Mobilizing the Private Sector: How MDBs Can Step Up Their Catalytic Role

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MASOOD AHMED:
Greetings and welcome to this session at the Center for Global Development. And I'm really excited about this session because the topic, which is how you catalyze, how the MDBs can catalyze private flows for development for climate, is one that I find attracts the widest range of views, ranging from people who are totally skeptical about the possibility, to those who think this is where the future is, and we need to really double down and put our energies behind it. And you can talk to people who will give you very good examples of what's happening in terms of innovative ways in which private financing is being mobilized today for development related projects, for climate change in developing countries. I'll give you examples of how the multilateral development banks have organized themselves in new ways to do more of this and the potential for that. And then you meet people who will tell you tales of woe about how hard it is to work with the multilateral development banks to actually get any private financing catalyzed.

And also, if you look at the aggregate numbers, the aggregate numbers are not so encouraging. So, last year, private financing to developing countries, was actually minus $200 billion. $200 billion was taken out of developing countries in terms of private financing in the aggregate. Similarly, if you look at the amounts of money that are actually directly catalyzed by the private sector, from the private sector by MDBs, those numbers have not yet begun to show a big increase. So, how do we make sense of this range of views where some people, as I say, see this as without this, you can't succeed. This is where the future has to be. While there are obstacles, we have to overcome them. And those who think, yes, maybe, but so far we don't really see the basis for this optimism. So, that's what this panel is going to help us figure out. And I'm really happy that they're here. I know Alexia has just come in from another meeting rushing in. So, we'll give Alexia a couple of minutes to settle down.

But as I say, we do have a terrific panel. And so, we have Frannie Leautier, who's the CEO and partner of Southbridge Capital and has a long, distinguished career working both within the MDB system and then now in the private sector. And I want to get through her perspective. As I said, Alexia is just joined and Alexia, of course, is in the US Treasury. She's the assistant secretary in the US Treasury and has been a driving force behind a lot of the recent innovations in terms of getting the MDBs to think more about their role as catalysts for mobilizing private finance. And actually going back all the way now, 18 months ago, when Secretary Yellen was in this room making a speech about her vision for the role that MDBs could play in development finance going forward. And a very big part of that vision was the role that they would play in catalyzing private financing. And I'm sure Alexia had some role in the drafting of those remarks. We have Ahmed, Ahmed Saeed, who's currently CEO of Allied Climate Partners, but of course, has been both looking at the set of issues from the shareholder side when you were in US Treasury and then from within the MDB system, where when you were at the ADB, the Asian Development Bank, and it's been an interesting journey.

And actually, I want to come back to Ahmed in a few minutes as to the different places from which he's been trying to work on this issue and why that journey has brought him where he now is. And then Irene Arias Hofman, who runs the IDB Lab, and the IDB Lab is sort of one of these things that the aficionados of the private financing world all know about, but not many other people fully understand what the IDB Lab does. But actually, it's a very interesting experiment. And in fact, one of her predecessors was probably in this room, Nancy Lee, sitting over there, who's also the person who leads our own work on development finance, was herself one of the heads of the IDB Lab some years ago. So, this is a great panel, and I want us to get right into the issues. We'll try and leave some time for Q&A from people here and from those who are watching online. And I want to start with Frannie, if I may, because Frannie, in a way, yours is not so much starting from the MDB-role perspective, but more broadly in terms of what's been happening in terms of private financing for development and climate.

So, you have this venture as an investor in Africa. So, what do you make of this current situation from where you said, do you see examples where you are seeing risk appetite from the private sector to come in and finance? And do you find that some element of risk mitigation or offsetting done by the public sector, either through the MDBs, through philanthropies, through other ways helps? What would you say in terms of the state of play?

FRANNIE LEAUTIER:
Thank you very much, Masood. It's a pleasure to be once again here at the Center for Global Development. Our company, SouthBridge Group and SouthBridge Investments, which is the investment arm that I run, was founded by former MDB heads. So, we have Donald Kaberuka, ten years at the African Development Bank. Andrew Alli, who came in—he was with the Africa Finance Corporation. Myself, many years at the World Bank, African Development Bank, TDB. And then we have a partner who came from Goldman, sorry, from Rothschild, Lionel Zinsou, but also was prime minister of Benin, right? So, the people who founded the company come from the MDB world and the investing world. And the initial idea was, how do you crowd in private capital into Africa? Because the demands are huge.

And having this background from the MDBs, the early thoughts where we can leverage that knowledge, those networks and actually crowd in the MDBs alongside private capital. The early lessons were quite sobering, where we found that the MDBs actually are quite risk shy.

They come in when almost everything has been de-risked. If they come in early, they're so slow in the decision process that private partners walk away. And so, that was very sobering, as I mentioned. But there were some great successes that happened that we can talk about. So, three main successes and why did those areas succeed? The first is where the MDBs had already piloted or experimented with a unique approach that then the private sector could come and scale up. So, that's sort of long investments done by the MDBs, somewhat like what IDB lab has been doing that allowed them, the private sector to see the opportunities and to come in without requiring any de-risking capital, in addition to the early knowledge of the opportunity. And you have many examples in that space, particularly in the telecom sector. I always mention this, the World Bank spent 20 years doing knowledge work around the telecom sector, and then the private sector came in to invest without needing subsidies or any concessional capital.

And the question is, how can you do that then in energy and other sectors that are demanding those solutions? The second one, which worked very well, is where, again, the MDBs had experimented with philanthropy and came up with solutions and then philanthropy could go and do with the private sector. So, you take the example of Bangladesh, where the Gates Foundation worked with the World Bank to bring in capital, or Pakistan, where, again, Gates Foundation with the Islamic Development Bank dealing with the health sector. And once those solutions were already proven, then you can see now Gates Foundation working directly with the private sector to bring in private capital, using philanthropic capital as the early de-risk where you take on, for example, paying a number of years of management fees for fund managers, helping with the setup, fund setup, bringing in grant money for technical assistance or first loss pieces within the capital stack. So, that has also worked, but it started with the MDBs and experimenting there.

The third one, and this is maybe much newer, is where, again, through philanthropy, you are able to use philanthropic and grant money. And this includes bilateral grant funding to get liquidity from the capital markets. And it's not very liked because it's difficult for philanthropy to show the charitability of that model. It's a huge test. But for sectors where the impact track record is important, that can be done. And there, you then stretch the value of philanthropic capital much further than what you would have done if you gave direct grants to a fund or to a project or a transaction. And this one is one we at SouthBridge are working on for the restoration and reforestation space. We've been working with the World Resources Institute and the Bezos Earth Fund, and we are able now to crowd in DFIs and MDBs into the capital stack to develop the restoration and reforestation assets at the community level. So, to get the just part of the transition with direct benefits to communities, and then bring those assets to the carbon markets, where then they can be in the voluntary carbon space, help to build those markets.

And so, philanthropic capital sits very comfortably in that space and MDBs find their position as well. So, these are some examples. There are many others, but I thought to use these three. And if you allow me, I'll close with one or two older examples. The first one is the UK, who is a single shareholder of FSD Africa came in to use grant money to develop capital markets in Africa, and then created an investment arm that then took early risk, venture risk in investing in then solutions that prove business models and then the private capital is crowded in. Now, through that model, you can see a series, if you like, from pure grants for the capital markets development, investment capital at risk for the venture side, and then handing off point to BII that can crowd in the rest of the private sector in there. And the question I've always asked is, why aren't other bilateral aid agencies doing the same? And I heard yesterday how USAID is now working with US DFC to put in those kinds of solutions.

So, that one has been proven and can be scaled up. The second one is the Nordic countries and the SADC countries. They put together the Nordic development agencies, the Norfund, Finfund, IFU, and SIDA, Swedefund, came in to put capital along with the equivalents in the SADC countries, the development banks in the SADC countries, and they created Norsad. And Norsad then acts like a private debt fund to then issue private debt to commercial entities in the SADC region who would never be able to get capital otherwise. This has been around for 33 years now. It needs reform going forward because the cost of capital is quite high. So, the business model has outlived its usefulness, I would say, and doesn't work in very high interest rate environments. So, we're looking now at a second version of that to see how you could still do the same. So, I'm less skeptical than I used to be, because I see that MDBs when they have the leadership and the push and especially shareholder pressure can change, but they have to be much faster and more nimble in order to work with the private sector and take the long term risk so that the private sector sometimes cannot do.

MASOOD AHMED:
Right. OK. So that's a very good few examples, different kinds of ways in which things have worked, can work. And so, you're less skeptical than you were the last time we talked about it. That's good news. And now you've also given some pointers on what it is they need to do. So, nice segue into shareholders, shareholder risk. I'm going to ask Alexia, so Alexia, you know, 18 months ago, as I said, this was a big part of the agenda. Since then, you've set out

some very clear milestones of what it is that MDBs should be doing as a way of demonstrating that they are serious and engaged and implementing the vision that would help them to get to that. Part of that, of course, is just being clearer about what it is that they are trying to do. And one of the things that we do here at CGD is put together a reform tracker that tracks the progress on reform for all the MDBs based on information that they supply. So, it's based on information from them, but that we then organize and rate. And one of the interesting things is that only three of the MDBs actually even set and publish targets for what the amount of private sector mobilization that they are planning to do.

And I'm a great believer that if you actually set a target, you're more likely to then be making the efforts to get to it than if you don't. That's one dimension of it. But overall, Alexia, from a shareholder perspective, US Treasury perspective particularly, how far do you think that they are coming along on that vision of becoming a catalyst for mobilizing private finance? How are you feeling on your optimistic–skeptical scale here?

ALEXIA LATORTUE:
Thank you so much, Masood. It's great to be here, and you have been an important thought partner behind a lot of our work on evolution, so thank you for that as well. And if Frannie is a very pragmatic, honest person who's deeply engaged in markets. So, if she's less skeptical, I'll take that as motivation to keep working hard. It means a lot. Listen, I think, the good news is the sort of, you know, when the flag goes down on a Formula One race, the go message has been given. So, I think, you know, every MDB, at least the MDBs that I track closely that the US is a shareholder of, and I think, your tracker, you know, shows this has sort of relaunched, its with new energy, its journey. I think, that is fair to say. And I'll point to some concrete areas of progress while also being very upfront that there's much, much work that remains to be done. But let me start with the areas of progress. And by the way, I would just underscore your point about targets making a difference. And just a few months after the secretary was on this very stage, she gathered the heads of all the MDBs to ask them to please set targets.

And so, you know, we're waiting for the full delivery on that ask. But I'll maybe start with the IDB, not only, but partly because Irene is on this stage as one of the senior managers of the IDB Group. Just last month, at their annual meeting in Punta Cana, we had what I believe is actually a historic annual meeting with a really important set of decisions. At the heart of this was a $3.5 billion capital increase for the private sector arm of the IDB, IDB Invest. Equally important to the capital increase was the adoption by governors of a new vision and business model. A new vision and business model predicated on the concept of originate to share. Simply put, it's the idea that the MDB capital needs to be used up front to the difficult work with countries of identifying and clients, of identifying the projects, helping to structure them, taking that risk where the risk is the highest. And over time, as the risk reduces, as, you know, a project gets off the ground, bringing in and sharing the assets with the private sector, thus liberating more capital to go back and do the more difficult thing.

So, the entire, you know, IDB Invest is now designed around this vision of originate to share. And then what does that mean practically? Well, number one, it means, and with a capital increase also, so shareholders have a role, it means they have more risk capital to do, more local currency, to do more equity, to take more risk in harder markets, smaller economies. I'm thinking of the Caribbean, members of the Inter-American Development Bank, the Central American countries in the region as well. So, not having all the energy on the bigger markets where it's a little bit easier. But also with this, they focused a lot, IDB Invest, on the non-financial risks and how to also tackle those. And so, looking at an enhanced effort on technical assistance, on support for countries around the environmental and social safeguards, the upstream work of project preparation. So, that is part of the vision as well. And then all of this was wrapped up in two other very important decisions that happened in Punta Cana.

One was on the public side because my strong view is that to have a strong private sector, you need a strong enabling public sector. And so, there was not a capital increase, but there was a new institutional strategy for the public side of IDB, very focused on development effectiveness, very focused on improving policy-based lending, which will open up opportunities with best and better investment climates for the private sector. And then the third decision that Irene was critical to is indeed a bolstering, also a new funding model and replenishment and vision for IDB Lab. So, as a package, I am not just less skeptical, I am deeply hopeful of what IDB Group has done. And if it works, let me tell you, we will be going to the other MDBs and saying, “Take a look here (LAUGH) and see what you can do.” We're obviously here at Spring Meetings, the World Bank Annual Meetings. So, I should touch on the World Bank briefly to say that, you know, it's on its way. It's created this big private sector lab that's advising Ajay Banga and Makhtar Diop with ideas.

One of the announcements that will be launched actually in July is a unified, guaranteed platform that MIGA will coordinate. And I think, that's in response to some constructive criticisms from some investors to the World Bank Group. So, work to be done there as well to make it real. For example, will there be a liquidity facility to support MIGA's political risk insurance? So, that's an outstanding question. How far can MIGA take risk? And what will it be its risk appetite on its non-honoring sovereign products? So, there's work to be done to fully deliver on that vision, but very exciting news. The IFC warehousing securitization, also, with a transaction this year, you know, very important news. And then also to change, you know, in these MDBs what you do at the beginning, the diagnostic work is so important. You know, the private sector diagnostic 2.0 that will leverage, again, both the public and private side to really understand what needs to be done to help, you know, leverage in the private sector.

So, I think, this is promising. The African Development Bank, I have to say, you know, issued hybrid capital to the private sector, I think, better pricing than they imagined. I think, that's hugely important. And I think, other banks should be looking at that as well. So, this is all very positive. The reality is a lot of this is as much as it is about instruments, it's about clarity of vision. I think there, we're getting there, but also culture change, mindset, incentives, and that's part of the agenda that we still need to continue to keep sustained, focused on. But I think, we are asking these banks to work in different ways, quite fundamentally. I want to thank the leadership, but also the staff of these institutions that are challenging themselves to do work differently, which is, you know, not always easy for us human beings. So, encouragement to keep going.

MASOOD AHMED:
Good. So, that's actually quite a positive take on progress. Certainly, the IDB example that you gave—IDB Invest capital increase and new model for IDB Lab—but I think, there's a bigger point that you just made, which I just want to make sure people have registered, which is, that it's not just about the private sector arms of these institutions working differently, although they will need to work differently, but it's actually about the whole of the MDBs. The sovereign lending part also needs a different mindset and needs to adopt as a core objective, the mobilization, and not just the mobilization of private capital, but actually, engagement with the private capital in the co-creation of projects. And I think, that's an important mindset change that is a work in progress that will need to happen. And maybe linked to that, perhaps we'll come back to that, is this issue of appetite for risk and appetite for risk within the MDBs. And there's different, depending on when you listen to the leadership of MDBs, you get slightly different views on how much appetite for risk and their view, how much can be taken on, but also the appetite for risk amongst shareholders.

And—

ALEXIA LATORTUE:
I knew that was coming.

MASOOD AHMED:
Frankly, when you talk to the leadership of the MDB, they're like, well, you know, you need to go talk to our shareholders whose own appetite for risk is maybe not consistently

expressed in the different fora in which they need to articulate themselves on this point. And that's a more, you know, diplomatic way of saying what some of them say.

ALEXIA LATORTUE:
Very.

MASOOD AHMED:
So, we'll come back to that. Now… Coming to this issue of risk appetite and how much risk are they willing to take and how do you get the projects de-risked enough so that they, and the more importantly the private sector, comes in. Ahmed, I want to start with you, because I think both you and Irene are different ways of tackling that gap. You basically decided that the way to deal with some of the early-stage risks that were there and different kinds of private capital coming in, could best be handled by setting up a vehicle outside the MDBs. This was better than outside. Tell us a little bit about what drove you there and whether after a few months of this, you're still confident that's the right way to go?

Or what do you think of the sort of inside-outside perspective on it?

AHMED SAEED:
So first, let me just before anything else, just Masood, say thank you for hosting this and for all the great work that CGD does. I think I wouldn't characterize what we're doing as the right answer. We're doing something new. Actually, all of the above is the right answer. The shareholders have to push for reform. We need new metrics for the institution. We need, you know, centers of excellence and innovation in the institutions. We need, you know, we talk about risk. All risk is existential. You know, you were talking about culture. There are many instances I felt when I was at ADB that… And actually it was most stark during COVID because during COVID, on one side of the balance, you could actually quantify lives. There are certain choices that were made inside the MDB system about what and what not to finance, that it did not involve financial risk, they simply involved departure from prior practice. And all too many times I saw a scale. It was an incredible time in some ways, because the choices were so stark and that they had to be made on such an accelerated time frame that everybody's card had to turn over.

There was no gaming. What I think of risk, it was obvious that on this side is X number of people dying. Just the way the math worked. How many vaccines, how many aged people in the population, how many X number of people dying? And on this side was “do I do it exactly as I've always done or do I do it slightly differently, but within the ambit of the rules as described by the boards?” And all too many times I saw the benefits really not calculating into the decisions. So I'd just say about risk that, yes, we talk often about the balance sheets. We have different views. My humble opinion the AAA balance sheets of the

MDBs is the greatest financial intermediation vehicle for getting savings to the poorest in the history of humanity. A trillion dollars. I wouldn't mess with it, but there's all sorts of other things. And I think, Frannie, all the examples you gave. You know, they involved somebody inside an MDB taking non-financial risk.

FRANNIE LEAUTIER:
Exactly

AHMED SAEED:
Right? Being innovative, thinking differently. So I'd say Masood, at the outset I would say we must attack the problem from all corners, right? Now why? To just answer the question more specifically. Why did I choose to do something outside the system? Because after a career in which I engage the MDBs in various different ways as a lawyer, as an entrepreneur, as a policymaker, as a banker, I both realized the power of the institutions. And then when I worked at ADB, I also realized that the capacity of the institution to innovate at the pace and scale the moment demands, it just doesn't meet it. And as much as it's important that Alexia pushed from where she sits and everybody pushed from their sit, where they sit, the normal model of disruption that occurs in the business ecosystem… There is Toyota and suddenly there is Tesla, right? Why did Ford build a pickup EV? Not because some engineer advocated it, because they were deathly afraid. That dynamic doesn't really work in the MDB system, because the protective barriers around the institutions are enshrined in international public law.

They're never going away. And I concluded that actually, the system needed friendly disruptors. The institutions are essential. They're irreplaceable. We need them. But we need allies externally who have the capacity, whether it's risk, capacity to innovate with respect to their capital base, which we're able to do. Because while we are an investment organization, our funders are philanthropists who want us to be out on the risk curve. They need organizations that are able to innovate in the business model ecosystem and do things differently. They need organizations that are able to innovate in a host of different ways, but those organizations have an obligation to understand the MDBs and to be their allies. And not engage in this lazy commentary I find where both sides are just throwing hand grenades over a transom and saying, oh, the MDBs are slow and they don't know what they're doing. And then the MDBs say, oh, the private sector doesn't understand. And I'd say that, you know, the Private Sector Lab, just to close out one last comment, because I do think that the World Bank Group and clearly IDB was there before, but given these are the Spring Meetings, I'll just make a comment about the World Bank Group.

It's clearly moving in that direction. And I've been, my chairman, Mark, is one of the CEOs in the Lab, and I've been in all of those meetings. And one of its great values to me is that it's forcing a conversation. And as it forces a conversation, the understanding grows and the capacity to innovate and work together grows. And so I'd say simply that why work from outside? Because I think that this was a necessary missing, not entirely missing, but less focused piece in the ecosystem was external organizations that are committed to being strong allies, but who are capable of doing things at a pace and speed that the incumbents were never designed to do. But if that's married to shareholder pressure, when that's married to internal innovation, then we can start to get. This pace and scale of change that we need.

ALEXIA LATORTUE:
Brilliant.

MASOOD AHMED:
So I think that's a really important point that you just made. Which is that, for me a learning that I think when we talk about risk, many people said we want them to take more risks. Very quickly start thinking finance, balance sheets. But actually what you've just said, which thing really resonates, at least with me, is that a lot of what people need to be doing faster, more often is to change the way they work and keep asking themselves how to do that. And I think that is where the role of outside disruptors as sort of friendly critics if you like, is helpful. And in some ways, I mean, I extrapolate back to the role of CGD. If somebody said to me, what does CGD's role? One of the roles that we play is to be the external place that helps to point out ways in which you could do development better, because there is new evidence, because there's ways of doing things differently, and all large machines can end up becoming a little too devoted to precedents and "not invented here." And part of the role is to sort of provide that from outside.

So I think that is an important way to think about this. But you can do it from within too. So Irene, you're the internal disruptor as it were. Tell us a little bit about the sort of IDB Lab then in that sense. I mean, just listening to what Ahmed said, would you sort of say, yes part of my role is to play exactly that function from within? Or how do you see your role in that context?

IRENE ARIAS HOFMAN:
It definitely—Thank you very much for having me. And thank you, Nancy for the invitation and Masood and CGD with the work that you do on independent research for global prosperity. To answer your question, it made me think of one book that actually explains a lot of what we do. It's 'The Prosperity Paradox.' And it is indeed the mandate, the explicit mandate that IDB Lab has within the IDB Group. And before that, when it was called MIF, the Multilateral Investment Fund. But from the beginning, 31 years ago, it was to push those boundaries and to be that internal slash external disruptors. We do work a lot with one foot

in the institution and one foot outside in the innovation system. So we do work with a lot of friendly disruptors outside. Otherwise, we would not be able to have the results that we have. And I also want to thank Alexia, because the backing that we got at the annual meeting to amplify what we are doing, is fundamental, particularly in terms of helping articulate better how IDB Lab works within the system.

And it is a unique entity in the MDB system. But how does it work within the system and how we maintain our autonomy and flexibility and agility to be able to take more risks? That's our mandate. We invest in early-stage companies from pre-seed to series B or more. We work in the enabling conditions in those stages for what may come in terms of future technologies, in terms of, some of the deep challenges in the region that are sort of failures where the public side doesn't have quite the response and private sector doesn't quite have it, but where technology and innovation can play a very useful role. So combining financing, but also with a lot of deep work in creating the conditions for the responsible use of technology in tackling those, bringing all of that, but with a cohesive strategy where we are not out there in isolation, we are an integrated part of the IDB system. And within the IDB Group, the recently approved IDB Group strategy is our North Star as well. It's for the public side IDB Invest and IDB Lab working towards inequality, towards climate and productivity.

How we do that is where we each bring kind of the strengths that we each have. And in that sense our main role is indeed to deploy with the new funding and the new funding model, we would be deploying over the next seven years, $1.2 billion in capital for… Again, not just planting trees. We want to see the forest grow and in new industries that are addressing challenges, for example, like the aging population or the conditions for independent workers. And very often it's not just about investing in startups, which we do, and we funded directly or indirectly, about a third of what today are 60 unicorns in LatAm. So that's good. But that's not enough if we don't also work in ensuring that there are certain conditions in the public policy that enable new products to come up. And so I like very much what Frannie said and that last example with the UK, because it's very much that combination of like extreme upstream and financing to the early stage entrepreneurial innovation.

MASOOD AHMED:
Great. Now I have a whole bunch of questions I could ask, but I'm sure there are people sitting in this room who also have lots of questions. So I'm going to open it up and take a few questions. And then also people online if you have any. So who would like to? Let's see if you could put your hand up, if you're planning to ask questions. And then… Oh, there are fewer questions than I thought there would be, so we might have a second round. Alright,

so let's start over here. This is a very... I'm not at all happy with the gender balance of the first round of questions I have to say. But one, two, and the three, they're sitting over there. So actually no I'm going to make four questions. So there's a lady over in the back there. So at least we try and get... Let's start over here first. Yeah. Please. Identify yourself. Make sure there's a question mark at the end of what you say. (LAUGHS)

SPEAKER:
Yeah (LAUGHS)

MASOOD AHMED:
Try to be (INAUDIBLE)

SPEAKER:
No, I will not make a statement. I would just ask direct questions. I'm the chief risk officer of Caribbean Development Bank. So I thank you very much. Very insightful and definitely holistic because you are touching all the important points, especially from a risk perspective. So my question is directly on the enabling environment and the role of blended finance. You didn't mention but it is behind what you said. So what is the role of blended finance, especially for enabling the environment at public-level, so at policymaker level, but also a meso-level, because there is a meso level also that has to be enabled.

MASOOD AHMED:
Great.

SPEAKER:
Thank you.

MASOOD AHMED:
Role of blended finance I think the second one was over in the middle... The gentleman over there.

SANDEEP JAIN:
Thank you. It's a pleasure to be here. I normally follow online, but I happen to be in DC, so. My name is Sandeep Jain. I work for African Development Bank. So I have a question on this SDR thing, which is taking a long time to come to fruition. Is there a kind of timeline with shareholders? You know, how they can utilize this excess SDR, which everybody agrees, you know, can be a very, very valuable tool and leverage, et cetera et cetera. So, I mean, that goes back to the point, you know, shareholders want more and sometimes. A suggestion I have is I think my life changed when I read Atomic Habits. I really would encourage it, so just whatever $10 or $15 or $18 investment. You give it to all senior managers. You force them to read it, you put it in all corners. It's a very simple tool. You will

change. As long as you know what kind of change you want. It really is a magical book. Thank you.

MASOOD AHMED:
Thank you. SDR recycling and the book. And then I had a lady over there, then I come back to you here.

KAREN:
It's me, Masood, it's Karen. (LAUGHS)

ALEXIA LATORTUE:
Hi. (LAUGHS) The lady.

KAREN:
Super quick.

MASOOD AHMED:
Lady in the back. Quick question please.

AHMED SAEED:
(INAUDIBLE) Karen is a little bit...

KAREN MATHIASEN:
So billions to trillions, right? Great theory. Hasn't really worked out. It's more been, at best, billions to billions. I really would be curious to know from the panelists what is sort of realistic? Should we just really move to a much more conservative expectation in terms of mobilization? So yeah, that's my question. Thank you.

MASOOD AHMED:
Great question. I love it. Great question. And I think one more in the middle here. Gentleman sitting, yeah. You got it. Yep.

SPEAKER:
Thank you, Masood. (INAUDIBLE) with the Institute for the Study of International Development at McGill University. A lot of hopeful initiatives mentioned here today. So if one comes with a half, the glass is half full perspective. There's some reasons for hope, including changes at the IDB. But for a moment, maybe we could just focus on what the World Bank is calling a silent crisis engulfing developing countries in terms of debt. Some 28 countries, according to the World Bank, are in a debt trap, and there's no short-term hopes of getting out of that trap. So my simple straightforward question is, is there innovations that are being talked about, what is going to help these 28 countries and other countries that have a serious debt situation that may fall into that same kind of trap, where

is the hope for mobilization of resources? And they can't just be non-concessionary loans. Where's the hope and help for these countries? Thank you.

MASOOD AHMED:
Alright, OK. Then let's just take one more and come back at the end. You've already got the microphone.

SPEAKER:
Hi…

MASOOD AHMED:
Possession being nine points.

SPEAKER:
Hello. (UNKNOWN) If you were talking about private sector mobilization and if you look at some of the figures in the G20 advisory report, about half of the private sector capital for climate is supposed to be coming from domestic private capital. So I'm wondering what IDB Lab and shareholders can do to increase the amount of local currency finance, because currently it's less than 5% of what the MDBs are doing.

MASOOD AHMED:
OK, I think we're going to stop there. And I know that you've got your hand up, but I do want to bring it, to just give the panel a chance to come back. So lots of very different… Some questions directly on private capital mobilization, a couple that go a bit beyond, you know, where we are on SDRs, and what to do in the most indebted countries. But can I ask each of you to pick it up. And if I could just also maybe put a number on Karen's question on how… So if you look at the expectations, let's just take one number because they're all broadly in the same range. The expectation is in the Independent Experts group, the G20 commission last year, their report says that financing from the private sector for development and climate would go up two and a half times, and the amount of that that's mobilized directly by the MDBs which is currently about 60 billion from the baseline, would go up five times to 300. So there's a five-fold increase in the amount that would be mobilized by 2030.

If you take that as a ballpark number, other people will have slightly different ones. How does that appear in the conservative versus optimistic, ambitious scale? Do you think do you think that number is doable but with requires more effort, or it's a number that is looking increasingly unrealistic? That would be kind of more precise formulation in my mind of Karen's question. So opening it up. (UNKNOWN) should I come to you first, please?

FRANNIE LEAUTIER:
I'll pick up Karen's question, the one on blended finance because I think they are related. It

reminds me of speed in vehicles, right? Zero to 60 in how many seconds? Right? So I think the question for us is billions to trillions during what period of time? And blended finance really is one of the levers that can speed up the billions to trillions. So I take the example I gave of a philanthropic capital to liquidity in the market. Leverage there can go anywhere from 10 to 50. So you can stretch a dollar 50 times if you use it in that way. Then if we do the traditional technical assistance grants for capacity building and so on. So that's the first point. Then the second one on blended finance, when I think of the MDBs, they're like this black hole, right? We don't know much about what's going on there. But then once in a while when they spit up all that gas, you find IDB Lab is doing amazing things and so on. So the question then is, how do we sit at the edge of the black hole and learn much faster before we have to wait for it to spit up every now and then when it's gotten too fat?

This to me is really the issue. And a shareholder pressure squeezes the black hole to spit out. But otherwise we don't hear much about the innovation going on in the MDBs. And I think that's the blended finance solutions that MDBs have evolved. And coming back to Ahmed's point on innovators within the MDBs, they're amazing, but they're not known, they're not transferred, they're not scaled. When we did the CAF, Capital Adequacy report, we have covered so much innovation within MDBs, but not known across MDBs. And I think this is really one of the key areas in blended finance is to get the solutions out there. And then last point, what really struck me, having left the MDBs and gone into the private sector where I had to risk my own capital, right? My own skin in the game. Was that when you're doing that, you have a different sharpness of what needs to be done. When you're spending somebody else's money, you don't. And so going to this change model, right? The incentive structure within the MDBs doesn't push people to innovate.

Those who innovate do it because they're inherently innovative people, right? Bureaupreneurs, as we used to call them. But there's really... It's an inside character that you push and push and push, and some of them then go to islands like Bonaire and try to do it from there. So the question is, how do we create an incentive mechanism that makes blended finance as a normal thing to do? Before you think about spending that very hard-earned MDB dollar, what degree of innovation should you push to stretch it as much as possible, and what incentive do you have to do that. If we can get that ratio right, I think these little things that we find out every now and then from the MDBs could be sped up. And I would say, for instance, IDB lab, if we should do what we said about MIGA, that MIGA should be the guarantor for all MDBs, IDB lab should be the lab for all MDBs. Because if it's so hard to innovate, why not take those that are working and then make them relevant for all the MDBs? So that would be my challenge maybe to shareholders to say...

MASOOD AHMED:
OK.

FRANNIE LEAUTIER:
Can we do for IDB Lab what we did for MIGA?

MASOOD AHMED:
Alright. Can we? So Alexia that plus any other questions.

ALEXIA LATORTUE:
No, buzzing both from my fellow panelists and the questions. So let me start with the issue of risk. I think what Ahmed said earlier is so important. We always say risk-taking, risk-taking, but we're not precise, we're not clear about what we actually even mean by that. And I think there's obviously a piece of risk capital and how to use that, which is a big piece of the equation, both from a balance sheet perspective as well as a by-project perspective and they're not—and by-portfolio perspective. So there are different layers even there. And I think we've seen some movement certainly in terms of, you know, stretching the balance sheets responsibly, the 40 billion that came out from the World Bank, lowering its equity to loan ratio from 20 to 19. And there's room to do more there.

And then there's I think what's really a big piece of the equation, which is, you know, the risk-taking about am I going to do something differently? Am I going to try something, be willing to fail, fail fast, and actually learn from that failure? And I was in the management of an MDB during COVID and really I think we acted as a management team completely differently in very exciting ways. And holding on to that spirit, you know, saw it a bit with Ukraine at the EBRD where they're like, you know, “there's a war, we can't do anything.” And then someone's like, well, but we know the country really well and we need to sort of shore up the private sector, shouldn't we? And then all of a sudden a conversation happened and you saw the IDB initially saying, “I want complete coverage for everything on risk, for everything I do,” but over time saying, “OK, I need 50% coverage.” And now with the capital increase in more risk capital, they'll be doing work in Ukraine, you know, without additional donor funding. So I think that's a really big piece of the equation. I think, Karen, in my view, the trillions were never just about the MDBs. And I think if anybody thinks they are then, you know, just to confirm we're not going to get there.

The most important thing for a country is to have sound macroeconomic fundamentals. To be making the right sectorial policies may not be exciting and new to say that, but it's the truth. And so… And this is linked to the debt question too. And so we need to continue to really partner with countries and be very clear about the importance of that bit of the equation. When countries are doing the right thing, we need to make sure that the system, we talked about the system as a whole, is stepping up for those countries in a way that they're not seeing net flows out of their countries because of the heavy debt repayment burdens. And I think that's where we're frankly, failing today. And you may have seen a speech that my undersecretary gave earlier that talked about how official bilateral creditors, how the development institutions, and how the private sector, need to all step up in a more coordinated-sequence, faster way to make sure that countries have that step-up of financing. And that's for the countries that are not yet in debt distress.

So I think we have to think about countries, preventive; countries that we stop them on the precipice, but don't make sure they don't go over; and then of course the debt restructurings is a different equation. But we need to work on all three pieces for sure. You know, I think, like Ahmed I really believe the AAA is important because the banks have to be there to play a countercyclical role. Basta! And because the real bang and leverage for the banks is that they go to capital markets, and if they need to be able to still raise money during a crisis, they need the AAA. Then I think we need to separate sovereign from non-sovereign. So we talk a lot about, you know, I hear a lot of quotes about, oh, the leverage is really, you know, it's only 36, you know, cents to a dollar. As an average, that's a horrible number. But then we need to think about on the sovereign side, actually, with preferred creditor treatment, we don't need the sovereign side. The sovereign side needs to be prudent.

On the private side is where we need to see the numbers be much higher. So, you know, IFC is now, I think, at 90 cents to a dollar. That's where we need to push. I think, again, we need to be more precise about where we need that risk-taking to happen. And then I think the private side needs to also charge, right, for the risk that it takes. If it doesn't, it's providing a subsidy. Nothing wrong—FSD Africa, with a well-placed subsidy—we just need to understand that someone has to pay for that subsidy. And so then again, as shareholders, how do you use very scarce concessional resources in the smartest most critical way?

MASOOD AHMED:
I think the last thing you just ended on Alexia: At the end of the day, resources, particularly public resources, grant resources, budgetary resources are going to be super scarce, right? They're the most scarce form of financing in development. And the real question is, how do you make sure that every time you use a dollar of grant resources, you're doing so in a way that takes into account all the competing ways in which you could have used it and used it more effectively? It's the easiest tool to reach for in your toolbox when you want to get something done or facilitated. And that's in a little bit my response to the blended finance issue. It's easy to say, let's take the resources and hand them out. But you have to really ask, is that the only way to do it? Or are there other ways in which you could achieve the same

outcome? And what are you giving up by taking that dollar away from doing other things where you couldn't do it with other instruments? So I think that's a really important point.

Ahmed, any final thoughts?

AHMED SAEED:
Yeah. I want to say something. You talked about COVID, and it reminded me, I think the key to so much, right, is culture. And you cannot reduce culture to a process control or an objective. You know, Bart, we were together at the Asian Development Bank during COVID. The bank put out more capital to greater impact than of any other time I know in recent history. Not one human being in that institution, while working 22-hour days, could care less about lending volumes, mobilization, like all those numbers were blown out of the water, by the way, right? Not one conversation was about that. It was all about, how do I use this institution's resources to make the greatest difference in the world as quickly as possible. And so I think at the end of the day, nothing is possible in terms of what we seek to achieve if we seek to achieve it primarily through process level controls and metrics. And I would say in that to Karen's question, I don't know what the goals should be on paper, but whatever they are, the possibilities are far greater and that's where our eyes should be.

MASOOD AHMED:
OK. Thank you very much. And I guess the other question is how do you make sure that mindset change that you just referred to can happen without a COVID, right? I mean, the question is we have to get the institutions to the point where that becomes much more of a routine rather than waiting for the extraordinary circumstances.

AHMED SAEED:
The sad truth is we have many COVIDs coming our way.

MASOOD AHMED:
Right. But I'd rather fix the problems before we get hit by them. Irene—

IRENE ARIAS HOFMAN:
Well, you know, the phrase "find discomfort or discomfort will find you." I feel like IDB Lab, like we are a 100-person team and we sort of have that mindset. So it's a bit of a startup culture within the MDB. So maybe in trying to expand it or share it—and we do have networks of innovation and venture teams in other IFIs that we share a lot with—but maybe we could do it in a more structured way, like, you know, lab as a service or something so that it can be expanded further. But it is asking ourselves all the time, you know, go out of your comfort zone once a new frontier or a new business model or a new industry has become more mainstream, what's the next thing? So step out. I'm very conscious about every dollar that we have, is scarce resources, extremely scarce resources. Mobilize six for

every dollar that we deploy and bringing in others. So we're going with the Caribbean Development Bank, setting up an equity platform to bring the next generation of startups for the Caribbean.

And so blended finance not necessarily in a financial structure always in fact sometimes a mix of financing at different of different purposes. So some, some soft funding, yes, to enable and to bring those conditions. But then let the private sector with our venture partners invest and maybe have more than what today is 0.03% of GDP invested in venture in Latin America and the Caribbean go up to maybe 0.06%, which is a more reasonable number of other emerging economies. That's our aim, but it's asking ourselves and putting ourselves a little bit out of our comfort zone every day.

MASOOD AHMED:
Great. I hope that panel has put you a little bit out of your comfort zone in some of the things that we took for granted. I know we're out of time, so I do want to thank all our panelists for their terrific contributions. Please join me in thanking them. And thank you for being here.

ALEXIA LATORTUE:
Thank you. (AUDIENCE CLAPS)