Executive Summary

Development Finance Institutions (DFIs) value mobilisation as a way of increasing the development impact of their activities by drawing on the risk capacity of the private sector. As conventionally defined, mobilisation refers to financing contributed by private sector investors to transactions in which DFIs have participated.

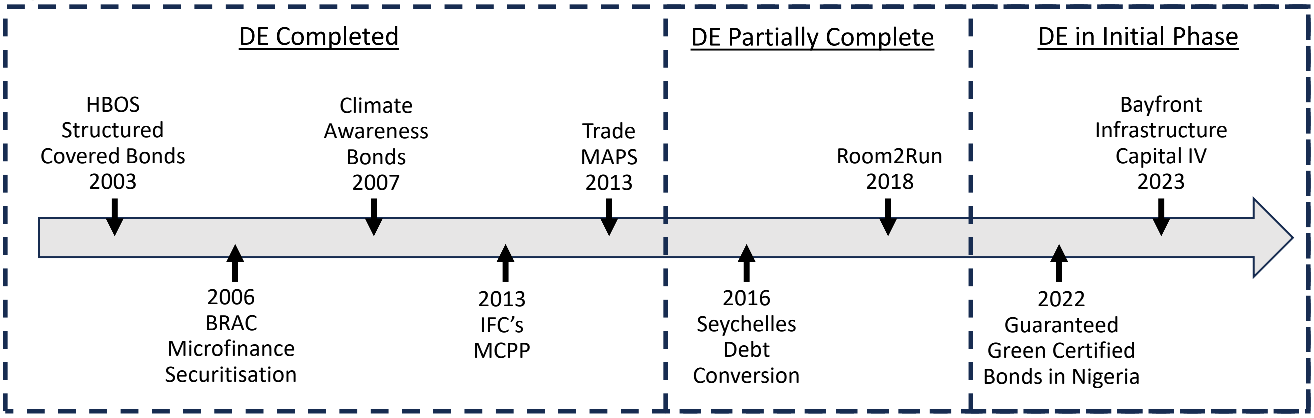
Such direct mobilisation is only part of the story, however. One may hypothesise that the scale of development financing would be considerably greater if DFIs focused on deals that remove or mitigate informational or other barriers for other financial market participants. Transactions that reduce informational barriers in this way, eliciting follow-on transactions in which the original DFI is not involved, may be described as having 'demonstration effects.'

Researchers have analysed demonstration effects in many different economic contexts. They are also frequently cited by DFIs to explain how their activities generate development. So far, however, most DFIs have not viewed demonstration effects as a key objective, and they are not commonly represented in internal DFI control frameworks such as pricing, limit setting, or corporate planning systems.

This report aims to lay the groundwork for ex-ante assessment of demonstration effects in DFI transactions. To achieve this, we examine a set of innovative transactions to identify what factors contributed to their success or otherwise in eliciting follow-on deals. Among the case studies, as well as DFI activities, we also include some private sector, developed-market transactions that did not involve DFIs to reveal key aspects of 'market opening' deals.

The deals we examine are shown in Figure ES1. The figure serves to emphasise how the deals are distributed over the three categories: (i) those for which demonstration effects are fully complete, (ii) those for which these effects are partially complete and (iii) those for which demonstration effects are in process.

Figure ES1: Transaction Timeline



Note: Here, DE denotes Demonstration Effects.

For each deal in the sample, we examine the success factors that contribute to demonstration effects. Among these is the information the transactions generate about the risks they cover. Information effects are boosted if the transaction is listed but may still be significant for private deals if the DFI widely engages in road shows and ex post dissemination. Another set of quasi-informational effects is generated if the transaction overcomes obstacles by, for example, leading to the generation of a new rating methodology or if it results in new approaches to financial structuring or an innovative legal approach.

Transactions are also more likely to result in demonstration effects if they are large in scale and simple and straightforward to replicate. Finally, if profitability and impact are high, participants of different types are more likely to be keen to replicate the transaction.

To organise thinking around these success factors, we devise a structured scorecard for the ex-ante evaluation of the potential for a transaction to generate demonstration effects. Our scorecard (reproduced in Figure ES2) resembles the type of structured, judgmentally-based decision rules that rating agencies apply to assess credit quality. A DFI could use a scoring approach of the type we develop to prioritise deals that could have significant demonstration effects (for example, by integrating it with a Risk-Adjusted Return on Capital (RAROC) pricing approach), thereby precipitating 'second round' mobilisation.

Note that thinking about impact and mobilisation often emphasises simple, quantitative measures. We believe this partly reflects an emphasis on reporting rather than ex ante decision-making to select one type of development finance transaction over another. For the latter type of internal decision-making, we see what some DFIs refer to as a 'portfolio approach' in which different aspects of a transaction are combined through a structured scorecard to be a reasonable basis for decision-making.

Figure ES2: Framework to Evaluate Demonstration Effect Score

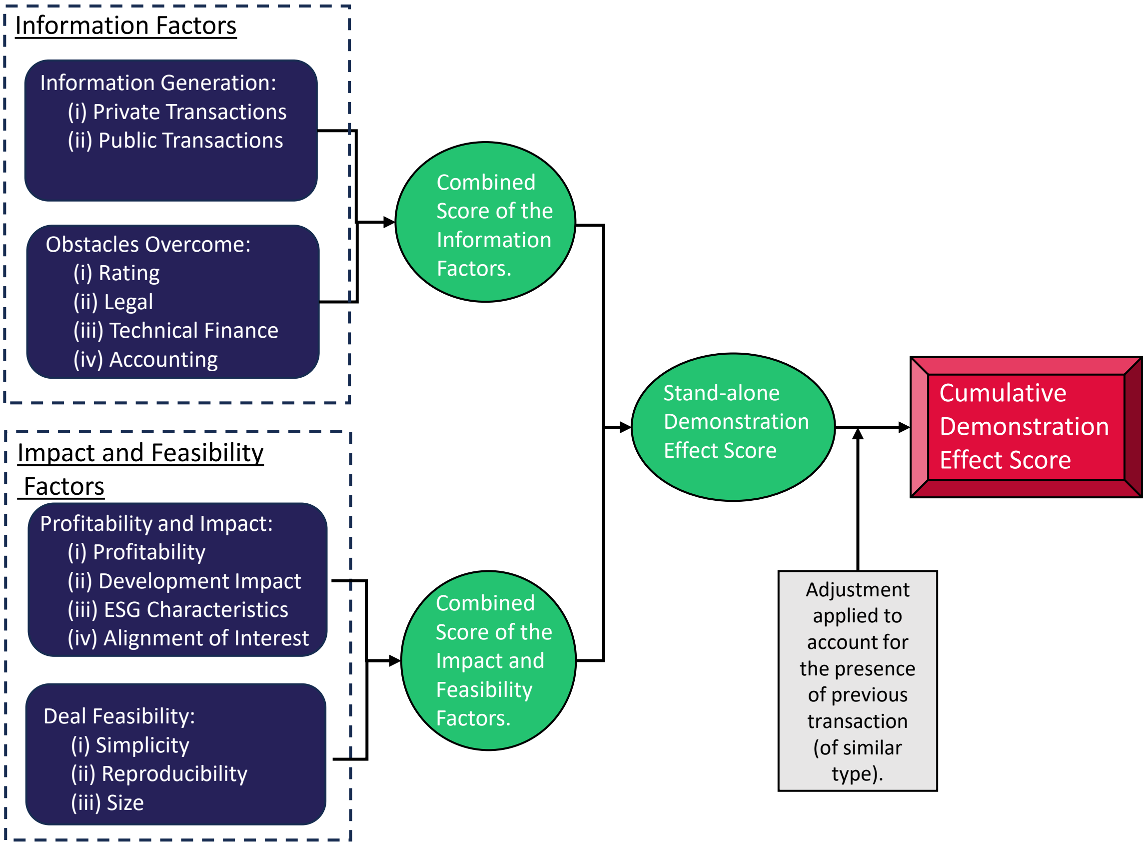


Table ES1: Scoring Outcomes

Categories	HBOS Strcutured Covered Bonds	BRAC Microfinance Securitisation	Climate Awareness Bonds	IFC's MCPP	Trade MAPS	Seychelles Debt Conversion	Room2Run	Green Certified Local Currency Debt Issue	Bayfront Infrastructure Capital - IV
Information Generation	7	2.5	6.5	1.5	6	2.5	4	1.5	6
Obstacles Overcome	5	4	2	3	7	4	4	2	6
Profitability and Impact	5	3	7	5	2	5	7	4	6
Deal Feasibility	5	3	5	5	2	2	5	2	3
TOTAL SCORES	4	3	4	3	3	3	4	2	4

The scoring approach reflects the authors' judgments, conditioned by interviews we conducted with a set of DFI and private sector deal participants and other experts. The evaluation is ex ante and emphasises information generated within the constraints of impact and feasibility.