ADB program of SG guarantees for infrastructure projects

The ADB has begun to offer SG project credit enhancements for infrastructure projects to: (1) attract more bidders, (2) reduce financing costs, and (3) improve tariffs to end users.

To reduce transaction costs, the ADB is using guaranteed letters of credit (LC). According to the ADB, this (LC) acts as a mechanism to backstop government obligations on a project (usually in the context of an infrastructure PPP) that relies on a payment from a government agency.

The operational mechanism is that the ADB offers a counter-guarantee to a commercial issuing bank, and then the issuing bank gives an LC to the private project company. The LC pays on demand if the government-owned entity does not pay on time or if does not meet another guaranteed obligation. During interviews, the ADB highlighted that the contract between the investor and the government should be clear on when and who pays.

Like the IDB, in addition to offering project finance guarantees, the ADB also offers policy-based guarantees to support government access to commercial borrowing and improve the terms of such borrowing.

Source: OVE with information from the ADB official webpage on "Guarantees."

4. Internal incentives creation

5.14 The IDB does not have a dedicated unit for PFM. Instead, the IDB relies on an ad-hoc arrangement that assigns PFM-related tasks to various organizational units along with their core duties. For example, the Office of Outreach and Partnerships (ORP) offers strategic guidance; the Connectivity, Markets and Finance Division (CMF) spearheads the structuring of guarantees and collaborates with other divisions when such opportunities arise; the Risk Management Division (RMG) established an appetite framework for portfolio PFM approaches (such as UCPs), while the Vice-presidency of Finance and Administration (VPF) seeks potential partners to implement these transactions; the Office of Strategic Planning and Development Effectiveness (SPD) is responsible for monitoring PFM, but the process is not yet automated.

5.15 In addition, the organization has limited knowledge of how to structure PFM, except for a few cases. This is consistent with OVE's key finding that staff lacked familiarity with guarantee instruments, except for CMF. Most staff interviewed also confirmed that they were more familiar with public sector mobilization schemes. For instance, the organization regularly shares its SG operations pipeline with other public sector entities that are interested in co-investing with the IDB, such as other MDBs or DFIs. Moreover, project teams have more experience in complementing their projects with direct mobilization of donor funds, other public DFIs, or managed funds. They can also access information on specific public-sector co-investment opportunities through the ORP web portal.

5.16 Another challenge is that PFM has not been included in project teams' performance indicators, and so far, there are no clear incentives to use PFM. For example, OVE's Evaluation of

Guarantee Instruments (document RE-559-1)[47] found that IDB staff do not have incentives (for example, in their performance assessments) to structure these kinds of instruments. During this study, OVE re-confirmed that the lack of performance indicators also extends to the implementation of PFM. Operational teams have indirect incentives for mobilization of donor funds, as well as co-financings from other public entities in the sense that they usually entail a concessionary to the borrowing government.

5.17 Despite these challenges, the Bank has made efforts to promote the use of guarantees across the organization, which also supports PFM. Although OVE did not find evidence of internal specific dissemination of PFM knowledge, there is evidence that Management is increasing efforts to promote guarantees. Using the means of verification to track progress in the implementation of recommendations of the guarantees evaluation, OVE obtained evidence that CMF is working with other divisions to raise awareness of PFM through guarantees, and seeking ways to include mobilization in their own operations.[48] The training materials, following OVE's recommendations, include the benefits of the guarantee instruments, the instances where they could be more useful, and examples of how they have been used thus far. From the client perspective, CMF is working with VPC to disseminate instrument information for client countries that also showcases the instrument's uses and benefits.[49]

5. Results tracking

5.18 IDBG's commitments at the MDB level, as well as internal strategic documents, emphasized the importance of improving mobilization data collection and reporting. The IDBG's Mobilization Roadmap (document GN-2988-1) stressed the importance of defining mobilization metrics with the same clarity and consistency it uses to measure approvals, disbursements, and development impact. Management highlighted that these metrics must be clearly established within the Bank's processes, budget allocation, and staff incentives.[50] Similarly, in the Hamburg Declaration,[51] the IDGB made two main commitments. First, to align its internal mobilization definitions and reporting

47 OVE, "Corporate Evaluation: Evaluation of Guarantee Instruments at the IDBG," 2022.

48 As part of OVE's Evaluation Recommendation Tracking System (ReTS) CMF drafted the presentation "Financial Solutions: IDB SG Guarantee Instrument-2023-2021 Programming Pilot," as part of the means of verification of the evaluation of Guarantees Instruments in 2022.

49 According to presentations shared to OVE as means of verification in the context of the recommendation tracking exercise of 2023 of the Guarantees Evaluation.

50 IDBG, "IDBG's Mobilization Roadmap 2020-2023," 2020.

51 The Hamburg Declaration is a set of principles adopted by the G20 nations in 2016 to guide the role MDBs in mobilizing and catalyzing private capital for sustainable development.

systems with those agreed by MDBs, while incorporating them into the IDBG's CRF and Career Point systems, with the aim to transform them into incentive-compatible mechanisms that assign external and internal attribution properly. Second, the IDBG committed to updating its systems and procedures to systematically capture and register PFM.[52]

5.19 Despite these commitments, the IDB's process of identifying operations with a PFM component has been rather manual. PFM components of operations are tracked as part of the operations' results matrix. The expected mobilization is defined at approval, and only when the project is completed are mobilization results presented as part of the Project Completion Report (PCR). At the same time, there is no systematic or automatic tracking of PFM. Since the incorporation of PFM in the CRF 2020-2023, SPD has manually tracked down PFM components of IDB operations starting its implementation from 2016 until present day. Although SPD has implemented efforts to create a complete registry and a co-finance dashboard, it only tracks planned mobilization. Manual tracking of PFM amounts may lead to errors, such as overlooking additional operations with PFM components.

5.20 More importantly, the IDB is only tracking planned PFM, which makes it difficult to assess progress and also overestimates mobilization results. For example, the planned mobilization for the five guarantees that constitute the IDB's direct PFM portfolio was US$3.1 billion. However, in practice, effective mobilized amounts turned out to be significantly lower: only US$1.2 billion or 39% of the planned amount.[53] In addition, one of the guarantees (Sustainable Development and Biodiversity Program in Ecuador (EC-U0005)) included a parallel guarantee from the Development Finance Corporation (DFC) - a DFI - as direct PFM. Given that guarantees from other DFIs are not counted towards PFM, this can overstate PFM amounts. Presenting planned mobilization amounts with such low attainment rates is not accurate since it overstates the Bank's current capacity to mobilize investors. In the case of indirect PFM, OVE had no means to verify the attainment rates.

52 MDBs, "Joint MDB Statement of Ambitions for Crowding in Private Finance," 2016.

53 According to Management, the differences observed in the expected mobilization in operations EC-U0001 and BH-U0001 are due to the negative evolution of market conditions between approval and financial closing.

06

MDBs Comparative Analysis of PFM

6.1 OVE took MDBs that are similar in terms of experience and PFM mandates as a reference for this exercise. OVE's analysis is based on a review of documentation and interviews with the Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG). OVE also interviewed and reviewed data from other regional MDBs and bilateral DFIs to learn about their perspective on PFM. This included the Central American Bank for Economic Integration (CABEI), Banco de Desarrollo de America Latina (CAF-B), as well as the following DFIs: Proparco, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), and British International Investment (BII).

6.2 Other MDBs, albeit with different degrees of maturity, are in a similar position to the IDBG, where PFM has been an approach identified primarily with the NSG window. The concept of PFM stems from the private co-financing and B-loan structures associated with the NSG windows of the MDBs. It was only after the Billions to Trillions narrative[54] in the mid-2010s and its subsequent commitments that PFM also started to be systematically tracked for SG operations.

6.3 In LAC, the IDBG, and the WBG, the two MDBs with comparable PFM data[55] and business models have been responsible for total PFM amounts of US$32.3 billion during 2019-2021. During this period, the IDBG reported an accumulated total PFM amount of US$14.5 billion vs. US$17.8 billion of the WBG.[56] This is primarily due to PFM activity that their private sector arms—the International Finance Corporation (IFC) and IDB Invest, respectively—carry out. In both cases, NSG operations represented the majority of total PFM amounts. Other regional MDBs like CAF-B and CABEI are at earlier stages in standardized PFM reporting. During interviews, CAF-B and CABEI confirmed that they regularly conduct PFM in NSG operations through their syndication desks, but PFM information is not yet comparable.

54 This is the name of the accompanying paper in the UN Third International Conference on Financing for Development in 2015. This paper called MDBs to play a role in directing private finance to development projects. It was based on two assumptions: (1) the untapped private capital that could be directed to development projects was in the order of trillions, and (2) the financing gap to achieve the SDGs had a similar dimension.

55 The PFM amount for the WBG was obtained from the joint MDB report which MDBs use for self-reporting on PFM (MDB Task Force on Mobilization, "Mobilization of Private Finance 2020 + 2021," 2023).

56 This amount includes direct and indirect PFM and include SG and NSG operations. Like the IDBG, SG operations are reported at approval while NSG operations are reported at investment commitment.

A. MDBs operational approach to PFM

6.4 For direct PFM in SG operations, guarantees have been the main instrument of other MDBs as well. A potential explanation is that other MDBs also confront the same challenges that IDB would have if it were to offer PFM instruments like B-loans and direct co-financings, given that their business models also entail a risk-reward profile that includes cooperative pricing for the borrowing country and a PCT benefit for the MDB. As a result, other MDBs with SG windows have also cautiously approached PFM through guarantees.

6.5 In the case of NSG operations, the focus of MDBs is generally on direct PFM with a suite of instruments similar to IDB Invest. OVE reviewed the PFM product menu of other MDBs and bilateral DFIs and confirmed that the majority has, at the minimum, a syndications desk to offer B-loans, guarantees, and co-financings. OVE also verified that MDBs like AfDB, ADB, EBRD, and IFC are already using UCPs to conduct balance sheet optimization but also to mobilize institutional investors' capital.[57] In addition, the IFC also offers PFM platforms for equity and debt investments to attract co-investors to IFC managed investment vehicles.[58] Most interviewed MDBs recognized that they were less familiar with the B-bond instrument, acknowledging IDB Invest's leadership in developing the asset.

6.6 However, some interviewees and DFIs reported that the focus on direct PFM may underplay valuable forms of indirect PFM. Despite MDBs' focus on direct PFM, there are operations in which projects' vertical logic calls for indirect mobilization. This is the case of equity and thematic bonds where an MDB acts as an "anchor investor," i.e., an investment where the MDB participation may serve as a signal to other investors that the investee company or bond issuer has passed the extensive due diligence of the MDB.[59] However, because there is no mandate letter associated with these investments or because the MDB does not charge a structuring fee, this work is not counted toward PFM efforts. This point has been highlighted by DFIs such as BII, for whom fund equity investments constitute a significant portion of their operations, with the expectation that sub-investee companies raise additional, third-party sources from debt markets.[60]

57 According to the Joint MDB PFM report, for example, the EBRD in 2020 signed 31 UCP transactions totaling US$560 million, and IFC deployed US$1.3 billion in UCP in 2021.

58 For equity mobilization IFC has the "Asset Management Company" that manages US$10 billion across 13 funds that invest in IFC equity operations. For debt mobilization, the IFC has the Managed Co-Lending Portfolio Program (MCPP), described in detail in Box 6.3.

59 In the MDB parlance, this term is also called "halo effect."

60 BII, Discussion Paper: "Understanding mobilization," 2023.

6.7 Other MDBs, unlike the IDBG, include the amounts mobilized through PPP advisory in their PFM figures. These operations can account for important PFM volumes at other MDBs, as they support large infrastructure projects in securing access to private financing. The harmonized PFM definition allows MDBs to consider the investment amounts that co-investors commit to a PPP project when an MDB arranges the financing as part of an advisory service. The logic is that there is credible evidence to claim MDB attribution in these cases.

6.8 Just like the IDBG, other MDBs are starting to experiment with portfolio and platform approaches. During interviews with other MDBs, OVE found that the PFM frontier lies in innovative approaches like portfolio PFM, where MDBs sell or transfer risks on a mature pool of assets, or in investment platforms where they predefine criteria with co-investors to manage a pool of resources and reduce transactions costs. In interviews, other MDBs emphasized that both portfolio and platform PFM require a minimum scale of distributable assets, as well as diversification in terms of geography, sectors, and ratings. This is an important aspect for a regional MDB like the IDBG, where there is less room for geographic diversification than a global MDB like the WBG. Box 6.1 presents examples of portfolio and platform approaches at other MDBs.

Box 6.1. Examples of other MDB's approaches to platform and portfolio PFM

The AfDB's "Room to Run:" This approach consisted of a synthetic securitization of NSG assets that allowed the institution to recycle capital for new operations. The AfDB estimated that it freed up sufficient capital to originate US$650 million for new loans. AfDB's work included finding private and public sector co-investors to absorb the subordinated tranches of a portfolio of mature NSG assets. The AfDB retained the exposure to the senior tranches. Also, it was called a synthetic securitization given that a guarantee structure was used, and the Bank kept the assets on its balance sheet to continue providing MDB-quality servicing. Given that third-party capital was absorbing the first losses of the portfolio, the AfDB worked with credit agencies to ensure that the structure would be recognized according to their methodologies for a capital relief.

IFC's Managed Co-Lending Portfolio Program (MCPP): Through this program, IFC manages different facilities with pre-established criteria with co-investors. When IFC is originating structures, it can automatically fund its operations with MCPP facilities facilitating the structuring and reducing transaction costs. IFC manages thematic facilities (for example, for infrastructure or financial institutions), as well as facilities based on instruments (B-bonds, credit insurance, and trust fund loans). According to 2021 data (most recent) since the MCPP was created in 2013, it has deployed US$10 billion through 11 global partners. Investors are usually institutional (mostly insurance, and sovereign funds willing to invest in commercial terms). The MCPP uses a portfolio approach (i.e., giving the MCPP priority access to its pipeline) to provide co-investors with geographic and sectoral diversification. Also, using the same portfolio approach, it has built multi-tranche facilities where the IFC (or another partner) takes subordinated (or riskier) tranches so that co-investors with more investment restrictions can access the senior tranches.

IFC is now working on an "open" MCPP platform that would offer opportunities for other DFIs, in addition to IFC itself, to warehouse and pool exposures for sale to institutional investors.

Source: OVE with information from: Risk Control, "Research Report: Room2Run: the AfDB's Approach to Sharing Risk with the Private Sector," 2019; Development Committee, World Bank Evolution Update, October 2023.

6.9 Like the IDB, other MDBs also face challenges in terms of measuring SG mobilization. For example, other SG windows of MDBs also report mobilization at approval (which, like in the case of the IDB, reflects the expected or planned mobilization). However, according to interviewed experts, SG PFM reporting should evolve to the NSG PFM standard to enhance credibility, where measured mobilization corresponds to actual figures and not estimates or planned amounts.

6.10 In addition, a recurrent topic in the MDB community has been how to account for the investments unlocked by catalyzation interventions. Most interviewed counterparts acknowledged that MDBs play a fundamental role in supporting governments in setting-up conditions for investment, mostly through continued advice and support in bringing about investment climate reforms and setting up the basic infrastructure for markets to function. They also agreed that the fundamental objective of these interventions is to unlock capital. However, many external factors also influence the outcomes of these interventions, making it hard to estimate the extent of MDB attribution. In fact, the 2017 MDBs' joint report on Mobilization of Private Finance (the "MDB Joint Report"), emphasized that the current PFM account has limitations, for instance, not capturing additional private investment beyond the immediate boundaries of MDB-supported investment and advisory projects.[61] In fact, recent MDB discussions are geared towards to: (1) agreeing on a common definition of catalyzation, (2) identifying which MDB interventions fit the definition, and (3) developing a credible methodology to estimate: the amount of private capital unlocked, the extent of MDB attribution, and the contribution of unlocked investments to closing the gaps in SDGs.

61 MDBs, "Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions 2017," 2018.

B. Current policy issues in PFM

6.11 PFM took off as a priority when the MDB community acknowledged that bridging the SDG investment gap would require tapping institutional investors. According to the OECD,[62] the financing gap to achieve the SDGs by 2030 is around US$28 trillion (or US$4 trillion per year for the next 7 years), while the global financial assets held by commercial banks, institutional investors, and asset managers are estimated to be around US$422 trillion, or 15 times bigger than the financing gap.[63] Thus, the logic of trying to mobilize private finance to bridge the development financing gap.

6.12 However, several independent panels in the MDB community commissioned by the different G20 presidencies have highlighted that MDBs are likely operating below potential and that greater efforts are needed to increase PFM. Box 6.2 presents the different supra-national instances where PFM has been discussed. It also highlights the expectation of shareholders gathered in these forums that MDBs continue to increase mobilization ratios as they are still far from attaining the amounts initially expected. Furthermore, these independent panels are also calling for MDBs to update their business models to prioritize capital optimization by means of increasing PFM.

Box 6.2. Evolution of events of PFM in the MDB Policy Agenda

PFM was identified as a key tool for PFM during the 2015 UN Third Conference on Financing for Development. The conference resulted in the Addis Ababa Action Agenda (AAA) which urged the MDBs to mobilize resources from capital markets and direct long-term investors towards sustainable development. In subsequent conferences, MDBs developed the G20 Hamburg Principles, where MDBs catalyze private finance by, among others, de-risking countries and sectors, standardizing and scaling up PFM, expanding and improving risk sharing instruments, crowding-in local currency investors, prioritizing commercial solutions and reviewing internal incentives. The Hamburg Declaration aimed for a 25-35% increase in MDB private mobilization over three years. However, PFM, as per the MDB Joint Reports under the Hamburg Principles, has stagnated and recent G20 statements have demanded more action.

The focus on PFM was reinforced by the analysis and recommendations of independent panels set up under the Italian and Indian G20 Presidencies. These panels correspond to the MDB Capital Adequacy Frameworks panel (CAF panel) and the panel on Reforming the MDBs (Independent Expert Group, (IEG)). Among other measures to improve the efficiency of MDB capital utilization, the CAF panel—which reported to G20 Finance Ministers in July 2022—also

62 OECD, "Global Outlook on Financing for Sustainable Development 2021," 2020.

63 Recent WBG estimates confirm the potential for PFM where the average annual spending needs for global challenges (climate, conflict, and pandemics) are estimated at US$2.4 trillion for developing countries between 2023 and 2030 while financial assets are estimated at US$370 trillion in developed countries. Source: IFC, "Strategy and Business Outlook FY24-26: Extending our Ambition," 2023.

recommends that MDBs should transfer or share the risk on their portfolios with the private sector. It proposes that MDBs increase the turnover of their portfolios by systematically engaging in portfolio securitization and insurance, including partnering with MIGA to transfer exposures to the reinsurance market.

The Independent Expert Group (IEG) sets an expectation of US$240 billion in annual MDB total PFM by 2030, which would imply an increase in PFM ratios. The expanding range of mobilization instruments, including blending, since the 2015 UN Finance for Development Conference in Addis Ababa has not led overall to a significant increase in the private finance mobilization ratio. The shift is expected from US$0.6 today (on a base of approximately US $100 billion) to some US$0.8 (on a base of US$300 billion) for each dollar of own-account lending for SG and NSG operations combined. In addition, MDBs would seek to catalyze private investment and finance through sector work and improved business environments, as well as risk mitigation such as data transparency, FX hedging, and local currency solutions. The report acknowledges that targets will be higher or lower for different institutions depending on their context.

Source: Report of the Independent Experts Group, "Strengthening Multilateral Development Banks: The Triple Agenda," July and October 2023. United Nations, "Addis Ababa Action Agenda of the Third International Conference on Financing for Development," 2015, Para. 70 and 75. G20, "Principles of MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development," 2017.

6.13 The consensus in the MDB community points out that, in addition to enhancing their business models to create PFM capacity, it is also important that MDBs address external factors that influence PFM. Improving the quality of the investment climate in borrowing countries remains critical to raising levels of private investment and finance. Through interviews, OVE confirmed that other MDBs are seeking to have more comprehensive approaches to integrate PFM with activities to enhance the enabling environment (e.g., catalyzation).[64] Another area of agreement is that the lack of bankable projects is a key concern. MDBs need to create portfolios of investment opportunities and set up intermediaries that can aggregate, securitize,[65] diversify, label/certify,[66] and, if necessary, de-risk such assets.

6.14 Other MDBs have conducted evaluations or ad-hoc assessments of their PFM performance with similar findings, which provide insights into success factors to increase PFM capacity and effectiveness. An internal evaluation by the WBG showed that private capital mobilization (PCM) was a relevant and effective way to increase MDB financing for client countries despite

64 The 2020-2021 MDB PFM Report, for example, highlights efforts conducted by the WBG.

65 There is a view of external stakeholders, for example Think Tanks, that instruments like securitizations or managed funds (which constitute portfolio and platform approaches).

66 For example, thematic bonds (green, social, and sustainable) follow standardized and marked-accepted guidelines for the types of investments that they can finance. This allows guiding investors to opportunities that have tangible contributions to SDGs and the Paris Agreements commitments.

not fully meeting co-investors' expectations. The evaluation found that the WBG's PCM instruments (including SG and NSG instruments) succeeded in attracting more capital. However, they faced some external and internal challenges, especially in catalyzation efforts.[67] Thus, the evaluation recommended combining PCM with enabling environment reforms and scaling up PCM in lower income countries (LICs) and lower middle-income countries (LMICs) to balance the investment gaps among countries. The EBRD also conducted an internal report on mobilization, revealing that the organization did not have a formal mobilization strategy, preventing setting baselines and targets for different types of PFM. The report recognized that the EBRD created instruments and structures to mobilize PFM, but they were not systematically developed to maximize the mobilization potential.[68]

67 WBG, "World Bank Group Approaches to Mobilize Private Capital for Development: An Independent Evaluation," 2020.

68 EBRD, "Special Study: EBRD Mobilisation of Private Finance," 2020.

07

Conclusions and Recommendations

A. At the strategic level

7.1 Between 2016-2022, mobilization became an area of emphasis for the IDBG. Mobilization was included as an area of operational emphasis in the IDBG's Second Update of the Institutional Strategy and as a result, the IDBG adopted a Roadmap with concrete actions to improve mobilization efforts. The IDBG created the Roadmap on the reasonable diagnosis that to boost overall mobilization, including PFM, the organization needed to focus on strengthening its planning, instruments, partnerships, organizational structure, incentives, and monitoring systems.

7.2 The strategic focus has been primarily on meeting mobilization volumes and has lacked an outcome-oriented approach. IDBG strategic documents focused on defining actions to improve the operational processes to boost overall mobilization volumes. However, they were not explicit on the development objectives to be achieved with these actions, considering that mobilization volumes per se should not be an objective, but rather a tool to reach a development objective. Development objectives help define what PFM is for (use) and where and how it should be priotized, guiding PFM instrument construction and relationship building with co-investors in a way that fosters additionality and resource efficiency.

7.3 Like in the case of other MDBs, the different business models of the IDB and IDB Invest have impacted the way PFM has evolved in each institution. So far, IDB Invest has achieved most of the PFM volumes, number of operations, and degree of sophistication. The business model of the IDB makes it less straightforward to bring in private investors. As a result, the IDB has approached PFM through guarantees and indirect PFM, through national development banks.[69] The trend is similar in other MDBs such as the WBG or the ADB, where most PFM operations come from the NSG windows, with the SG window operating almost exclusively through guarantees. The IDB has worked on catalyzation activities and mobilization from public sector partners. Most of the IDB's acitivites to facilitate private sector investment are related to catalyzation (e.g., working in regulations, providing market infrastructure, etc.).

7.4 The IDB has not produced specific strategic guidance on PFM for SG operations beyond Group documents, which are too broad to address the challenges of PFM in the public sector window. During this stocktaking, OVE found that there is a need to further analyze: (1) PFM potential in terms of the amounts of

69 However, although there has been some progress in the use of guarantees since OVE's evaluation of this instrument, it is still a product with very limited use.

investment SG PFM can facilitate; (2) what instruments are well suited and should be used; (3) what the value proposition is for the different countries and sectors; and (4) the value proposition for potential co-investors.

7.5 For its part, in addition to Group-level strategic guidance, IDB Invest monitored the progress of PFM in its annual business plans that supported the creation of PFM capacity. This enabled the organization to set organizational priorities and define KPIs to create a PFM structure and build a sizeable portfolio. Despite this progress, like at the Group-level, the organization has yet to define the development objectives it aims to attain with PFM or provide more criteria on how to optimize the use of PFM.

7.6 In both organizations, PFM potential has not been analyzed at the country level despite the opportunity to do so in CS. In its reviews of country strategies, OVE found that the IDBG adequately diagnosed when countries had gaps in regulation, macroeconomic stability, or in the overall investment climate in line with is historic focus on catalyzation. However, OVE did not find evidence of a systematic analysis of PFM potential at the country level (both for PFM in NSG and SG operations), an area to be strengthened according to the Mobilization Roadmap.

7.7 In addition, guidance for coordinating the sequencing of catalyzation and PFM at the sector and countries levels is lacking. PFM tends to concentrate on countries with more developed financial markets. Thus, catalyzation interventions that improve the business environment for investors are a critical complement to PFM and unlock investments.

B. At the operational level

7.8 In terms of instruments and partners, IDB Invest has been able to diversify its financial instrument offer and co-investor base without using too much economic capital, although attracting institutional investors is a work in progress. IDB Invest's most important success was in ramping up the use of UCPs to manage exposures and bringing in insurers as co-investors. IDB Invest took advantage of the value insurers put in MDBs origination processes, their risk appetite for geographic diversification in emerging and developing markets, as well as the low transaction costs. In parallel, IDB Invest is working to accelerate the B-bond market, which has been a tool to attract institutional investors who need to invest using a bond instrument instead of a loan. In general, IDB Invest has transitioned from a PFM structure concentrated on its B-loan program with commercial banks to a more diversified mix.

7.9 In terms of organization and incentives, IDB Invest has benefited from a specialized PFM unit, a top-down mandate, incentives at the origination segments, as well as external factors like the overall size of the organization. OVE found that the specialization of RMB has been critical for its success in creating new PFM instruments and diversifying the co-investor base. Also, organization-wide incentives in the form of equating own account amounts to mobilization amounts have further energized mobilization. This has been coupled with including mobilization in teams' performance indicators.

7.10 However, there are signs of organizational stress after years of growth, which demands attention. OVE found that IDB Invest's assets under management, as well as the complexity of PFM instruments, has increased. As a result, the organization is showing signs of stress, specifically in terms of still having manual processes and limitations to manage operations with multiple co-investors. Concurrently, some existing and potential co-investors are demanding solutions that are capital-intensive (for example, taking subordinated tranches or taking in more construction risk), which require the organization to have prioritization mechanisms.

7.11 The IDB has an ad-hoc organization for PFM with a limited toolkit of financial instruments and few incentives to conduct direct PFM. In the case of the IDB, the operationalization of PFM mandates has been executed by ORP and CMF, which are still building a track record in developing, using, and promoting guarantees as a tool to conduct PFM. In addition, compared to mobilization from public sector sources, teams have less knowledge, familiarity and incentives to use PFM as a tool to complement the financing in their operations.

7.12 Despite the challenges, the IDB has structured recent guarantees that showcase the potential of supporting smaller and/or riskier economies. The IDB has used guarantees to facilitate borrowing governments' access to capital markets and advance the climate agenda. The work has been carried out in the Bahamas, Barbados, and Ecuador. This is different from the case of NSG operations where PFM amounts concentrated in larger economies with more developed financial markets.

7.13 The view of independent panels commissioned by the G20 is that MDBs are below their PFM potential and can do more to attract institutional co-investors. Institutional co-investors are perceived to be the group of partners that MDBs should access because they can provide stable, long-term financing for development projects. However, this entails MDBs to adjust PFM products to their investment requirements.

7.14 Portfolio and platform PFM approaches are promising avenues to enhance PFM efforts. Both institutions are in the initial stages of applying these approaches. They have more experience with managed funds (a type of platform approach) of public sector co-investors. However, they have not yet created a purely commercial platform. In terms of portfolio-level PFM transactions, IDB Invest has started conducting the first operations (e.g., by using UCPs and selling A-loan participations after origination). OVE found reasonable evidence that both institutions are actively seeking to operationalize these approaches. These approaches are typically recommended in the MDB community because they are perceived to: (1) have lower transaction costs by avoiding bringing co-investors on a case-by-case basis, and (2) facilitate attracting institutional co-investors (in the sense that the Group can offer co-investors a pool of mature and diversified assets).

7.15 In terms of results tracking, SG operations only reports planned PFM, which is not sufficient to manage PFM. The IDB only reports and tracks in its systems planned PFM. However, as shown in this study, these measures overestimate PFM amounts as changes in projects or market conditions have an impact on attained amounts. Also, manual reporting and tracking of operations increases the risk of overlooking operations with PFM components.

7.16 Based on the findings and conclusions of this report, OVE recommends:

For the IDBG:

1. **Develop a strategic framework to guide IDBG's PFM activities.** This framework should be constructed considering complementarity with other tools (e.g., catalyzation) to attract private investment to development projects. The framework should provide guidance on: (i) what the IDBG aims to achieve with PFM considering that mobilization per se should not be an objective, but rather a means to achieve a development objective; (ii) instances where PFM is more useful compared to other tools, (iii) criteria on use and prioritization; and (iii) how the IDB and IDB Invest will coordinate to provide an integrated IDB Group response to the needs of its clients.

2. **Include a diagnostic of PFM potential in CS, considering: (1) countries' investment conditions, and (2) complementarity with activities to enhance the investment climate (e.g., catalyzation) and their sequencing.** The diagnostic should define the feasibility of conducting PFM in different countries, define priorities for PFM in SG and NSG operations, and identify the appropriate

sequencing between PFM and catalyzation interventions. The diagnostic exercise should engage operational teams of both organizations.

For IDB Invest:

1. **When creating additional PFM capacity, prioritize countries and segments where the private sector is unlikely to go on its own, i.e., where IDB Invest has more additionality in facilitating investments.** When designing new products, investments in upstream advising, or seeking co-investment partners, prioritize economies that overall receive less private capital flows. This work must consider optimizing IDB Invest resources (capital or administrative resources like people, processes, and systems).

For the IDB:

1. **Provide strategic guidance regarding PFM in SG operations.** This includes: (i) defining, based on its comparative advantages, the IDB's goals with respect to PFM and its approach to achieving them, including an estimate of SG PFM potential; (ii) define the resources and the institutional roles and responsibilities that will be devoted to PFM operations.

2. **Shift PFM reporting from planned mobilization amounts to executed mobilization amounts, beginning with direct PFM structures.** This is in line with the 2022 recommendations of OVE's Evaluation of Guarantee Instruments. It will ensure that the IDB has reliable information on actual PFM amounts and not only planned PFM amounts. To so do, the IDB will need to strengthen its information systems to capture the information and replace the manual system currently in use.

References

AfDB (African Development Bank) et al. (2015). *From Billions to Trillions: Transforming Development Finance. Post 2015 Financing for Development: Multilateral Development Finance.* https://pubdocs.worldbank.org/en/622841485963735448/DC2015-0002-E-FinancingforDevelopment.pdf

BII (British International Investment). (2023). *Understanding Mobilisation. Discussion Paper.* chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://assets.bii.co.uk/wp-content/uploads/2023/03/13125506/Understanding_Mobilisation.pdf

EBRD (European Bank for Reconstruction and Development). (2020). E*BRD Mobilisation of Private Finance*. London. https://www.ebrd.com/documents/evaluation/2020-ebrd-mobilisation-of-private-finance.pdf

Gregory, N. (2023). *Taking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development*. Washington, DC: Center for Global Development. https://www.cgdev.org/sites/default/files/taking-stock-mdb-and-dfi-innovations-mobilizing-private-capital-development.pdf

GPEDC MDB (Global Partnership for Effective Development Co-operation). (2019). *Multilateral Development Banks and Private Sector Engagement for Sustainable Development*. https://www.adb.org/sites/default/files/publication/512376/mdbs-private-sector-sustainable-development.pdf

G20. (2022). *Boosting MDB's investing capacity: An Independent Review of Multilateral Development Bank's Capital Adequacy Frameworks.* CAF-Review-Report.pdf (mef.gov.it)

Fitch Ratings. (2020). *"Sovereign Defaults by Creditor Reflect MDBs' Preferred Creditor Status"*. Sovereign Defaults by Creditor Reflect MDBs' Preferred Creditor Status (fitchratings.com)

IDB (Inter-American Development Bank). (2020). I*DB Group Corporate Results Framework 2020-2023*. Document GN-2727-12. Washington, DC: IDB.

———. (2018). *IDB Group Institutional Strategy Update 2020-2023: Increasing Mobilization for Latin America and the Caribbean.*

———. (2019). *Progress Report on Mobilization Instruments since Mendoza. Revised version.* Document GN-2943-1. Washington, DC: IDB.

———. (2020). *IDB Group Institutional Strategy Update 2020-2023: Increasing Mobilization for Latin America and the Caribbean.*

———. (2020). *IDB Group's Mobilization Roadmap 2020-2023. Revised version. Document* GN-2988-1. Washington, DC: IDB.

———. (2022). *Evaluation of Guarantee Instruments*. Document RE-559-1. Washington, DC: IDB.

———. (2022). *Independent Country Program Review, Chile 2019-2022*. Washington, DC: IDB. http://dx.doi.org/10.18235/0004441

———. (2023). Annex A. CRF 2020-2023 Indicator Definitions. Annex A, CRF 2020-2023 Indicator Definitions.pdf

———. (2023). *Corporate Evaluation: Evaluation of IDB Invest*. Washington, DC: IDB. http://dx.doi.org/10.18235/0005014

———. (2023). N*ew Vision and Business Model for IDB Invest: Implementation Plan and Capitalization Proposal*. Document CII/GN-523-3. Washington, DC: IDB.

IDB Invest (Inter-American Investment Corporation). (2015). *Delivering the Renewed Vision: Organizational and Capitalization Proposal for the IDBG Private Sector Merge-Out.* Washington, DC.

IFA WG (International Financial Architecture Working Group). (n.d.). *Principles of MDB's strategy for crowding-in Private Sector Finance for growth and sustainable development*. Working Document. https://www.ppiaf.org/sites/default/files/documents/2017-01/Principles_on_Crowding_in_Private_Sector_Finance_April_20.pdf

IFC (International Finance Corporation). (2023). *IFC Annual Report 2023: Building a Better Future*. https://www.ifc.org/content/dam/ifc/doc/2023/ifc-annual-report-2023-building-a-better-future.pdf

———. (2023). Strategy and Business Outlook FY24-26: Extending our Ambition. https://www.ifc.org/content/dam/ifc/doclink/2023/ifc-strategy-and-business-outlook-fy24-26.pdf

WB (World Bank). (2017). *Maximizing Finance for Development*. documents1.worldbank.org/curated/en/168331522826993264/pdf/124888-REVISED-BRI-PUBLIC-Maximizing-Finance.pdf

Kahn, Charles M.; Silva, Anderson Caputo; Martinez Torres, Gonzalo. (2023). *Literature Review and Framework for Institutional Investor Mobilization. Equitable Growth, Finance and Institutions Insight-Finance*. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/40273

MDBs (Multilateral Development Banks). (2018). *Harmonized Definition of Private Finance Mobilization*. https://www.adb.org/sites/default/files/page/672516/mdbs-private-investment-mobilization-guide.pdf

———. (2018). *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions 2017*. https://documents1.worldbank.org/curated/en/691741532976526194/pdf/129030-WP-Mobilization-of-Private-Finance-2017-PUBLIC.pdf

———. (2016).*Joint MDB Statement of Ambitions for Crowding in Private Finance*. https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/Hamburg_reports-mentioned/Joint-MDB-Statement-of-Ambitions.pdf?__blob=publicationFile&v=3

OECD (Organisation for Economic Co-operation and Development). (2020). *Global Outlook on Financing for Sustainable Development 2021*. https://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm

WB (World Bank). (2021). *World Bank Group Approaches to Mobilize Private Capital for Development*. Washington, DC. https://openknowledge.worldbank.org/entities/publication/69c27f5a-1b71-558c-a1c0-84e1d6017b1f

———. (2018). *MDB methodology for private investment mobilization: reference guide* (English). Washington, DC: IDB.

https://documents1.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf

———. (2017). *Forward Look: a vision for the World Bank Group in 2030, progress and challenges*. Washington, DC: https://documents1.worldbank.org/curated/en/620311493344873007/pdf/03-14-17-COW-SUMMARY-FINAL-03222017.pdf

Office of Evaluation and Oversight - OVE

Established in 1999 as an independent evaluation office, OVE evaluates the performance and development effectiveness of the activities of the Inter-American Development Bank Group (IDB Group). These evaluations seek to strengthen the IDB Group through learning, accountability and transparency.

OVE evaluations are disclosed to the public in accordance with IDB Group policies to share lessons learned with the region and the development community at large.

iadb.org/evaluation

linkedin.com/showcase/idb-ove

@BID_evaluacion