British International Investment

Discussion Paper

Understanding mobilisation

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Introduction

Development Finance Institutions (DFIs) should aim to put themselves out of business. If they achieve their goals, investment by commercial investors will suffice to supply the capital required for continued economic growth in the poor countries they now cover.

Commercial capital doesn't replace government-supplied development capital all at once. It happens gradually – country by country and sector by sector – as the conditions for profit-seekers improve. As it does, DFI capital is freed up to be redeployed in less developed markets, repeating the process and promoting further economic development. "Mobilising" commercial capital is thus central to the success of DFIs' endeavours.

How successfully are we DFIs doing it? According to the OECD, DFIs are currently mobilising about $50 billion a year.[1] That's a tiny fraction of the estimated $2.5 trillion annual "financing gap" for achieving the Sustainable Development Goals by 2030.

A first step towards more successful mobilisation is understanding it better. If we can identify positive cases, recognise the ways in which it can be achieved, and measure the commercial commitments due to DFI activity, we can develop strategies and performance management schemes that better promote mobilisation.

This is what we aim to achieve at British International Investment (BII), and this paper shares our work in progress. We hope it will promote a discussion that improves our understanding, and that it might help our counterparts in other DFIs and MDBs with their own efforts.

1 Amounts mobilised from private sector for development in 2022 – OECD

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Defining mobilisation

DFIs aim to increase investment by commercial investors. A simple way of defining mobilisation, therefore, might be to say that a commercial investment is a case of mobilisation if it would not have happened but for the activity of a DFI.

The OECD and MDB Taskforce have a narrower definition of mobilisation,[2] counting private investments as cases of mobilisation only when a DFI has been involved in one of two ways: when it directly co-invests in a company or project with profit-seekers or when it invests in a fund that also attracts private capital. A range of investment products are covered by these two broad categories, including guarantees, syndicated loans, and credit lines. This way of counting mobilisations also has the advantages of including only what is easily identifiable and avoiding activities, such as short-term trade finance lending, that are likely to distort the numbers (given their rapid turnover). In short, the MDB Taskforce and OECD approach is well suited to their accounting purposes.

But accounting methodologies are not necessarily suitable for DFIs wanting to develop comprehensive mobilisation strategies. The accounting approach of the OECD and MDB Taskforce risks being too narrow. It fails to count genuine cases of mobilisation where particular DFI activity accounts for particular commercial investments. More specifically, it excludes commercial capital flows into DFIs themselves and commercial flows into the "sub-investees" of DFIs. And it excludes the many ways DFIs prompt commercial investment other than co-investment in enterprises and funds. By including such cases, as described in the following sections, we arrive at our more comprehensive definition of mobilisation (however, as we discuss in section 4, once attribution of a DFI's role is considered, the quantum of commercial capital a DFI can claim to have mobilised may in fact be lower).

Key takeaways

- OECD and MDB have developed methodologies to measure mobilisation
- Methodologies are designed to provide reasonable "rules of thumb" for estimating mobilisation of private capital (rather than perfectly attributing credit for mobilised capital across investors) and to **avoid double-counting** where different institutions claim to have mobilised the same investment into the same deals
- The accounting methodologies result in a narrow definition of mobilisation that is ill-suited to planning and executing mobilisation strategies at DFIs

2 MDB methodology can be found here https://documents.worldbank.org/en/publication/documents-reports/documentdetail/813091529416636675/mdb-methodology-for-private-investment-mobilization-reference-guide; OECD methodology can be found here https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-Methodologies-on-Mobilisation.pdf

Defining commercial capital

The MDB Taskforce takes mobilised capital to be investments from private entities, which it defines as entities engaged in business activities and independent of national or local government. On the MDB Taskforce definition, mobilised capital is private capital.

But independence from government control should not be the defining characteristic. It is more appropriate to define what is out of scope based on the degree of (implicit or explicit) concessionality of the capital and whether that concessionality is used to accept below market returns. Hence the preferred term 'Commercial Capital' – the aspiration is to mobilise capital that is non-concessional at source and/or deployed at market-rate.

Through this lens DFIs and MDBs are excluded due to an implicit subsidy – a cost of equity of nil – that they may leverage to accept below market returns at a portfolio level (though at a transaction level they strive to deploy at commercial terms so as to not distort markets). Sovereign Wealth Funds are included as they typically seek commercial returns on the capital they deploy.

Broadly speaking however, the two definitions will usually give the same answers. Investments from private profit-seeking asset managers are clear cases of mobilised capital; grants from philanthropic organisations clearly are not.

Sources of commercial capital

	Category	Illustrative example
Asset managers	Global pension funds	Calpers, OTPP
	In-market pension funds	Debswana (Botswana), Eskom Pension Fund (SA)
	Insurance companies	Allianz
	Private banks & wealth managers	UBS private bank
	Funds & fund-of-funds	Suez
	Impact investors	Apis, Leapfrog
Proprietary investors	Sovereign wealth funds	Temasek, QIA
	Private offices	Tata, Mahindra, Oppenheimer
	Foundations *(permanent endowment not PRI*)*	Casey Family Programs
	Investment banks *(own account)*	Investment banks

Non-commercial capital

	Category	Illustrative example
	DFIs and MDBs	FMO, IFC
	Philanthropic Foundations *(PRI*)*	B&MGF, CIFF
	...	

* program-related investment

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Investees

Mobilisations are always flows of capital or risk-bearing capacity from commercial investors. But flows to whom? The most obvious cases of mobilisation occur when a DFI invests directly in a company or project jointly with a commercial investor or when it invests as a limited partner in a private equity fund. These obvious transaction-level mobilisation cases are the two accounted for in the OECD and MDB Taskforce definitions.

But, as mentioned, commercial capital flowing to other destinations should also be counted as cases of mobilisation. For example, DFI investment through an intermediary structure or platform might strengthen the ability of the end investee to attract commercial capital. Similarly, the recipient of capital from an equity fund to which a DFI has contributed may become better able to raise commercial capital from other sources. Though difficult to identify, these are cases of mobilisation at the sub-investee level.

Case study: Globeleq

Globeleq is the largest private developer, owner and operator of independent power plants in sub-Saharan Africa, with a generation capacity of more than 1,400 megawatts. BII has been a majority owner of the platform since 2015.

Globaleq has developed, launched and now operates the $69 million Malindi Solar plant. Made up of 157,000 photovoltaic panels, Malindi is one of the first scale solar plants in Kenya and the only renewable power plant in the Coastal area. BII organized the financing of Malindi Solar by acting as lead arranger and sourcing US$52 million in debt financing.

Nor do the OECD and MDB Taskforce count commercial capital that DFIs use to increase their own investment capacity. For example, DFIs might insure their portfolios, thereby freeing up risk capital. Or they might raise debt to leverage their balance sheet. Or they might securitize their exposures and use the proceeds to redeploy capital. Because such activities make use of commercial capital to increase investment in developing economies, they should be counted as mobilisations.

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Pathways

We can summarize the section above by saying that mobilisation is traditionally recognised only when it occurs at the *transactional* level: that is, only when DFIs draw commercial capital into a direct investment in an enterprise or private equity fund. In contrast, we wish to count flows that occurs the *institutional* (DFI) level, the transaction level and the *sub-investee* level. At each level, DFIs mobilise commercial capital in a variety of ways, as shown in Figure 2 and described in more detail below. Extending the definition to cover institutional level is especially important, since this is where DFIs can mobilise commercial capital at significant scale. These 10 "pathways" are surely not exhaustive, but they cover most of ways in which DFIs mobilise commercial capital.

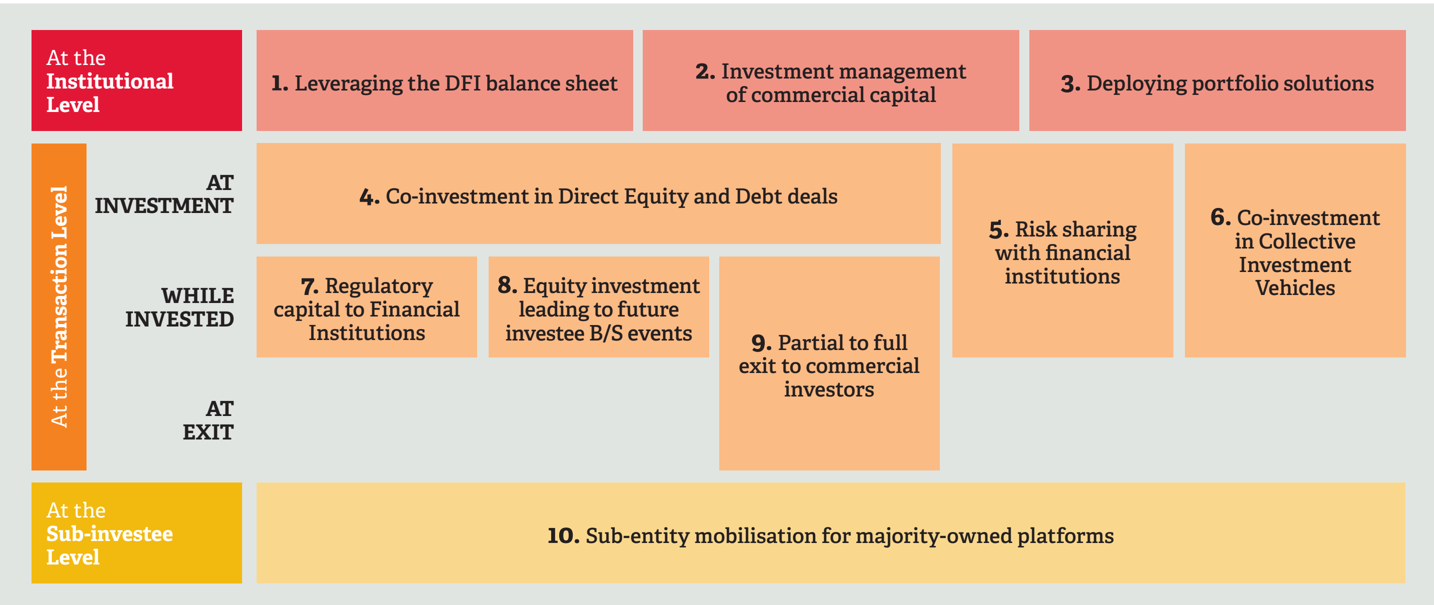

Figure 1: Ten mobilisation pathways

Pathway 1: ***Leveraging the DFI balance sheet***
Multilateral Development Banks and some DFIs leverage their balance sheets to increase the scale of their investments beyond the shareholder capital they have received. They raise most of this debt capital by issuing bonds that are traded in the international capital markets. Investors in these bonds benefit from what is essentially a sovereign or quasi-sovereign counterparty credit risk exposure. According to the ODI, DFIs are generally underleveraged and thereby missing "an opportunity to mobilise significant volumes of private capital…".[3]

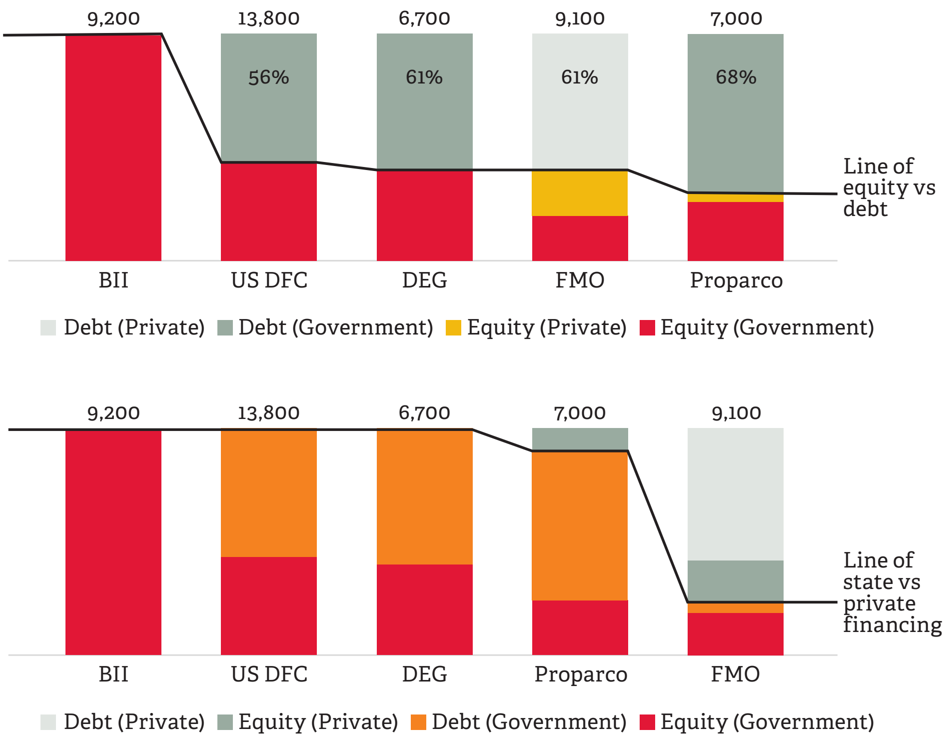

Figure 2: Sources of DFIs' capital (2021)[4]

Pathway 2: ***Investment management of commercial capital***
DFIs have built impressive emerging market origination and impact-management platforms. These can originate assets to satisfy an array of objectives, such as providing climate finance, gender-finance or being otherwise ESG-compliant. By deploying commercial capital on behalf of institutional investors (such as pension funds), DFIs can mobilise commercial capital at scale.

Case study: IFU

IFU is Denmark's development finance institution, established in 1967. Using its own (government) capital and contributions from six Danish pension funds, it formed the SDG Investment Fund in 2018. The fund aims to promote the UN's Sustainability Goals and can invest in developing countries in Africa, Asia, Latin America and parts of Europe. Further private investors have followed the pension funds, and the total capital commitment of the SGD Fund now stands at $700m. IFU's mobilisation rate is just over 4x the capital invested by fund, which is high by current standards.

3 ODI_Working_paper_An_exploration_of_bilateral_development_finance_institutions_zMFYl9D.pdf p.46
4 DFI and MDB annual reports; BII analysis (preliminary)

Pathway 3: ***Deploying portfolio solutions***
DFIs have built up substantial portfolios of emerging market assets, which they can use to mobilise commercial investors. This can be achieved by way of portfolio insurance, in-specie transfers to commercial vehicles or tranching and repackaging assets. Given their risk-return profiles, the debt of financial institutions and post-construction infrastructure assets are especially suitable use in portfolio solutions.

Pathway 4: ***Co-investment in direct equity and debt deals***
The default mode of mobilisation across the bilateral DFI community is investment by commercial investors alongside DFI investors. As noted, this is captured in the OECD and MDB methodologies. In equity transactions, the presence of a DFI investor is often enough to encourage commercial investors to participate. On debt transactions, DFIs often mobilise commercial investors by way of syndication.

Pathway 5: ***Risk-sharing with financial institutions***
Risk sharing facilities (RSFs) mobilise capital by allowing partner financial institutions to make loans they otherwise could not. This might be because the RSF "de-risks" a borrower segment or because the RSF provides capital relief to the financial institution, letting it on-lend more money.

Pathway 6: ***Co-investment in collective investment vehicles***
As with pathway 4, the presence of a DFI as an anchor investor in a fund or other intermediated structures encourages the participation of commercial investors. This mobilisation pathway is captured in the OECD and MDB methodologies.

Pathway 7: ***Regulatory capital to financial institutions***
Financial institutions can increase their lending activities only by increasing the capital they hold, as per the Basel requirements. Following an injection of regulatory capital by a DFI, mobilisation occurs by way of the additional commercially-supplied debt-funding raised by the financial institution and then lent-on to end borrowers.

Case study: Commercial International Bank

Commercial International Bank (est. 1975) is Egypt's leading private-sector bank, providing affordable access to finance to over a million customers. BII provided CIB with $100 million of Tier 2 debt in 2020. This strengthened the bank's capital base, allowing it to expand its lending to exporting sectors of the economy, supporting the Government's goal of developing sources of hard currency other than tourism. This deal occurred just a year after the regulator granted BII approval to provide Tier 2 capital to the Egyptian banking sector.

Pathway 8: ***Equity investment leading to future investee balance sheet events***
DFI equity investment and subsequent value enhancing activities strengthen an investee's balance sheet, governance and operations. This helps the investee raise capital from commercial investors. We recognize such capital raising as a case of mobilisation only when the DFI has at least a significant minority stake in the company.

Pathway 9: ***Partial to full exit to commercial investors***
By investing in a company and working to add value, DFIs can demonstrate its viability to commercial investors. This is especially true with project finance, where DFIs take on the development risk and shepherd the project through to the operating stage. Many DFI investees become "investable" for commercial investors and DFIs exit through a trade sale, private placement or IPO.

Case study: Rainbow Children's Medicare

Rainbow Children's Medicare is a multi-specialty pediatric, obstetrics and gynecology hospital chain with 14 hospitals and 3 clinics across India. BII invested $17.5 million of equity in 2013.

Rainbow Children's Medicare completed its IPO in 2022, issuing new equity of $35 million and allowing existing investors to sell-down shares worth $155 million. The sale of BIIs stake for $95 million and the new equity represents a mobilisation of $130 million. Fifty per cent of the net offer is reserved for qualified institutional investors, 15% for non-institutional bidders and 35% for retail investors. Commercial investors include Amansa Holdings, Goldman Sachs, Bajaj Allianz Life Insurance, Max Life Insurance and various domestic mutual funds.

Pathway 10: ***Sub-entity mobilisation for majority-owned intermediated entities***
DFIs often channel capital through intermediary entities. Commercial capital attracted to the intermediary entity is thus a case of mobilisation. And so is capital that the end investee attracts from other sources on account of the capital received from the intermediary entity. If the DFI is one of many investors in the intermediary entity, it is difficult to attribute independent commercial capital inflows to its influence. We therefore count such flows as cases of mobilisation only when the DFI is the majority owner of or investor in the intermediated structure.

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Attribution

Even with this more complete understanding of the ways mobilisation can occur, a problem remains. How should mobilisations be allocated to DFIs?

Consider a simple case – say, a $1 billion private equity fund dedicated to West Africa with $200 million of capital contributed by DFI A and $100 million by DFI B. The obvious problem is that, for all we have said so far, we will ascribe $700 million of mobilisation to A and $700 to B, thus double counting the mobilised capital.

In this case, the solution appears simple: attribute the mobilised capital in proportion to the DFIs' investments. This would mean crediting A with $467 million and B with $233 of mobilisation. Roughly speaking, this is how the OECD and OECD solve the accounting problem of double counting.

Alas, this is the simplest case. How would the problem be solved if A had also supplied crucial consulting services and B had not? Or, more fundamentally, what if A had acted as an anchor investor in the fund and B had entered "passively", coming on board along with the commercial investors. Or what if both A and B had come on board after the $700 million of commercial capital had already been committed to the fund? We would have a case of co-investment but not of mobilisation. The idea of mobilisation is that DFIs attract commercial investment that *would not have otherwise occurred*. In the last case described, A and B should be credited with no mobilisation at all.

We do not pretend to yet have a solution to this attribution problem. We are working on it. But, whatever the ultimate answer, it must not be seen as mere accountancy, as a way of avoiding double counting and making the numbers add up to 100 per cent of the total private flows. An allocation method that gave credit where none was due might not incentivise a DFI to increase mobilisation. The framework we are developing links attribution to things that DFIs actually do, not to mere investment coincidences.

The understanding of mobilisation outlined in this paper is not merely an intellectual exercise. It is intended to inform BII's mobilisation strategy and performance management. By taking a broader view of mobilisation, we hope that we will encourage a gradual transformation in the way BII and other DFIs operate. Specifically, we hope they will move their historic practice of being long-term, buy-and-hold investors and become originate-to-share investors – using their origination and impact management capabilities to source deals and then sharing what they can, however they can, with commercial investors.

What DFIs can do to bring about this transition will be the topic of a subsequent publication, in which we also intend to provide a solution to the attribution problem.

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