

MDB “Commitment to Catalyse”

Concept summary:

MDBs have a critical role to play in catalyzing private finance and in supporting the large necessary public investments in climate and development in emerging and developing economies. The catalytic part will require action in a range of areas that can meaningfully be incorporated into a “Commitment to Catalyse” by MDBs. Such a Commitment would include a set of catalytic actions accompanied by KPIs that would incentivize MDBs to take the necessary action both externally and internally.

Context

To get to “the trillions” of investment and finance needed, MDBs must fully embrace their central catalytic role within the international ecosystem of actors that support investments in country and sector transitions.

Catalyzing private investment and finance requires a holistic approach including simultaneous action in many areas. MDBs are uniquely positioned to provide a wide range of catalytic functions to support this, covering both real economy sectors, the financial sector and macroeconomic issues. Examples include:

- Diagnostics of investment needs and investment readiness.
- Investment-enabling policy and regulation in multiple sectors
- Investment planning, market design and pipeline development
- Local financial sector and capital market development
- Provision of risk mitigation instruments addressing both macro and project level risks, thereby enabling pipelines of investments and their financing from domestic and international sources.
- Provision of vehicles and channels connecting private finance with investments through co-investment, re-financing of MDB portfolios etc., including with the use of blended finance.
- Convening country/sector platforms that bring together both national and international public, private and institutional actors around comprehensive, coherent action to catalyse investment in country/sector transitions.
- Engaging in international discussions about “upstream” international barriers to international investment and finance flows.

A reorientation of MDB operating models toward these catalytic functions will entail an increased focus on and resource allocation for:

- A. Provision of technical assistance and investments in human and institutional capacity, which will cover both real economy sectors, finance and macroeconomic dimensions. These “soft investments” are often underappreciated and underfunded.

- B. Supply of targeted risk mitigation and blended finance solutions, which will have to be scaled up and standardized to increase coverage and accessibility while reducing transaction costs.

As part of this reorientation, resources will have to be mobilised including from donors and philanthropy for the scale- up investments in human and institutional capacity as well as for injections of seed capital for risk mitigation and blended finance instruments.

Instrument mechanics: Developing commitments to catalytic functions and associated KPIs

With support from an informal group of experts having first-hand experience from the MDB world, MDBs co-develop a taxonomy of catalytic functions that may be included in a Commitment to Catalyse.

Associated KPIs would be outcome and impact oriented and specific enough to drive adjustments to the operating model and internal incentives of the MDBs. KPIs should look beyond the MDB's own financing and instruments and include the contribution to the overall investment trajectory of countries and sectors, thereby incentivizing MDBs to act as a system and take responsibility for the wider ecosystem and their role in it.

On the basis of this common framework of catalytic functions and associated KPIs, the management of each MDB develops its Commitment to Catalyse and processes it through its governance structure with a view to publishing the CoC in late 2023.

The approach may be extended to other public financial institutions such as bilateral development finance institutions, national development banks and central banks, taking advantage of the *Finance in Common* framework.

Cases/Examples

An [OECD Policy Brief](#) outlines practical steps in moving development banks toward a mobilization focus and showcases the Development Bank of Southern Africa (DBSA) as a first mover in making the transition. Among the featured steps were an explicit mobilization mandate; integration of mobilization in performance indicators and KPI, and the build-out of dedicated bank capacity.

The [Global Infrastructure Facility](#) is a cooperation across MDBs focusing on mobilizing private investment for infrastructure in partnership with governments, private sector and others. Significant resources are deployed to support investment pipeline development.

The [Climate Investment Funds TA Facility](#) finances MDB support for investment-enabling policy and regulatory environments as well as human and institutional capacity.

The [Sustainable Renewables Risk Mitigation Initiative \(SRMI\)](#) enables scaled up solar and wind energy investments by providing integrated packages of support for investment planning, regulation, pipeline development and risk mitigation.