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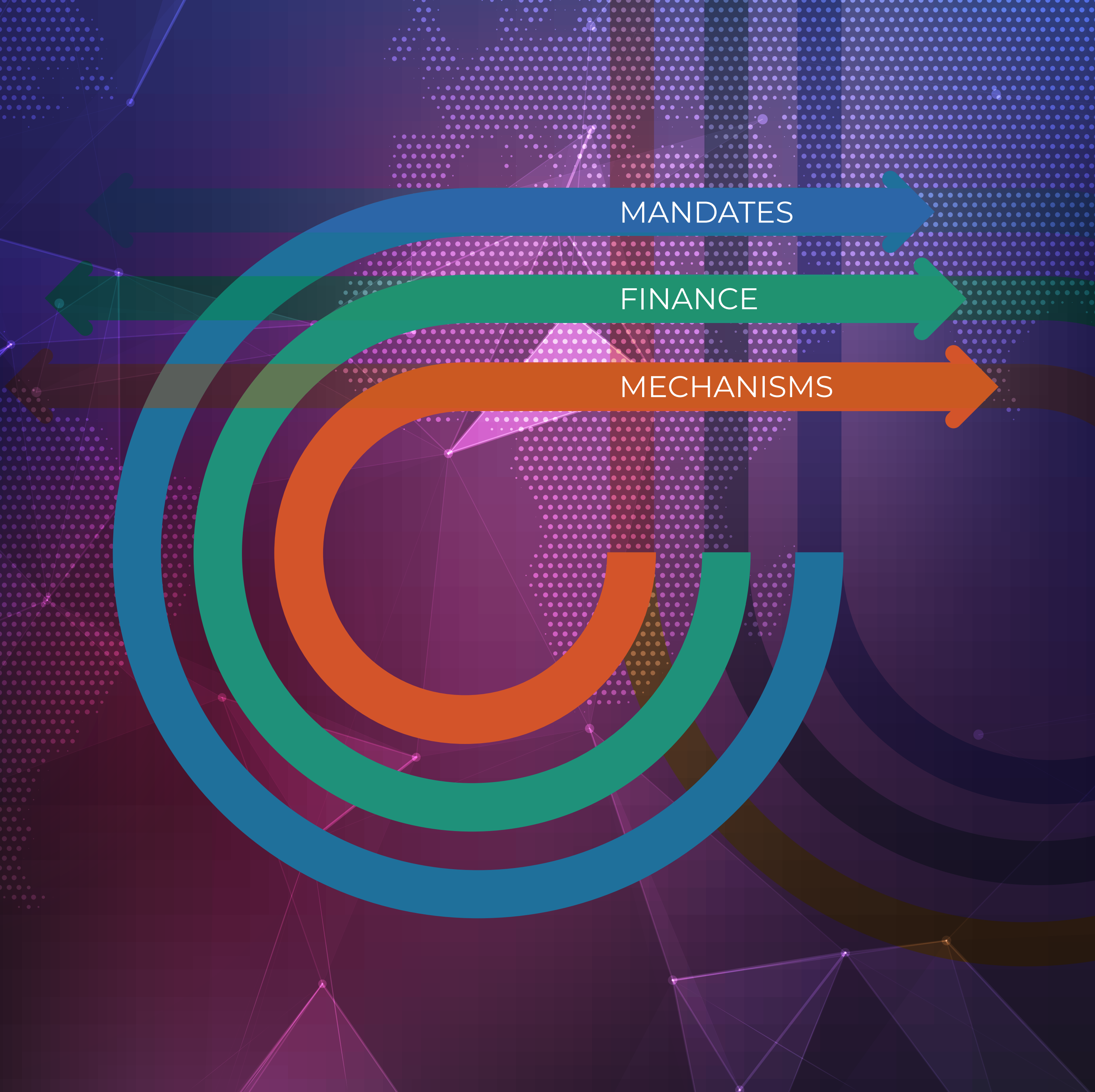
VOLUME 1

STRENGTHENING
MULTILATERAL DEVELOPMENT BANKS

THE TRIPLE AGENDA

REPORT OF THE INDEPENDENT EXPERTS GROUP



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MANDATES I FINANCE I MECHANISMS

The Independent Expert Group (IEG) is grateful to the
Honourable Finance Minister of India, Nirmala Sitharaman for her leadership and guidance.

Lawrence Summers
(Co-Convener)

N.K. Singh
(Co-Convener)

Arminio Fraga

Rachel Kyte

Justin Yifu Lin

Maria Ramos

Tharman Shanmugaratnam

Vera Songwe

Nicholas Stern

30 June, 2023

G20

भारत 2023 INDIA

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ONE EARTH • ONE FAMILY • ONE FUTURE

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Masood Ahmed, President of the CGD and Deepak Mishra, Director and Chief Executive, ICRIER served as policy advisors to the group. They convened a technical team comprising Amar Bhattacharya, Senior Fellow, Brookings; Victoria Dimond, Senior Policy Analyst, CGD; Cledwyn Fernandez, Fellow, ICRIER; Tanu M. Goyal, Senior Fellow, ICRIER; Homi Kharas, Senior Fellow, Brookings and the lead author of this report; Clemence Landers, Senior Policy Fellow, CGD; Hans Peter Lankes, Visiting Professor, London School of Economics and Political Science; Nancy Lee, Director, Sustainable Development Finance and Senior Policy Fellow, CGD; Karen Mathiasen, Project Director, CGD and Annalisa Prizzon, Principal Research Fellow, Development and Public Finance, Overseas Development Institute (ODI) and Radhicka Kapoor, Visiting Professor, ICRIER.

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LIST OF ABBREVIATIONS

ADB
Asian Development Bank

AfDB
African Development Bank

CAF
Capital Adequacy Framework

CRAs
Credit Rating Agencies

DRM
Domestic Resource Mobilization

EBRD
European Bank for Reconstruction and Development

EG
Expert Group

EMDEs
Emerging Market and Developing Economies

EPG
Eminent Persons Group

ESG
Environmental, Social and Governance

EU
European Union

FMCBG
Finance Ministers and Central Bank Governors

GCI
General Capital Increase

GCFM
Global Challenges Funding Mechanism

GDP
Gross Domestic Product

GEMs
Global Emerging Markets

GHG
Greenhouse Gases

GIF
Global Infrastructure Facility

GPGs
Global Public Goods

IBRD
International Bank for Reconstruction and Development

IDA
International Development Association

IDB
Inter-American Development Bank

IEG
Independent Expert Group

IFAD
International Fund for Agricultural Development

IFC
International Finance Corporation

IF-CAP
Innovative Finance Facility for Climate in Asia and the Pacific

IFFEd
International Finance Facility for Education

IMF
International Monetary Fund

JET-P
Just Energy Transition Partnerships

KPIs
Key Performance Indicators

LICs
Low-Income Countries

LMICs
Low-and Middle-income Countries

MDBs
Multilateral Development Banks

MICs
Middle Income Countries

MIGA
Multilateral Investment Guarantee Agency

NDB
New Development Bank

ODA
Official Development Assistance

OECD
Organization for Economic Co-operation and Development

PCM
Private Capital Mobilization

PRGT
Poverty Reduction and Growth Trust

PTF
Partnership for Transparency Fund

RST
Resilience and Sustainability Trust

SDGs
Sustainable Development Goals

SDR
Special Drawing Rights

TCX
The Currency Exchange

UAE
United Arab Emirates

UMICs
Upper Middle-Income Countries

UNFCCC
United Nations Framework Convention on Climate Change

WBG
World Bank Group

EXECUTIVE SUMMARY

Radically reformed and strengthened MDBs are essential to address the immense global challenges in today's world. The welfare of billions of people and the health of the planet, the foremost example of a global public good (GPG), are under threat. To make matters worse, the problems are getting bigger; the SDGs are badly off-track, with over 600 million people still living in extreme poverty, and there is an intense urgency to address problems of climate change and nature conservation and protection in all countries.

The window for action is closing fast. The world's stock of infrastructure will double in the next decade, much of it in developing countries, so the choices made now will determine prospects for growth, sustainability and inclusion for decades to come.

The threats of today can be transformed into an opportunity for tomorrow. There is an emerging growth story of the 21st century that is sustainable, resilient, and inclusive. It is a growth path that invests in people, that secures livelihoods for those exposed to natural disasters, and that builds on the innovations now available in green energy and digital technologies. It will require strengthening of policies and institutions, and a large scale-up in the size and pace of public and private investments. For example, spending on sustainable infrastructure in developing countries needs to expand four-fold by 2030.

MDBs have a key role to support the needed reforms and resources. They work with governments and the private sector to create the conditions for investment and transformation. They are the most effective institutions to provide low-cost, long maturity financing, to mitigate risks faced by private investors, and to share risks in the most efficient way. They have a wealth of knowledge and experience in partnering with clients to achieve effective development solutions, and they combine affordable long-term finance, technical support, and policy advice in a unique way to deliver sustainable results. In an increasingly fractured world, they have a history of bringing together diverse nations to not just discuss but to act in support of a shared agenda of transformative growth.

However, to transform development, the MDBs will have to transform themselves. This report of the Independent Expert Group (IEG), appointed under the auspices of the India G20 Presidency, recommends a triple agenda to harness the potential of MDBs (see Annex 1 for terms of reference). The three elements of this agenda are: (i) adopting a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods;[1] (ii) tripling sustainable lending levels by 2030; and (iii) creating a third funding mechanism which would permit flexible and innovative arrangements for purposefully engaging with investors willing to support elements of the MDB agenda.[2]

Effective implementation of the triple agenda requires important changes in the ways that MDBs operate. Individually and collectively, MDBs must become effective agents in all developing countries for integrating the development and climate agendas, working with governments and the private sector to reduce, share and manage risks and thereby bring down the cost of capital. They must change their culture, become more client responsive, and take more risk. Timelines for project preparation should be shrunk and procedures rationalized. They must also increase the scale and nature of their activities. Relative to the GDP of borrowing countries, MDB gross disbursements are now just half as large as they were in 1990, and their net resource transfers are unacceptably low.

One of the greatest opportunities for transformation is in MDB engagement with the private sector. There is considerable innovation and energy behind new ways of attracting private capital into sustainable infrastructure, and MDBs must complement, rather than compete with, these efforts. Helping to co-create country platforms that identify the nature and scale of investment climate reforms will be central to this. Coordination between private and public sector arms of the MDBs on the use of the Cascade principles, guarantees, blended finance, political risk insurance, and foreign exchange hedging should be systematic rather than episodic. We are mindful of the difficulty in assessing when public funds truly lead to a faster pace of additional private investment, but believe that with the right design and governance, public sector catalyzation can be significant. Today, MDBs only mobilise 0.6 dollars in private capital for each dollar they lend on their own account. They should aim to at least double this target.

The agenda for SDGs, climate action, nature preservation and other GPGs is mutually-reinforcing. Strategies for poverty reduction and national and global prosperity are converging in their need for larger investment in sustainable infrastructure. Reframing mandates in this way should not detract from the large unfinished business of national development priorities and will require MDBs to lend more.

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[1] We interpret global public goods in a broad sense going beyond the conventional description of GPGs, focused especially on climate change, the preservation of biodiversity and the global water cycle, and pandemic preparedness and response. Here, investing in these GPGs goes together with addressing closely-related transboundary challenges such as conflict and fragility, food security, cyber security and energy security.

[2] The other two funding mechanisms are negotiated equity contributions from sovereign shareholders and discretionary trust funds.

Financing targets, gaps and assumptions

Additional spending of some **$3 trillion per year** is needed by 2030, of which **$1.8 trillion** represents additional investments in climate action (a four-fold increase in adaptation, resilience and mitigation compared to 2019), mostly in sustainable infrastructure, and **$1.2 trillion** in additional spending to attain other SDGs (a 75% increase in health and education).[3]

The international development finance system should be designed to support this spending by providing **$500 billion in additional annual official external financing by 2030,** of which one-third in concessional funds and non-debt-creating financing and two-thirds in the form of non-concessional official lending.

It should also help mobilise and catalyse an equivalent amount of private capital, implying a **total additional external financing package of $1 trillion.**

MDBs should provide an incremental **$260 billion of the additional annual official financing, of which $200 billion in non-concessional lending**, and help mobilise and catalyse most of the associated private finance.

A larger fraction of concessional assistance should be channeled through MDBs. Low-income countries have the largest shortfalls in spending on achieving SDGs and addressing GPGs. They have limited options for domestic resource mobilization, and non-concessional borrowing is precluded due to a lack of creditworthiness. Their access to concessional funds must therefore be protected and expanded. We are concerned that bilateral ODA to the Least Developed Countries has declined in real terms in 2022. At the same time, there is a short-term "cliff" facing IDA clients that must be resolved as quickly as possible. As IDA is the major source of long-term cheap financing for LICs, we urge a tripling in its level by 2030. In addition, we recognize that many middle-income countries also need concessional financing, especially when faced with sudden shocks such as natural disasters, conflict, fragility and pandemics, or in support of their efforts to address global challenges.

MDBs have started a process to optimize their balance sheets. We urge the fullest implementation of recommendations made in the G20 Capital Adequacy Frameworks report that could generate headroom to lend $80 billion more each year. Leverage in each MDB can be increased further by better accounting for callable capital, preferred creditor treatment, and removal of statutory lending limits, while protecting their credit ratings. Mobilizing hybrid capital, including through recycled SDRs, and risk transfers to private and public actors to free up capital would also add significant capacity.

We also see potential for a new flexible legal and institutional mechanism that could crowd-in a coalition-of-the-willing among sovereign donors and non-sovereign investors wishing to be associated with specific MDB activities. In a second volume we will explore modalities for establishing a Global Challenges Funding mechanism for such purposes that could result in at least $20 billion in additional annual lending.

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[3] *Figures are taken from/consistent with those presented in Songwe, Stern and Bhattacharya (2022). OECD, the International Energy Association, the Energy Transitions Commission and the World Bank, have produced numbers of similar orders of magnitude of what is necessary for delivery of the global agenda, although they differ in coverage of sectors, geographies, and time frames.*

In our judgment, however, even if implemented with maximum effectiveness, these measures will fall substantively short of what is needed. Accordingly, we are inescapably led to recommend initiation of a process for a General Capital Increase (GCI) for those institutions which have binding headroom constraints, including IBRD. Balance sheet optimization is a necessary condition for a GCI. Equally, preparation for a GCI will support balance sheet optimization. The two should therefore take place concurrently. This would send a strong signal to credit rating agencies as to the deep level of shareholder support for MDBs, thereby permitting the greater leverage recommended by the CAF to take place with minimal risk of affecting credit ratings. It would simultaneously signal to developing country officials that they can trust that pledges of enhanced international support for their efforts will actually be realized.

Implementing the CAF recommendations together with preparation for a GCI would balance the risks facing MDBs. While MDBs can mitigate risk by helping countries improve the environment for private investment and by strengthening growth in client countries, the measures proposed here to increase leverage and to engage in new ways with the private sector will inevitably raise the risks to MDBs. These small risks are worth taking to reduce far larger global risks of social and environmental tragedies that are now apparent. MDBs have a toolkit of callable capital and preferred creditor treatment that permits them to bear more financial risk under most eventualities. They can further exploit opportunities for sharing risk amongst themselves and can potentially use new instruments such as the proposed global challenges funding mechanism to shift risk to other partners. But a GCI would give MDBs the strong financial foundation they need to implement these other reforms and achieve the necessary scale up of additional annual lending by $200 billion a year.

New equity in MDBs would provide extraordinary value-for-money to shareholders. Once the recommendations on leverage and private capital mobilization are fully implemented, each dollar of new equity could reasonably be expected to support at least $15 of additional external financing for sustainable investments: $7 in direct MDB lending and $8 in additional direct and indirect mobilization of external private capital. If complementary investments from national development financial institutions are included, leverage would be even higher. For individual shareholder governments, the impact of their contribution is even higher as they only provide a fraction of any new capital increase (see Annex 3 for G20 country examples).

The MDB system must become more than the sum of its individual entities. MDBs are heterogeneous, with their own mandates, governance and priorities. Much of their strength has come from the fact that heterogeneity permits innovations in different parts of the system (Annex 5). For example, some MDBs have been leaner and faster (AIIB), others are experimenting with raising new forms of capital (AfDB and IDB), engaging with the private sector (EBRD and IFC) or better utilizing their balance sheets in other ways (IBRD and ADB). Nevertheless, there is now a convergence of objectives to which all MDBs subscribe, to help the transformation of client countries. Achieving this objective requires better coordination among MDBs. They can work better as a system through joint financing and risk-sharing, jointly improving the ecosystem of project pipeline development, regulatory and institutional reform, and information exchange, for example by making the Global Emerging Markets (GEMs) database public. They should harmonize and reciprocally recognize others' financial, procurement and safeguard standards, and share diagnostic tools. At the same time, cooperation between the MDBs and the IMF is vital, most importantly in managing debt.

Institutional incentives must be put in place to reinforce MDB cooperation.

We recognize that there have been many past efforts to promote MDB harmonization, with mixed success. Accordingly, we suggest that MDB leadership should be held accountable for progress on this agenda and should jointly report to the G20 on how their activities have contributed to improving the environment for scaled-up transformation investments in their clients.

Sustained multi-year effort and independent oversight are critical for MDB reforms to succeed. While the reform agenda needs to be decisively put on track this year, implementing it will be a multi-year endeavor. Therefore, there is a need for an independent monitoring group to encourage and catalyze full implementation of recommendations over multiple presidencies and report to G20 on progress beyond this year. Such a group would complement the work being done by the International Financial Architecture Working Group and provide the governance to ensure the system works as a system.[4]

Roadmap to Strengthening MDBs: Key Actions

Actions		Timeline
I: Vision and Mission: Each MDB's vision statement should address GPGs to send a clear signal of intent and guide internal efforts and external interactions.		Q4:2023
II. Operational Models		
II.A	Set benchmarks for speed and flexibility to provide scalable, low-transaction cost support, based on country-owned transformation platforms. Upgrade knowledge and advisory services for sustainable development.	Q1:2024
II. B	Work systematically with the private sector in sovereign and non-sovereign activities, co-creating investment opportunities and establishing PCM targets of at least 1.2:1 for the MDB system as a whole and with targets above and below this level in each institutional context.	Q2:2024

[4] *The G20 Eminent Persons Group Report, 2018, similarly emphasized the need for the G20 to steer the MDB reform agenda for 3 years.*

Actions		Timeline
III: Scale of Financing: G20 members should agree on a common goal to triple the sustainable lending levels of the MDB system by 2030, reaching $300 billion per year in own-account non-concessional finance and $90 billion per year in concessional finance.		Q3: 2023
III. A	G20 members to signal strong support for tripling IDA by 2030 in order to permit IDA to avoid its fiscal cliff by front-loading market borrowing in the near term.	Q3:2023
III. B	Each MDB to implement recommendations of G20 CAF report, taking better account of callable capital, preferred creditor treatment, risk transfers and issuing hybrid capital, including using SDRs. MDBs to report back jointly to G20 Finance Ministers on expectations for impact of such measures on system-wide sustainable lending levels by 2030.	Q1:2024
III. C	G20 members consider establishment of a new Global Challenges Funding Mechanism, initially located in the World Bank Group but with separate governance, to take advantage of coalitions-of-the-willing among donors and non-sovereign investors.	Q4:2023
III. D	Each MDB to present recommendations to their Executive Boards on the magnitude of any General Capital Increase that may be necessary to triple sustainable lending levels by 2030, after full implementation of CAF recommendations, and to present such calculations in a joint report to G20 Finance Ministers.	Q2:2024
IV: MDBs as a system: Operate methodically as a system with shared diagnostics, coordinated technical assistance for public investment management improvements and country platform strengthening, regulatory and institutional reforms, project pipeline development, information exchange, exposure swaps, dialogue with credit rating agencies, and joint responses to country requests. MDBs to report jointly to G20 every two years on system-wide strengthening measures.		Q4:2024

I. A time to strengthen the international development finance architecture

The determination of world leaders to accelerate a green transition that leaves no one behind, coupled with grave concern over shortfalls in emerging market and developing countries in progress on and prospects for the sustainable development goals and Paris climate targets, makes 2023 a critical time to consider how to make the operations of multilateral development banks more impactful.[5]

A now or never moment

We are in a special moment, **a time of great risk and great opportunity.** The pace of sustainable development in all countries—developed and developing—is leaving millions of people behind and is not consistent with achievement of the SDGs, nor with the pathways recommended by science for climate change, water, and biodiversity conservation. What is **new and alarming is the grave risk to the global economy** if GPGs are not forcefully addressed. In this report, we interpret GPGs in a broad sense going beyond the conventional description of GPGs, focused especially on climate change, the preservation of biodiversity and the global water cycle, and pandemic preparedness and response. Here, investing in these GPGs goes together with addressing closely-related transboundary challenges such as conflict and fragility, food security, cyber security and energy security.

There is still time to alter this trajectory. There is an emerging global growth story of the 21st century that has the potential to be sustainable, resilient, and inclusive.[6] It is a growth path that invests in people, that secures livelihoods for those exposed to natural disasters, and that builds on the innovations now available in green energy and digital technologies. Its success depends on the collective willingness of all countries to move at speed in a new direction, else transboundary spillovers could destabilize progress everywhere. Many developed and developing countries have started down this path, and all have signed global political declarations to achieve the sustainable development goals (SDGs) and to limit global warming to within 1.5 degrees, but **most emerging market and developing economies (EMDEs) will not be able to meet these goals on schedule or adapt to low carbon-economies fast enough without external support.** Yet, there is no global program to deliver such support.

Scale and urgency of action are now critical, dictated by the physics of climate change and by development imperatives. The whole system of the global financial architecture, and of the MDBs' role within that system, must evolve to better support countries in aligning

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[5] *Emmanuel Macron, Mia Amor Mottley, Luiz Inacio Lula da Silva, Ursula von der Leyden, Charles Michel, Olaf Scholz, Fumio Kishida, William Ruto, Mackay Sall, Cyril Ramaphosa, Mohamed bin Zayed al Nahyan, Rishi Sunak, and Joseph Biden, Jr., June 2023, "A Green transition that leaves no one behind," Project Syndicate.*

[6] *Stern and Romani (2023)*

all their public expenditures with the investments needed to undertake the required transitions. The problems are getting bigger, and gaps between developed and developing countries are getting larger, but MDBs as a system are shrinking. Their gross disbursements were less than 0.3% percent of recipient country GDP (excluding China) in 2019, half the level of 0.55% in 1990. In the current environment of rising interest rates, net transfers from the MDBs may even turn negative.

G20 members believe that stronger, more proactive and responsive MDBs could help developing countries advance faster towards the SDGs and Paris Climate Agreement targets, thereby fostering national advancement in these countries while at the same time reducing risks to the global economy by addressing global public goods. They have commissioned expert panels to review global financial governance (2018) and the capital adequacy frameworks of these institutions (2022).[7] Under the auspices of the India G20 Presidency, Finance Ministers have tasked an Independent Expert Group (IEG) on strengthening multilateral development banks to provide a roadmap for an updated MDB ecosystem for the 21st century, based on financing needs of developing countries, funding needs of the MDB system, and an improved global financial architecture.[8] This is the first of a two-part report by this expert group.

Box 1: Relating the report structure to the Terms of Reference

The discussion in this report is guided by the Terms of References (ToR) assigned to the IEG (Annex 1). **Section I** sets out the overall context and describes the central role that MDBs would have to play in helping developing countries to meet their national development priorities and position them on a path towards net zero. **Section II** discusses why the mission statement of MDBs should be reframed (the first part of Objective a in the ToR). **Sections III to VII** estimates the scale of funding required to attain the SDGs and deal with global challenges and spells out the underlying mechanisms and reforms (Objective *b*). **Section VIII** analyses the operating model and the coordination mechanism of the MDBs (remainder of Objective *a* and Objective *c*), **Section IX** discusses the need for coherence between the MDBs and other parts of global financial architecture (Objective c). **Section X** provides the timeline for the roadmap, including the next steps to be covered in Volume II and the need for governance improvements to monitor reforms over a multi-year period.

MDBs are continuously reforming and innovating, but each on their own timetables and driven by their own shareholder constituencies. By looking at the MDB system, this report seeks to build consensus among stakeholders of fundamental changes in MDB mandates, financing, funding, operating activities, partnerships and risk tolerance that are

[7] *G20 Eminent Persons Group on Global Financial Governance (2018); An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks" (2022).*

[8] *See Annex 1 for the terms of reference and other details of the Independent Expert Group (IEG).*

now required and that are being discussed in multiple fora. Looking forward, MDBs must become a major source of financing for sustainable infrastructure investments and take more risk, must become relevant and supportive actors in all client countries to help deliver on GPGs, must radically alter their engagement with the private sector and must partner with each other in new ways to fill gaps in the system as it now stands.

This is a large and bold agenda for MDB reform. Some have therefore argued that MDBs should first reform themselves before trying to scale up lending and advice. We take the view that the two should proceed in parallel, partly because investments by MDB clients cannot wait, and partly because the scaling up process itself could be a major driver of internal operational reform.

All MDB activity is driven by a desire to help client governments meet their national and international obligations and priorities. Two strands of support must go hand-in-hand given the urgency of the situation: (i) knowledge activities to help countries identify and implement structural reforms, strengthen institutions, and build resilience, and (ii) lending and grants to help governments and local and foreign private business expand investments. One raises the effectiveness of investments and the other accelerates progress on outcomes. Importantly, the low cost of financing provided by MDBs can be a decisive factor in making sustainable investments the most financially attractive option.

A deductive approach

We have followed a deductive approach of asking which investments are necessary to achieve the SDGs and Paris targets, and then to identify the supportive financing that is needed. In that sense, this is not an ambitious program. It is what is necessary. It may be difficult but it offers a chance to avoid the worst risks facing the global economy.

We have chosen 2019 as a pre-crisis reference year against which to measure the required action. **Spending on climate action (adaptation, resilience, and mitigation) and sustainable infrastructure in developing countries, excluding China, should ideally increase at least four-fold by 2030.**[9] Meanwhile **spending on other SDGs, especially the human capital needs of health and education, should rise by at least 75%.**[10] While top-down estimates of the investment needs in developing countries vary, our judgment is that **additional spending of some $3 trillion per year is needed by 2030 in EMDEs, of which $1.8 trillion represents additional investments in climate action (adaptation, resilience and mitigation), mostly in sustainable infrastructure, and $1.2 trillion is additional spending to attain other SDGs.**[11]

[9] We have excluded China from these calculations simply because China has the capacity to finance its transitions from domestic resources. Nevertheless, it may well be mutually beneficial for China to borrow from some MDBs in order to learn from international practices for coping with sustainable development and new global challenges while also generating useful experiences for other countries.

[10] Figures are taken from/consistent with those presented in Songwe, Stern and Bhattacharya (2022).

[11] All figures in this report are expressed in constant 2019 US dollar equivalents. "Additional" is defined to mean compared to pre-COVID-19 2019 levels.

Many organizations, including the OECD, the International Energy Association, the Energy Transitions Commission and the World Bank, have produced numbers of similar orders of magnitude of what is necessary for delivery of the global agenda, although they differ in coverage of sectors, geographies, and time frames.[12]

A scale up of this magnitude raises important questions. Are there sound bankable projects? How can they be financed? What can be done through international collective action to speed up the process? There are no simple answers to these questions and, indeed, the slow pace of action in the past few years underscores the difficulties involved. We are, nevertheless, convinced that at this time there is an **urgent need to strengthen the impact and the volumes of the system of international development finance** as a necessary, albeit insufficient, step.

In the recommendations that follow in this report, we have started from an assessment of the **needed investments by 2030 in SDGs, climate action and sustainable infrastructure, and other GPGs required to meet national development priorities and position countries on a path towards net zero.** These form the **basic design parameters** that should drive the design of a strengthened international development finance system.

Each country needs to develop a financing plan for a "Big Push" on investment.[13] In some cases, especially in upper-middle income countries, additional investments can be financed by domestic resources from the public and private sectors. **There is considerable scope for improved alignment of domestic budgetary revenues and expenditures towards SDG and climate goals.**[14] Domestic financial systems, including publicly owned national development banks and capital markets in some countries also have considerable resources that can be deployed. Both these sources of domestic resource mobilization depend on the health of domestic economies, underscoring the **criticality of restoring economic growth** for meeting these targets.

In other cases, however, international support will be needed. Each individual country should develop a financing plan for specific sectoral transformations, identifying how much can be mobilised from multilateral and bilateral official concessional and non-concessional sources. Such plans are still being developed, partly through novel country platforms for system change, as exemplified in recent Just Energy Transition partnerships in South Africa, Indonesia and Vietnam and Egypt's Nexus on Water, Food and Energy.[15] As this bottom-up data evolves, and a better understanding of absorptive capacity is gained, the needed financing estimates will improve and become more reliable and granular.

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[12] *IEA Energy Technology Perspectives Report, 2023, cites an incremental $1.2 trillion for the clean energy transition alone. https://iea.blob.core.windows.net/assets/a86b480e-2b03-4e25-bae1-da1395e0b620/EnergyTechnologyPerspectives2023.pdf; World Bank, 2023, Evolution roadmap cites $2.4 trillion in spending to address GPGs*

[13] *Bhattacharya et al (2022), "Financing a big investment push in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth"*

[14] *Chang et al (2022), "Raising tax revenues: how to get more from tax administration," IMF Working Papers WP/20/142*

[15] *The UN's Integrated National Financing Framework plans provide a diagnostic of need, but do not link specific investment programs to Identified financing. UN, April 2021, "INFF in Q1:2021 Global progress report", https://inff.org/resource/inff-country-progress-or-april-2021-update*

Fitting MDB reform into changes in the global financial architecture

Notwithstanding such uncertainties, we believe that the international development finance system should be designed such that it can **potentially mobilise up to $500 billion in additional annual official external finance by 2030,** from bilateral and multilateral concessional and non-concessional sources. If managed right by **taking on more risk in a considered way,** these official funds could mobilise an equivalent amount of finance from private investors, such that an **additional total external financing package of $1 trillion would be available** for developing countries, excluding China, over and above the commitments of about $580 billion in official and private capital flows aligned with the SDGs and climate goals that we estimate for the 2019 base year of our analysis (Figure 1).[16]

The actual levels required by 2030 will depend on country demand and absorptive capacity, but we recommend that the system be designed to efficiently channel flows of this magnitude so that **every developing country has confidence that it will be able to access adequate affordable finance** when embarking on an ambitious transition agenda. This has implications for domestic resource mobilization and the activities of national development banks, bilateral and multilateral concessional and non-concessional finance, and private capital mobilization, each of which are addressed in this report.

In our calculations, we envisage **a doubling of concessional and non-debt creating finance in the system as a whole,** with priority given to support for low-income countries. Additional concessional finance should also support vulnerable countries and incentivize projects with global public good benefits. We further envisage **a tripling of non-concessional official finance by 2030,** compared to 2019 pre-pandemic base year levels.

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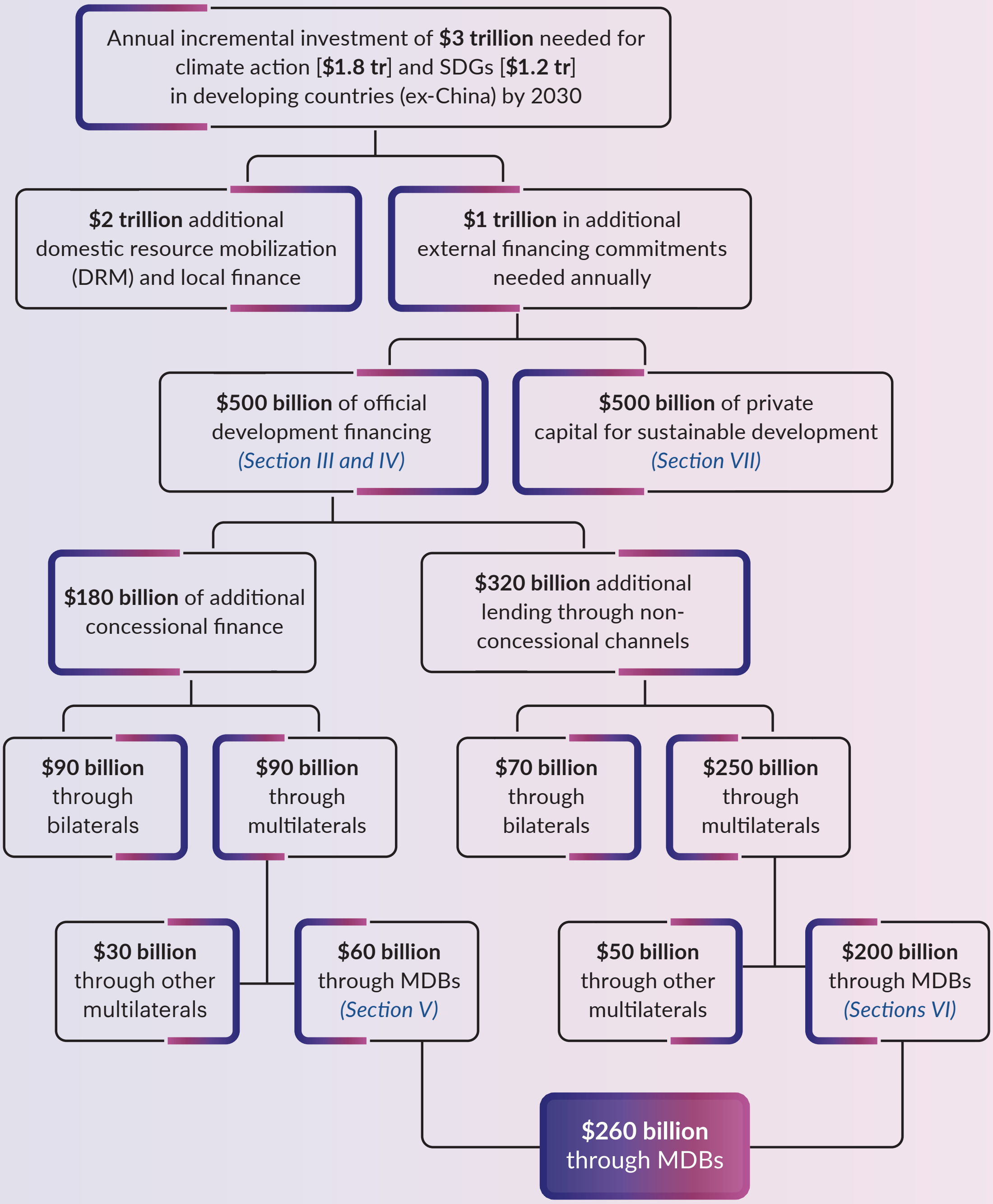
[16] *The 50:50 balance between official and private sector incremental external financing by 2030 in Figure 1 mirrors the proportional targets of the Indonesia and Vietnam JET-P programs supported by major donors.*

Figure 1: A menu of financing options to achieve SDGs and address GPGs by 2030 will involve tripling of MDB concessional and non concessional lending



Source: IEG core team
Note: The section number shown in some of the boxes corresponds with the section number in this report where the issue is discussed.

Multilateral development banks (MDBs) should have a central role in this strategic plan, particularly in the non-concessional finance pillar where they currently play a dominant role.[17] They also have a critical role to play in private capital mobilization, mostly for sustainable infrastructure. A far smaller share of official concessional finance is channeled through MDBs at present, but it would improve aid effectiveness and the coherence of international support if donors also committed more resources to strengthen concessional MDB windows such as IDA. Accordingly, we urge donors to consider **tripling the size of IDA,** by shifting incremental resources from their own bilateral programs to multilateral channels.

MDBs can combine finance, knowledge, technical assistance, and policy advice to ensure that national investment programs are properly developed, impactful and scalable. Their financial leverage model provides maximum value-for-money compared to other forms of international assistance. Knowledge sharing activities can help countries navigate system-wide transformations with maximum net welfare benefits. Given the wide-spread impact that climate change is already having on economies and vulnerable populations, MDBs must incorporate adaptation, resilience and mitigation into development strategies to remain relevant to their clients.

At one point in time, when global poverty was falling fast and access to private capital markets was expanding, there was a sense that MDBs had sufficient resources to fulfill their mission through organic capital accumulation from retained profits. **These earlier judgments, operationalized through sustainable lending limits and reduced access of upper middle-income country clients, no longer seem appropriate given the scale and universality of GPGs.**

Instead, to respond to today's challenges, MDBs need to **reframe their mission, raise their level of ambition and financing, and change the way they work** internally, with each other and with other public and private development partners. We have dubbed this **'a tripling agenda to strengthen MDBs'. It is an agenda that advocates for triple mandates for MDBs, tripling their level of financing commitments, and that establishes a third funding mechanism which would permit flexible and innovative arrangements for purposefully engaging with investors willing to provide finance in conjunction with elements of the MDB agenda.**

This third funding mechanism would add to the existing two mechanisms that raise funding in a coordinated way from donors in fixed proportions for general capital increases, on the one hand, and voluntary, individual contributions by donors in the form of Trust Funds or guarantees, on the other hand.

[17] *In this paper, historical data for commitments and gross disbursements are drawn from the OECD Creditor Reporting System. All figures are expressed in constant 2019 US dollars. MDB calculations and figures include the following agencies: African Development Bank, African Development Fund, Arab Bank for Economic Development in Africa, Asian Development Bank, Asian Infrastructure Investment Bank, Black Sea Trade and Development Bank, Caribbean Development Bank, Central American Bank for Economic Integration, Council of Europe Development Bank, Development Bank of Latin America, European Bank for Reconstruction and Development, European Investment Bank, IDB Invest, Inter-American Development Bank, International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, International Investment Bank, Islamic Development Bank, New Development Bank, North American Development Bank.*

II. A triple mandate[18]

Encourage each MDB to fully align with the SDGs and Paris Agreements and to formally incorporate national contributions to GPGs into their mission statements.[19]

Each MDB has a mandate to end extreme poverty, to bolster growth and to inclusively share prosperity within its client countries, albeit each expressed in its own terms. These **core mandates remain sacrosanc**t (see Annex 4 for a summary by MDB). They are the heart of MDB purpose and relevance to clients.

In the past, progress on these mandates depended on country-specific circumstances and actions. In recent times, however, it has become evident that GPGs have presented material obstacles to achievement of the goals. In this sense, the core mandates and the GPG agenda are converging. The deterioration of land and water resources and biodiversity conservation are also becoming poverty-critical in the near term, and natural disasters, conflict and the pandemic have inflicted huge damage on vulnerable people, generating large refugee and migrant flows to escape to better lands. All countries have therefore pledged to combat these GPGs. In so doing, they are guided by the principle of international environmental law that recognizes the common responsibility of all nation states for preserving the health of the planet, while acknowledging that states differ in their contribution to the problem and in their capacity to respond.

Based on this principle, a growing number of developing countries, and all major emitters, have outlined national contributions in the areas of climate mitigation and biodiversity preservation. In the case of climate mitigation, nationally determined contributions are explicitly linked to the level of international financial support.

Against this background, it is evident that the core debate over MDB mandates revolves around the **additionality of financing that should accompany a reframed mandate,** rather than around the relevance of GPGs as priorities for developing countries. There is natural concern that mandate creep could lead to a loss of operational focus on sustainable development, excessive focus on a few large GHG emitters, or to a dilution of the principle of country ownership, as evidenced in on-going debates about the allocation of climate finance between mitigation and adaptation.

In our discussions, however, developing country ministers have expressed the view that core development investments, notably in health, education and sustainable infrastructure, should continue to receive at least as much attention as before, and that the intertwined

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[18] MDBs' purpose is set out in Articles of Agreement. This section on adapting mandates should be interpreted in terms of adjusting vision and mission statements, rather than changing their Articles.
[19] We recognize that some MDBs, notably EBRD and AIB, already have explicit language to this effect.

issues with climate action should be pursued in a balanced and additional way. For instance, restoring degraded land is good for food security and capturing carbon. Decentralised solar is good for resilience, entrepreneurship and low carbon. The key strategic choices that developing countries confront are no longer about “green” versus “brown” technologies, but about the pace of sustainable development though deployment of clean technologies and about the cost of transition. MDB knowledge sharing on how development pathways and strategies deliver impact in today’s world is becoming ever more important and must humbly recognize that past strategies have had limited success in many contexts.

The factors that will determine the appropriate pace of transition are access to and affordability of domestic and external finance, and the capacity to program and implement effective investments. We observe that developing countries are ready and willing to move faster and contribute more to GPGs, and that the global community needs these contributions. But this is only possible if developing countries get access to additional financial support at affordable interest rates, and technical assistance to boost domestic implementation capabilities. The MDBs should support these national ambitions and aspirations, both through their own finance and through reforms that increase their effectiveness, impact, and mobilization of private finance.

We therefore recommend that MDBs formally adopt a triple mandate in their mission or vision statements to acknowledge their role in providing support to the poorest people within each country, in fostering national economic growth and shared prosperity, and now, in expanding their borrowing countries’ contribution to planetary health in line with their international commitments.

In making this recommendation, we recognize that most MDBs are already active in financing programs to combat climate change and provide other GPGs and each expresses its mission in different ways (Annex 4). We nevertheless believe that **incorporating GPGs and closely-related transboundary challenges explicitly in their mission statements will send a clear signal of intent** and serve to guide internal efforts of MDBs and their external interaction and communication. We recommend that the GPGs to be included in such a new mandate include those that have a critical bearing on poverty reduction or on national economic development, including climate, nature, water, food, energy, cybersecurity, pandemics and conflict and fragility.

A GPG mandate will also help ensure that analytical/diagnostic work acknowledges and clearly reflects GPG as well as country priorities and provides a basis for **tracking and reporting** on how individual country results aggregate to global outcomes. For example, if this recommendation is adopted, we would expect the World Bank’s Poverty and Shared Prosperity annual report to include an assessment of progress on tackling GPGs and how they are interrelated with the current twin goals.

III. Triple financing

Build shareholder support for an MDB system that delivers triple the amount of financing and associated advisory service in 2030.

Historically, MDB finance has relied on a three-year donor replenishment of concessional sovereign funding windows, and ad hoc calls for additional capital increase packages for non-concessional sovereign and non-sovereign windows. For example, the IBRD has had five general capital increases in its almost 80 years of existence, in 1955, 1979, 1988, 2010 and 2018. The first four packages were not linked to strategy reviews or to specific policy actions but reflected shareholder and management views of an appropriate lending size for the institution. The 2018 capital increase package was designed to "shape a common view among shareholders on how the Bank Group can best support the development agenda for 2030."[20] Similar processes have been followed in other MDBs—capital increases reflected a general sentiment of the appropriate size for institutions rather than being linked to a strategy to achieve specific country or global outcomes.

This common view of shareholders has been upset by three developments. First, COVID-19 has represented a shock of historic proportions that has rapidly eroded MDB headroom as institutions responded to the crisis by front-loading lending. Second, the cumulative shocks from the pandemic, Russia-Ukraine war, food and energy insecurity, debt crises and significant climate-induced natural disasters has brought a new terminology—polycrisis—into the development lexicon. MDBs are ill-prepared for this world. IBRD financial planning, for example, was premised on the assumption that the institution would have to respond to a single mid-sized global shock every ten years. In hindsight, this seems outdated. Third, the maturing of international negotiations on GPGs of climate action, pandemic surveillance, and biodiversity conservation, with substantive developing country commitments conditioned on finance, has created new demands for MDB financing to meet scaled and urgent action.

Major shareholders have also looked to the MDBs as vehicles through which pledges to raise $100 billion in incremental climate finance and $600 billion in the G7 Partnership for Global Infrastructure and Investment can be realized, and have initiated MDB review processes such as, for example, the Evolution Roadmap being prepared for decisions by IBRD Governors.[21]

Against this backdrop, we recommend that **the size of MDB lending be made commensurate with their anticipated contributions to the global goals and country outcomes** that have been set by the SDGs and in the UNFCCC Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. **We recommend that the G20 link the**

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[20] *World Bank Group (2016). "Forward Look—A Vision for the World Bank Group in 2030". Washington, DC: World Bank Group (2016)*
[21] *Development Committee (2023) "Evolution of the World Bank Group: A Report to Governors", DC 2023-0002*

sustainable lending levels of the MDB system in 2030 to the financial support needed by developing countries to invest to achieve these goals. This would establish, for the first time, a clear link between mandates and financing for the MDBs as a system. We further recommend that the G20 review the adequacy of such lending levels every three years in line with the recommendations of the report of the G20 panel on capital adequacy frameworks.

We reviewed the major channels through which sustainable development is financed (Figure 1 above) and concluded that an incremental **$500 billion per year by 2030 is needed in official development finance, of which $260 billion should be channeled through MDBs. This can be further broken down into $200 billion for incremental non-concessional lending and $60 billion for incremental concessional grants and loans. This would represent a tripling of annual MDB commitments to reach a level of $300 billion in 2030 of non-concessional lending and $90 billion of concessional grants and loans.**

Based on this, we recommend that G20 members advocate for a tripling of sustainable lending levels in each of the MDBs where they are shareholders, as an initial step towards appropriate sizing of the system, starting with the proposals to be considered by IBRD Governors in October 2023.

In arriving at this judgment, we used the following principles:

- The initial and largest source of finance for needed investments can be mobilised domestically, through additional taxes and reduction of tax expenditures and subsidies, and through borrowing from national development banks and local capital markets. Governments will also be able to redirect resources away from "brown" energy sources. The scope for DRM is positively related to a country's income level, and the largest absolute investments in the energy transition are to be found in upper-middle-income countries where the potential for DRM is greatest;

- The degree of external financial support should therefore vary inversely with respect to a client country's gross national income and fiscal capacity, as illustrated in the World Bank's Country Climate and Development Reports;[22]

- Non-concessional finance should provide the bulk of the increment because much of the spending is for sustainable infrastructure which can generate financial returns in excess of the cost of official non-concessional debt, thereby reducing the need for subsidies;

- Non-concessional financial support from official bilateral agencies, such as the members of the International Development Finance Club should also be expanded commensurately with MDBs;

[22] *World Bank Group (2022)*

- As much private finance as feasible should be mobilised, especially for climate action, while recognizing the particular challenges of incentivizing private foreign investments in IDA countries and in countries with below-investment-grade credit ratings. Non-concessional sovereign and non-sovereign lending by MDBs should be able to mobilise at least 1.2 dollars cents for each own-account dollar lent (section VII);

- Additional concessional or innovative non-debt creating financing is indispensable, and we are heartened by further use of debt-for-nature swaps and new opportunities being considered to foster sustainable and efficient global supply chains, such as the tax on marine bunker fuel.

- Concessional finance to low-income countries should be protected and expanded. To the extent that additional concessional finance is needed to assist vulnerable countries in the event of a major natural disaster and to provide selected high-impact subsidies for middle-income countries to incentivize projects with large global spillovers (such as coal decommissioning or nature preservation), it should not divert from LIC funding (section VIII);

- A significant portion of concessional finance can flow through multilateral agencies other than the MDBs, including the IMF via its PRGT and RST facilities, Climate Investment Funds and the Green Climate Fund, and the Global Environmental Facility but a larger share of system-wide concessional finance than before should flow through the MDBs to promote coherence.

IV. Triple funding mechanisms

Put engagement with the private sector at the core of MDB activities to support sustainable infrastructure and establish a Global Challenges Funding Mechanism (GCFM) to tap into the growing appetite of sovereign and non-sovereign donors to address GPGs. This window could support additional MDB commitments of at least $20 billion per year by 2030 (Section VII) and contribute significantly to mobilization of private finance.

MDBs operate on the basis of capital raised from national governments, with norms over the shares that each donor contributes that have been relatively inflexible over time. Donors who wish to support MDB activities outside of this structure can do so by providing Trust Funds that are executed by the MDB or by beneficiary governments, or by providing guarantees for specific purposes or countries. The proliferation of Trust Funds is one indication that donors see value in associating themselves closely with specific MDB activities, whether in terms of country, theme, or sector, in a way that they cannot do through general support for MDB activities.

Solving global problems through traditional Trust Funds is inefficient because Trust Funds offer no leverage—a donor's contributions are typically given to beneficiary countries as grants. Trust Funds are also less impactful because the activities they support may not be fully aligned with MDBs' general operations. Expenditures out of Trust Funds receive less management attention than regular MDB operations. And borrowers find that the fragmented system with greatly varying processes and allocation criteria makes gaining access to concessional funding difficult and time-consuming.

There appears to be growing appetite for structured support provided in a voluntary fashion. Several countries have indicated a willingness to provide additional support at the recent Paris Summit for a New Global Financing Pact.[23] There are also extensive networks of local and international private actors that can be catalyzed in a more systematic fashion, by engaging at the economy-wide level, at individual project levels and virtually everywhere in between.

MDBs have a guarantee instrument to mobilise private finance, but it is sparingly used. They can do much better, especially if they change their accounting practices to estimate their exposure at risk in terms of the expected value of potential losses. Recently, some donors have chosen to support expanded MDB activities in selected sectors by creating new financing structures. The International Finance Facility for Education (IFFEd) explicitly targets the education crisis in lower middle-income countries by providing guarantees to MDB activities for this purpose. The Asian Development Bank has also launched an

[23] *Mobilising such support could require creation of new instruments as mentioned in the MDB vision statement agreed to in the Paris Summit (https://nouveaupactefinancier.org/pdf/multilateral-development-banks-vision-statement.pdf and will be further elaborated in Volume 2 of the Report.*

Innovative Finance Facility for Climate in Asia and Pacific (IF-CAP). Guarantees provided by these facilities and blended finance from existing institutions such as the Climate Investment Funds allow the MDBs to do more.

We believe that there is considerable scope for tapping into coalitions-of-the-willing among donors and non-sovereign investors that can permit an expansion of MDB activities. In a context where demand for sovereign and non-sovereign loans is potentially enormous, it would be useful to provide a flexible, yet structured, channel through which a broad range of investors, including private philanthropies, sovereign wealth funds and pension funds, as well as national governments, can associate themselves with specific MDB programs and activities.

Accordingly, we recommend that G20 members **consider the establishment of a Global Challenges Funding mechanism** to take advantage of these opportunities to stretch MDB and private investments in key sectors that respond to GPGs. In our initial thinking, we envisage that the mechanism might initially sit within the World Bank but with its own governance and balance sheet determined by the group of investors. Details of such a mechanism will be spelled out in our second volume, but the core idea is to explore institutional and legal mechanisms that would facilitate the multiple innovations to mobilise private capital and stretch official capital. (Annex 3).

One benefit of a Global Challenges Funding mechanism is that it could attract non-sovereign investors with a range of risk tolerances. With this varied funding base, the mechanism could provide a range of financing options, including guarantees to MDBs, or mezzanine loans, equity, or guarantees to private investors investing in portfolios or undertaking projects in tandem with MDB transition programs. In this way, it could contribute to the MDBs' ability to expand their own-account commitments—which we estimate could easily reach $20 billion -- as well as to their ability to mobilise private capital—potentially mobilizing far more if guarantee mechanisms are extensively used.

V. The critical importance of concessional financing

Triple IDA and sharply increase other multilateral concessional financing windows.

We welcome the expansion of ODA in 2022 to its record high level of $204 billion but note that much of the increase has gone for unanticipated humanitarian needs, namely the $29 billion cost of processing and hosting refugees in donor countries, and the $16 billion of ODA to Ukraine.

We are concerned that these pressures constrain the level of concessional resources available for long-term investments in SDGs and climate-related activities. Indeed, preliminary figures suggest that bilateral ODA to the Least Developed Countries has declined in real terms in 2022. At the same time, there is a short-term "cliff" facing IDA clients in July 2023 that must be resolved as quickly as possible.

In the new growth agenda that we have proposed, concessional aid plays a central role, especially for health and education in low-income countries. IDA is the largest source of long-term, cheap financing to low-income countries, but is too small to properly address the needs for adaptation, resilience and mitigation that are now emerging.[24] **Accordingly, we recommend a tripling in the size of IDA by 2030.** IDA should preserve its focus on low-income countries, where the degree of additional investments is large relative to their capabilities for domestic resource mobilization, and where non-concessional borrowing is precluded due to a lack of creditworthiness. Nevertheless, we believe that concessional ODA and non-debt creating finance, such as a fossil-fuel tax on maritime shipping, or debt-for-nature swaps, such as Ecuador's recent $656 million "Galapagos bond", could play a decisive role in financing needed investments in middle-income countries.

Non-revenue creating expenditures for adaptation, resilience, nature preservation and loss and damage cannot be readily financed through taking on debt in any country. While middle-income countries can mostly finance such expenditures from domestic resources, the sums are sufficiently large that they too need some access to concessional external resources especially in the face of sudden shocks from natural disasters, conflict, fragility and pandemics or in support of their efforts to provide GPGs. **MDBs should develop a financing instrument that provides rapid and automatic concessional international assistance to countries hit by major natural disasters.[25]** Current debt-creating instruments, such as catastrophe draw-down options, effectively require vulnerable countries to self-

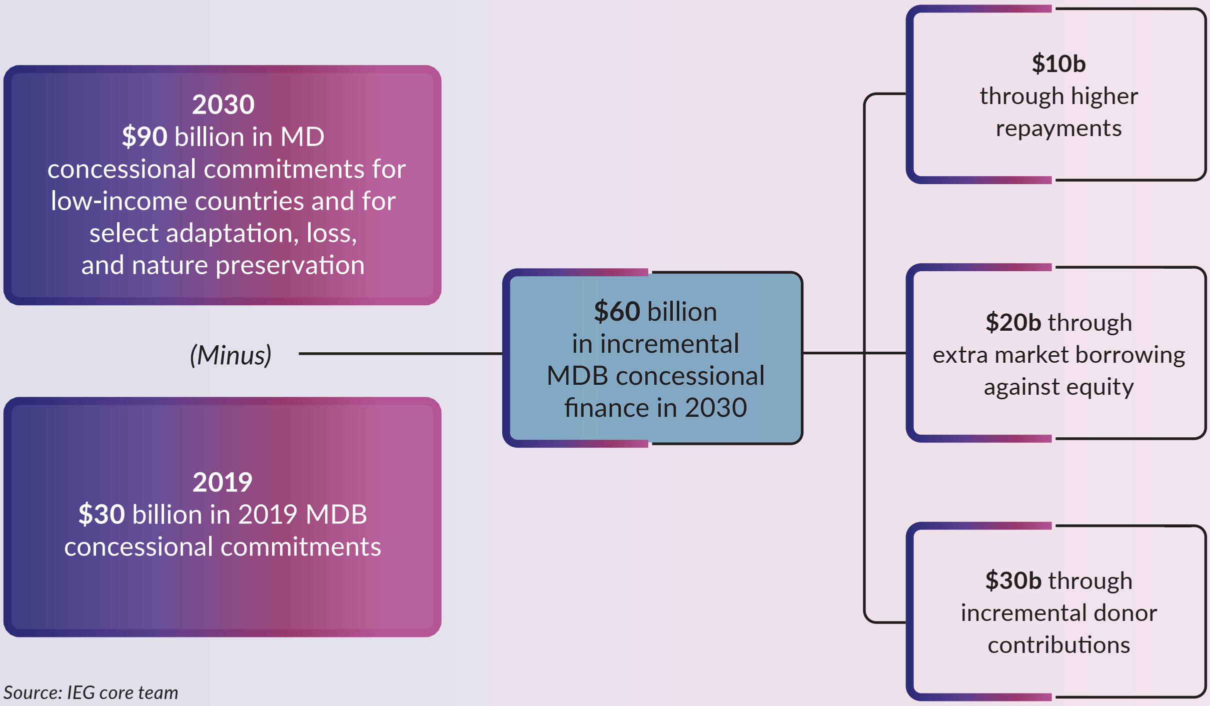
[24] *World Bank Group. 2022. Climate and Development: An Agenda for Action - Emerging Insights from World Bank Group 2021-22 Country Climate and Development Reports. © Washington, DC: World Bank. http://hdl.handle.net/10986/38220 License: CC BY-NC-ND.*

[25] *We welcome the commitment from World Bank President Ajay Banga to develop a comprehensive new toolkit for countries facing large shocks from natural disasters, comprising climate resilient debt clauses to pause debt service following a disaster, rapid redeployment of undisbursed funds, prioritizing investments in prevention and preparedness, design of new parametric insurance products, and convening donors to buy down insurance premiums to affordable levels for low-income countries.*

insure. Use of such instruments can lead to unaffordable and unsustainable debt and stalled economic growth for countries subject to repeat disasters, including many of those in the V20 group of vulnerable countries.

Figure 2 provides a schematic of how concessional financing might evolve. We estimate the overall concessional financing needs that should be channeled through MDBs at $90 billion per year in 2030, compared to around $30 billion in 2019. This figure is derived after making allowance for additional concessional financing from the IMF through SDR recycling into the PRGT and RST, and for replenishments of other multilateral financing channels such as the GEF, Green Climate Fund, GIF, Climate Investment Funds and IFAD.

Figure 2: Incremental concessional financing for developing countries



Source: IEG core team

The recommended tripling in MDB concessional financing also translates into much larger donor contributions. Larger volumes will imply higher repayments, but not by the same amount in early years. This can be compensated for by increasing market borrowing based on existing equity, although this inevitably raises risks and costs for IDA. There will therefore be a significant gap that donor contributions should fill. We roughly estimate this at $30 billion per year more than in 2019.

IDA donors have held their replenishment contributions at the same nominal level since 2009 when they pledged $25.1 billion for IDA 15. In 2021, they pledged $23.5 billion for IDA 20, a 25% decline in real terms. **We recommend that G20 members restore their contributions, and then increase them sharply to achieve a tripling in the size of IDA by 2030.** Annex 3 shows the implications for each major donor if donor shares remain at the IDA 20 levels.

We recommend that donors provide indicative guidance to IDA of their determination to significantly increase contributions, thereby permitting IDA to immediately accelerate its market borrowing and avoid the cliff it faces in FY24.

For the African Development Fund, we recommend that market borrowings based on equity be considered to expand lending at an appropriate time.

VI. Options for raising non-concessional MDB finance

Triple MDB non-concessional commitments by 2030 to reach $300 billion per year by improving the efficiency of existing and future capital, augmenting capital through non-traditional mechanisms, significantly increasing new equity from shareholder contributions and retained earnings, and establishing a new Global Challenges Funding Mechanism to leverage non-sovereign capital.

MDBs are the backbone of the non-concessional official financing architecture, accounting for over 60 percent of the system. Bilateral agencies are also important but in aggregate account for only one-quarter of official non-concessional commitments. The IMF provides temporary non-concessional resources through its General Resources Account, at low interest rates compared to private markets.

Official non-concessional finance is the engine for scaling up sustainable development investments in middle-income countries. The debt portion of sustainable infrastructure financing accounts for approximately 70 percent on average. Access to debt at affordable rates is therefore a critical ingredient in the economic viability of sustainable infrastructure, and this is largely provided by official sources in countries with sub-investment grade credit ratings.

Bilateral development finance institutions have been reducing their exposure in recent years, but this needs to be reversed. Like MDBs they need to align their efforts with Paris and the SDGs and provide technical and financial support to sustainable infrastructure, in particular, recognizing that these are investments, not donations. Their participation in investments identified in country platforms would be welcome.

The remaining gap in needed official non-concessional financing is best filled by expansion of the MDBs' non-concessional lending. The combination of financial scale, technical expertise, policy advice, engagement with client governments, and high standards in procurement and safeguards, makes MDBs into the agencies of choice for the urgent transitions that are needed.

In our schematic plan, we propose that **MDBs triple their non-concessional lending by 2030 to reach annual commitments of $300 billion.**

We have reviewed four options for raising commitment levels by MDBs. A proper analysis would require a detailed model and projections of each MDB's balance sheet, calibration of shareholder support and risk appetite, engagement with the credit rating agencies, and sounding out investors. We have not undertaken such a comprehensive assessment but have drawn on a static framework that uses the methodologies of Moody's, Fitch and Standard & Poor's to assess how far MDBs could stretch existing balance sheets while retaining their AAA credit rating.[26] As market participants improve their knowledge and gain comfort with new approaches and instruments, the estimates provided below may change. We have discussed the implications of relaxing the AAA rating of most MDBs, but believe, currently, the incremental gains in lending, while meaningful, do not outweigh the higher costs entailed. The numbers that follow from the analysis are best treated as illustrative guides rather than projections. The assumptions behind the numbers are presented in Annex 3 with a breakdown between IBRD and the rest of the MDB system for illustration.

The first conclusion is that the efficiency of use of existing and future capital can be improved. This includes achieving better leverage through clarifying and better utilizing the backing of the $1.2 trillion of callable capital of the MDBs we considered, more fully realizing the benefits of preferred creditor status and shifting in the direction of an originate-and-distribute model of banking. The G20 CAF review has highlighted the significant potential from these steps and new analysis suggests that this potential could be quite large. We fully endorse the recommendations of that study, and recognize that several MDBs, including the Asian Development Bank, African Development Bank, EBRD, and IBRD, are already moving to implement some of those recommendations (see Box 2). However, reforms can go much further. We conservatively estimate that efficiency measures could boost lending by 40 percent of existing capacity, amounting to incremental lending headroom of **$40 billion per year by 2030 for the MDB system.**

Box 2: Status of implementation of Capital Adequacy Framework (CAF) recommendations

Some key features of the status of CAF recommendations, based on the information shared by the MDBs, are as follows:

- Many recommendations can be considered to be partially implemented especially those relating to adapting definitions of risk tolerance, financial innovation and engagement with Credit Rating Agencies (CRAs).
- There is a strong support across the G20 countries and MDB ecosystem for GEMs 2.0 and its timely launch as a standalone entity.
- Some recommendations such as incorporating callable capital into the calculation of capital adequacy and consideration of non-voting capital classes such as hybrid capital to contribute to available capital, have proved challenging to implement as they require changes at a structural level, further discussions with the shareholders, private investors and Credit Rating Agencies. Some of these recommendations could need significant adjustments to the MDBs' functioning. The credit rating assigned to the hybrid instruments by some Credit Rating Agencies needs to be analysed.
- The preliminary estimates of financial resources that could potentially be released by implementing these recommendations appear to be promising.

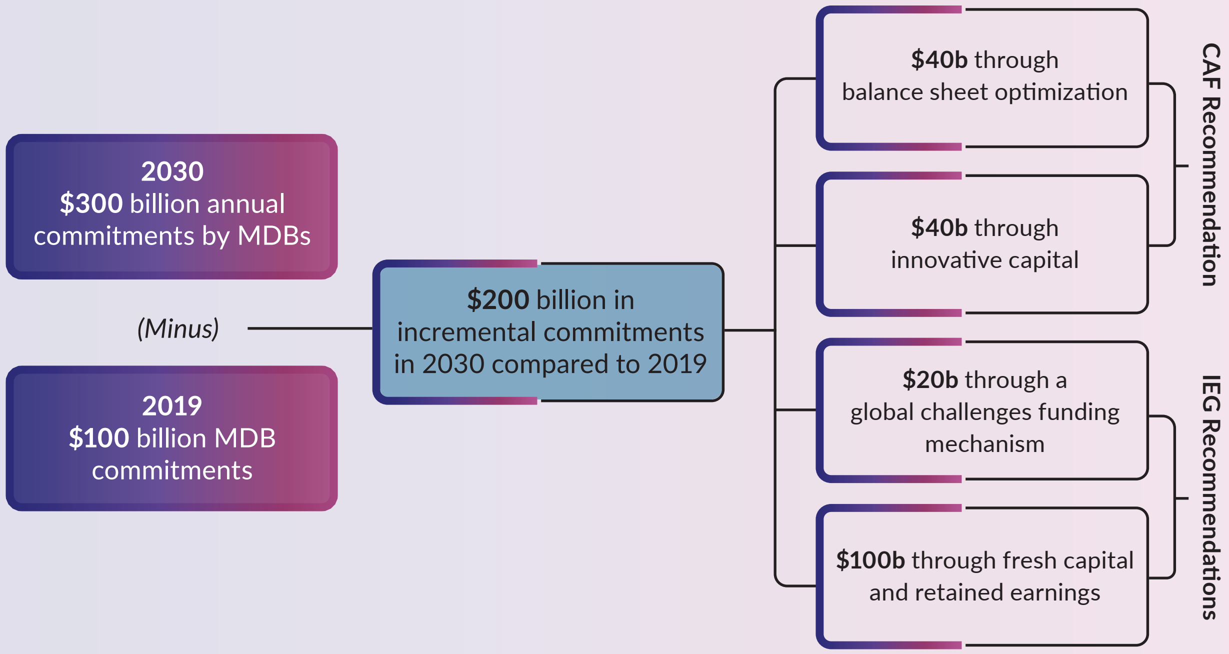
Source: G20 International Financial Architecture Working Group

[26] *Agarwal et al (2023), "Ratings and Capital Constraints on IBRD and IDA", report prepared by Risk Control and commissioned by the Rockefeller Foundation.*

In the case of IBRD, there is a prior binding constraint due to a statutory lending limit contained in Article III, Section 3 of the founding articles of agreement. This would need to be raised or eliminated to take full advantage of balance sheet optimization. **We recommend initiating a process to amend the Articles as soon as possible.** Once this is done, IBRD could expand its sustainable lending level by up to $11.6 billion.

Second, there is significant scope for augmenting capital through non-traditional mechanisms including hybrid capital (that could include capital backed by recycled SDRs), and much greater use of portfolio and capital guarantees, for instance through mechanisms modeled on the International Financing Facility for Education to scale up the leverage of each dollar of 'paid-in' guarantee.[27] The Asian Development Bank's International Financing Facility for Climate in Asia and the Pacific (IF-CAP) also builds on donor guarantees. We commend these innovations and believe further use could boost lending capacity by an additional 40 percent or $40 billion.

Figure 3: Options for tripling MDBs' non-concessional financing



Source: IEG core team

We recommend implementing these options to enhance leverage and to augment hybrid capital in the short-term, thereby stretching balance sheets as far as possible.

Third, a proactive and regular system of capital increases must be the foundation of building the sustainable lending capacity of the MDBs. This would mean systematic increases in paid-in capital subscriptions. Such capital increases must reflect changing

[27] *Some MDBs have been able to expand lending to Ukraine and India based on guarantees but these are unleveraged.*

economic realities and enhance voice and representation to preserve the legitimacy and effectiveness of the institutions. This could call for selective or calibrated capital increases, but in the present environment a general capital increase may be most expeditious. Also, for the World Bank, there is significant scope for increasing lending capacity by effectively combining the balance sheets of IBRD and IDA, while fully preserving access of IDA borrowers to the same amount of finance.

The arithmetic leads us inescapably to recommend initiation of a process for a significant increase in new equity of $100 billion across all MDB institutions, from shareholder contributions and retained earnings on the enlarged loan portfolios. This would support one trillion in new lending spread over ten years. We note that EBRD's Board will submit a proposal for a capital increase to Governors by December 2023 and that IDB Invest has also announced its intention to seek a capital increase. We recommend these proposals be guided by the overall assessment of the need to triple annual commitments by 2030. In our calculations, we believe that IBRD would need a paid-in capital increase of $24 billion which, if phased over 5 years, implies $4.8 billion per year, or about $750 million for the largest shareholder, the United States (Annex 3).

Balance sheet optimization and a general capital increase should be considered as complements, not substitutes for each other. Balance sheet optimization is a necessary condition for a GCI. Equally, preparation for a GCI will support balance sheet optimization. The two should therefore take place concurrently. This would send a strong signal to credit rating agencies as to the deep level of shareholder support for MDBs, thereby permitting the greater leverage recommended by the CAF to take place with minimal risk of affecting existing credit ratings of the MDBs. It would simultaneously signal to developing country officials that they can trust that pledges of enhanced international support for their efforts will actually be realized.

Implementing the CAF recommendations together with preparation for a GCI would balance the risks facing MDBs. While MDBs can mitigate risk by helping countries improve the environment for private investment and by strengthening growth in client countries, the measures proposed here to increase leverage and to engage in new ways with the private sector will inevitably raise the risks to MDBs. These small risks are worth taking to reduce far larger global risks of social and environmental tragedies that are now apparent. MDBs have a toolkit of callable capital and preferred creditor treatment that permits them to bear these risks—which remain small in absolute terms--under most eventualities. They can further exploit opportunities for sharing risk amongst themselves and can potentially use new instruments such as the proposed global challenges funding mechanism to shift risk to other partners. But a GCI would give MDBs the strong financial foundation they need to implement these other reforms and achieve the necessary scale up of additional annual lending by $200 billion a year.

New equity in MDBs would provide extraordinary value-for-money to shareholders. Once the recommendations on leverage and private capital mobilization are fully implemented, each dollar of new equity could reasonably be expected to support at least $15 of additional external financing for sustainable investments: $7 in direct MDB lending and $8 in additional direct and indirect mobilization of external private capital. If complementary investments from national development financial institutions are included, leverage would be even higher. For individual shareholder governments, the impact of their contribution is even higher as they only provide a fraction of any new capital increase (see Annex 3 for G20 country examples).

A fourth option is to establish a new Global Challenges Funding Mechanism, discussed above. This could tap into the willingness of public and private investors to increase their association with the MDBs. Such a window, which might be funded through guarantee mechanisms similar, but additional, to those that augment capital as well as other mechanisms, could reasonably boost overall lending capacity by 20 percent, or around $20 billion by 2030. The GCFM provides a degree of flexibility that permits a sub-set of donors to proceed plurilaterally, that can directly link donor support with specific elements of GPGs, such as pandemics or climate action, and that can support a broad range of instruments and different risk tolerances among supporters.

VII. Engagement with the private sector

MDBs should change their approach to partnering with the private sector in three core ways: (1) place the mobilization and catalyzation of private capital at the center of their sustainable development strategies, (2) prioritize support for helping governments reduce policy and regulatory risk that impedes private investment, and (3) align financial product offerings to private capital market gaps.

Looking forward, MDBs should engage with the private sector in a new way. This includes four elements: (i) the co-creation of investment opportunities and programmes; (ii) tackling of impediments and obstacles; (iii) risk mitigation around projects and programmes; and (iv) blended finance around sharing and management of risk. Such an engagement goes well beyond private capital mobilization (PCM) even though enhanced PCM is a desired outcome. MDBs estimate that they directly and indirectly mobilised $63 billion in 2021 (See Box 3 for definitions).[29]

We anticipate that private financing amounting to $740 billion per year will be required to reach overall goals for additional climate and SDG-related finance, an **increase of $500 billion** over the 2019 level of sovereign borrowing and private participation in infrastructure. Most of this additional private capital, perhaps $425 billion, would go towards sustainable infrastructure and other investments where profitable opportunities are already available, and to geographies where income levels are higher and macro-fundamentals are stronger. The big-ticket items for private investment are in the transformation of the energy system, both in the greening of electricity supply, and in the electrification of end-use applications. Other smaller, but important private investment opportunities arise in sustainable agriculture and building efficiency upgrades. There are many obstacles to scaling up private finance for such investments, and we are acutely aware that past approaches have failed to produce the hoped-for results. Partly, this is because MDBs have never seriously tried to mobilise private capital at scale. Partly, it reflects the perception by many private investors that MDBs are difficult partners, too skeptical of the private sector as development partners, and too risk averse.

In this broader view, PCM does not simply depend on reducing risk and capital costs through financial engineering using official concessional and non-concessional finance. It requires a fundamentally different approach. PCM should be understood as a complex challenge that requires an integrated public-private strategy, the deployment

[28] PCM might involve non-sovereign loan syndications (A/B loan structures), commercial co-financing, B-bonds, client bond issuance, equity in funds, guarantees, credit insurance; collective vehicles such as Managed Co-lending Portfolio Platforms (MCPP); certain forms of transaction advisory or the de-risking of structured finance stacks or funds through sub-ordinated MDB positions (junior loans or first-loss tranches). In sovereign operations, the key instruments are guarantees, typically for specific risks (partial risk guarantees, transfer risk guarantees, political risk insurance, debt service guarantees for bonds).

[29] "Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2020-21", Joint Report published June 2023.

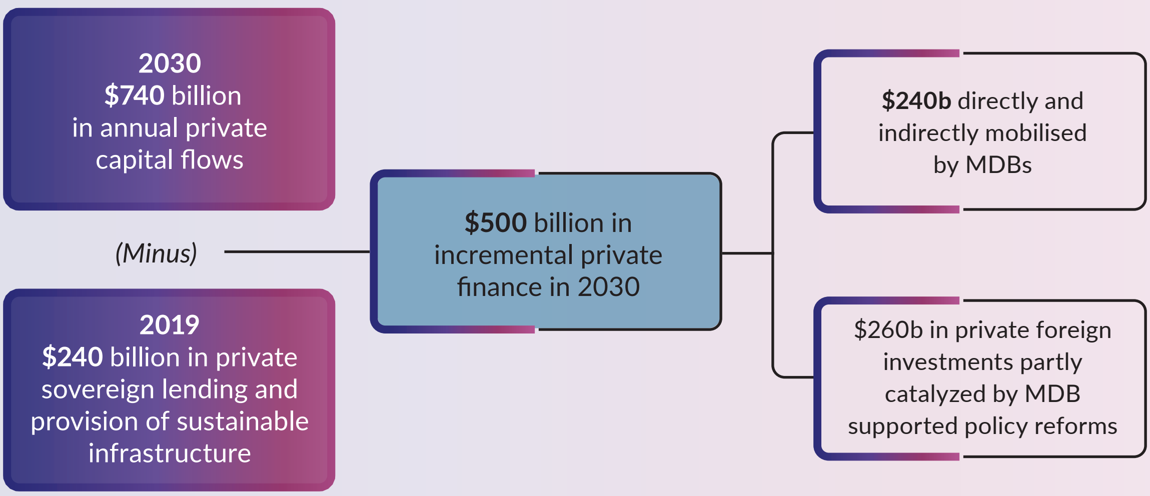
of new financial products and changes in the MDB operating model. The World Bank's announcement of a new Private Sector Investment Lab is a concrete step to find, and rapidly scale, new solutions that address the barriers preventing private sector investment in emerging markets.

Box 3 The terminology of PCM

- PCM can be either 'direct' when MDBs bring private financiers into transactions that they originate, or 'indirect' such as other connected private finance in those transactions. In some cases, this might involve blended concessional finance.
- PCM can be 'at entry', when financing is first agreed, or from the 'portfolio', when an MDB packages individual exposures for sale or for transferring risks. Portfolio sales remain rare and are not reported as direct or indirect mobilization.
- PCM can further consist of 'catalyzing' private capital through measures that unblock private investment at the macroeconomic or sectoral level (such as through policy and regulatory changes or institution-building), through complementary public investment or through project development support (such as technical assistance, feasibility studies or early-stage risk capital). Catalyzed private capital is not currently being tracked or consistently measured.

PCM is most effective when it combines measures across these various levels in an integrated approach, placing private investment at the heart of strategies for the public-facing MDBs and, for the private-facing institutions, shifting from a reactive to a proactive approach to mobilizing private financing partners.

Figure 4: Private capital mobilization



Source: IEG core team

The various options outlined below should yield substantial improvements in the volume of private capital that MDBs could mobilise. Historically, MDBs have had PCM ratios of about 0.6 per dollar of their own commitments but they have pledged to do more. We estimate that MDBs could mobilise an incremental $240 billion. They should be able to mobilise an average of $1.5-2 in private capital for each $1 they lend, although this target will be higher or lower for different institutions depending on their context. Doing so, however, may require a build-up of staff with the requisite expertise.

To drive this change, we recommend that each MDB set ambitious mobilization targets, for individual agencies and for group aggregates where appropriate and develop credible strategies for operating model changes to achieve the targets.

As part of a multi-level strategic approach, we have identified three main channels for PCM: (1) macroeconomic and sectoral policy reforms and country risk reduction, (2) early-stage co-creation of investments and risk-sharing, and (3) mobilization opportunities at financial close or from the portfolio.

Support for macroeconomic and sectoral level investment climate reforms and macroeconomic risk reduction

Through advice on public investment policies and finance strategies, regulatory reform and institutional strengthening, project development support, and help in sharing and mitigating macroeconomic risk, MDBs can have a major influence on private investment climates. These activities have been underexploited in MDB operations, often because they have fallen between internal silos between sovereign and non-sovereign activities. Such work extends from macroeconomic, debt management and governance reforms (see Section IX below), to sector specific reforms such as feed-in tariffs, to general reforms to facilitate business investment—what the World Bank now calls P-Readiness. In Figure 4 above, we have assumed $260 billion could come from private activity, mostly in greening the energy transition, in response to an improved business climate.

Empirical evidence on the risk faced by investors in sustainable infrastructure suggests that these are concentrated on macroeconomic issues. The higher returns on capital that private investors look for have largely to do with macroeconomic issues over which they have little control. MDBs and the IMF are the best actors for bringing down this risk to tolerable levels.

Public infrastructure investment decisions are also critical for shaping market conditions, most obviously through their impact on critical production inputs like power, transport, and connectivity. But public investments can also be critical for filling gaps in supply chains or market access. For example, inadequate public investments in power transmission lines can result in long waiting times to get a connection to the grid, causing a bottleneck for private renewables generation.

MDBs have extensive capabilities for policy and institutional diagnostics and policy recommendations that can strengthen sectoral and macroeconomic investment climates, but that does not always receive priority. This is well known and was directly addressed under the IFC 3.0 and "One World Bank" strategies, yet change has come slowly. As noted in World Bank evolution roadmap documents, investment climate diagnostics and relevant policy reforms need to be better integrated and given greater priority in MDB country strategies.

A particular pain point for private investors is their exposure to currency risk. MDBs, which mostly lend in hard currency, do relatively little to help governments and the private sector manage such risks. The Currency Exchange (TCX) is backed and used by a number of MDBs and offers currency hedges (swaps and forward contracts) to clients. But it is too small to support the envisaged scale-up, can be prohibitively expensive in high-risk environments and leaves significant residual transfer and convertibility risk. Alternative structures are being proposed, some with pricing explicitly set at levels that would make green transition investments the preferred choice in the risk-return calculus of private investors. Recognizing the importance of the issue, and the technical difficulties in providing a design and governance structure that uses any required public subsidies in an efficient way, we will explore what might be usefully considered in Volume 2 of this report.

Early-stage co-creation of investments and risk-sharing

The shortage of bankable projects is a frequently cited binding constraint to mobilization. For example, some donors have capital they are willing to deploy to support Egypt's Nexus of Food, Water and Energy program but are waiting for solid bankable projects. More donor and MDB funding can help and there are promising options that could be taken to scale. The Global Infrastructure Facility, introduced during Australia's G20 presidency, supports design, preparation, and structuring of a broad range of infrastructure projects. The Climate Investor One model, partly funded by the EU, takes a life-cycle approach to pipeline development through three sequential funds: donors finance the Development Fund which enables projects to reach financial closure; donor and commercial finance are combined in the Construction Equity Fund; and commercial lenders finance operational investments in the Refinancing Fund. The IFC 3.0 model integrates both project development funding and advisory services to firms and financial institutions in its upstream development approach and has developed an initial pipeline of $30 billion in potential projects in its first 18 months.

Projects also face a "valley of death" after proof of concept but before reaching a break-even point. Firms in developing countries lacking angel investor networks and venture capital markets are particularly constrained. Few MDBs operate in this risky space, but the IDB Development Lab has experience that operating in this part of the risk spectrum can generate high mobilization ratios.

Mobilization opportunities at financial close or from the portfolio

The classic private mobilization method is for MDBs to syndicate or co-finance transactions at entry, typically one project at a time which is time-consuming and can be hard to bring to scale. More recently, MDBs are turning to partnerships with institutional and other investors at the portfolio level, some involving blended finance and some not. These partnerships can help address the pipeline problem and the challenge of bringing risk-adjusted returns into the target zone of institutional investors in different ways.

The AfDB has demonstrated through its Room2Run transactions that private insurers and investors are willing to take the risks of bundled MDB sovereign and non-sovereign loans. This transaction freed up considerable capital to create additional lending headroom and should expand over time with greater market familiarity and experience. MIGA can also scale up its activities.

The IFC's MCPP is a platform approach to mobilize funds into IFC projects, including most recently 'MCPP One Planet' for Paris aligned investments. The Warehouse-Enabled Securitization Program, under development, would warehouse exposures by IFC and other development finance institutions for syndication with private investors.

Other platforms, like the Amundi Emerging Green One fund, support both the purchase and the issuance of green bonds, including technical assistance for EMDE issuers.

The use of "blended finance," deployed transaction-by-transaction in a bespoke fashion, has not proven scalable so far. MDB combined blended concessional finance transactions totaled only $13.4 billion in 2021. The non-sovereign arms of MDBs, even with the sweeteners of donor-funded concessional finance, only mobilised 64 cents in private finance per dollar of MDB plus concessional commitments. MDB sovereign lending activities have even lower ratios. While blended finance may help to achieve development objectives in high-risk and low-income situations, there would need to be significant changes in the deployment and design of blended finance for it to contribute to scaling up private mobilization.[30] A promising area of growth is the deployment of blended finance (combined with MDB finance) in structured financial vehicles such as debt stacks or equity funds, where it can take junior positions that help to de-risk more senior sources of private finance.

There is also very significant room to increase mobilization through sovereign instruments. MDBs have a range of policy-based and project sovereign guarantee instruments but these are sparingly used. The institutions consistently favor direct lending over guarantees, in part because of high transaction costs associated with non-standardized guarantee contracts and in part because guarantees are given no advantage over loans in capital charges.[31] As a consequence, the exposure taken by the World Bank on guarantees has

[30] *See Sharm-el-Sheikh Guidebook for Just Financing (https://guidebookforjustfinancing.com/); OECD blended finance guidance for clean energy (https://www.oecd.org/environment/oecd-blended-finance-guidance-for-clean-energy-596e2436-en.htm)*
[31] *Le Houérou & Lankes (2023)*

been less than 0.7 percent of commitments made in the form of loans and grants. One step towards changing this culture is to account for guarantees on an expected-loss basis rather than on the basis of the entire nominal amount being guaranteed. **Management leadership to change this culture is required.**

Guiding principles for combining MDB and private finance

The various options outlined above should yield substantial improvements in the volume of private capital that MDBs could mobilise. Historically, MDBs have had PCM ratios of about 0.6 per dollar of their own commitments but they have pledged to do more.

PCM, by definition, involves combining public and private funds to share risks. This can create a perception of subsidizing private business. We are mindful of the difficulty in assessing when public funds truly lead to a faster pace of additional private investment, but believe that with the right design and governance, the impact of public support can be significant. **We therefore urge taking a deliberate and transparent approach,** that establishes principles to guide how MDBs should combine their financing with private financing. As an example, we suggest that MDB management should ask a structured set of questions before approving a blended finance mechanism: (i) is the project consistent with sound banking; (ii) is there a clear line of sight to additionality; and (iii) what is the impact on SDGs and/or GPGs.

Sound banking refers to the idea that the MDB should not aim to make a loss on the transaction and, if providing guarantees, should cover its costs. This does not imply that it matches the price of market guarantees. It may be able to provide a guarantee at a lower rate precisely because, as an MDB, it enjoys certain privileges and has a long-time horizon that market participants may not have.

Additionality requires an MDB to make a judgment that a socially desirable project would not take place in the form presented without the provision of some kind of support from the MDB. Each MDB should make a reasoned assessment of the ex-post and ex ante risks and rewards in a transparent fashion in judging additionality.

Impact relates the investment directly to the SDGs or GPGs under consideration. In other circumstances, MDBs have created transition metrics to guide interpretation of impact. They can do so for GPGs as well, particularly for the great transitions that need to take place in developing countries—in energy systems, land use systems, urban systems, and digitization.

VIII. MDB operating models and working together as a system

Effective implementation of the triple agenda requires important changes in the ways that MDBs operate. Scaled up MDBs, with PCM targets, needing to serve all clients, will need to transform their operational and financial business models and operate as a system.

The new role for MDBs envisaged above will require change in their operating models. The bespoke project-by-project approach and institution-by-institution approach will not produce system change at the pace needed, and it runs counter to the standardization needed for private capital mobilization. The long-standing tradition of reducing engagement in countries where extreme poverty was largely eradicated must confront the reality that all countries have a contribution to make in responding to global challenges. Long-standing staff culture and internal incentives favoring own-account lending over use of guarantees must be reversed. And the nature of partnerships with other MDBs and with the broadening array of non-sovereign stakeholders is being disrupted.

MDBs must respond to these challenges in a context of growing demands for transparency, delivery of results, and heightened accountability. They must get shareholders to understand that public capital has to take on more risk, and that pooling across the system is valuable to minimize the risk to any individual agency.

The project-by-project approach has been criticized by many observers and country clients as being overly slow, awkward, and procedurally heavy.[32] Long time frames (an average of over two years from conception to first disbursement of funds in the World Bank, for example) and complex safeguard procedures are a particular problem for private co-investors and for national governments seeking to implement projects within their own political timetables. Policy based operations have shorter time frames, yet, in the World Bank Group specific investment loans account for two-thirds of all commitments.

This is not, perhaps, surprising. The majority of shareholders at the World Bank represent non-borrowing countries, who value prudence over speed. A risk-based approach and greater use of country systems where appropriate, could strike a better balance. Regardless of the precise mechanism, it is **vital to set benchmarks for speed of delivery.** The World Bank had earlier identified a one-third improvement: that would be a good place to start.

Country-led platforms offer an opportunity to move beyond a project-by-project approach to support a system transformation, by bringing all stakeholders, including MDBs, behind a purposive goal with clear targets. JET-P's are renewed efforts to provide technical assistance and advisory services to improve the enabling environment, along with investment programs. However, these are evolving and as yet untested in their efficacy. Instruments such as **results-based financing (RBF)** are well-suited to provide finance

[32] *Chakrabarti and Humphrey (2022)*

for JET-P's and there is now considerable experience across different country types and sectors from which to draw lessons to improve impact. RBF was designed to fill investment gaps in system transformations where pre-agreed outcomes can be measured and verified. The design elements rely on outcome metrics, multi-year programming, and combined efforts with multiple partners.

Regardless of the specific approach adopted, **we recommend that the G20 encourage MDBs to develop new operational models that are suitable for scaled up activity, including knowledge activities.**

The provision of technical assistance to facilitate the implementation of specific projects and policy advice to strengthen institutions is one of the most highly valued MDB offerings. The World Bank has had greater influence in shaping the policy directions of middle-income borrower countries through its advisory and analytical services than through its financial offers.[33] Changing the approach to technical cooperation is likely to require revisiting how advice and analysis is funded, how to prioritise longer-term relationship building over fly-in, fly-out standalone reports and how to draw more on national and local knowledge.

We further recommend that G20 shareholders encourage MDBs to fully serve all developing country clients. We see three groups of countries where MDBs' operational activities should be strengthened:

(i) low-income and vulnerable countries and populations with especially high needs for climate-related adaptation and resilience that are not currently taken into account in the formula for allocating concessional funds;

(ii) countries where lack of access to affordable capital stymies an expansion of needed public investments, notably in sustainable infrastructure; and

(iii) countries where policy, regulatory and institutional weaknesses preclude private capital mobilization.

Much of the new activity on climate action will take place in upper middle-income countries. In IBRD, for example, countries who have passed the graduation discussion income threshold of $6795 account for 56 percent of developing country GHG emissions (excluding China). Yet shareholders have asked IBRD management to limit lending to these countries to below 30%. While conditions vary from country to country in terms of the balance of financial support and technical assistance, the urgency of climate action forces a new level of engagement between MDBs and UMICs. **This may include granting MICs access to concessional funds, guarantees and/or equity for specific purposes with large benefits accruing to the rest of the world through, for example, expanding resources under IBRD's Global Public Goods Solutions Fund, by reallocating bilateral concessional assistance to support MIC country platforms.**

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[33] *Prizzon, Josten and Gyuzalyan (2022)*

Part of the rationale for reduced engagement of IBRD with upper middle-income countries was that many countries chose not to borrow significant amounts from the World Bank. Given the country-based business model, where revenues derived from fees and spreads charged on loans to countries, maintaining an engagement with non-borrowing countries became a loss-making proposition. Changing the culture such that administrative budgets are set on the basis of expected outcomes, including on addressing GPGs, will be needed to properly serve UMICs.

In many of these practices, MDBs have innovated to arrive at solutions for the problems they face as individual institutions. While acknowledging the heterogeneity of MDB contexts, priorities and the benefits derived from innovations in individual institutions, there are also benefits in working together as a "system."[34]

Much has been written, but little accomplished to date on MDBs as a system. Some elements of coordination will be needed to improve the efficiency and effectiveness of the system: by aligning mission statements and country strategies to be fully consistent with SDGs and Paris, coordinating support through country/sector platforms, sharing project development costs and risks; harmonizing standards wherever possible (including on ESG, assets, integrity and procurement policies); pooling assets for institutional investors and creating cross-MDB mobilization platforms; and setting collective KPIs for GPGs and transboundary challenges.

We note that MDBs have made strides to better collaborate in some areas. Through the "MDB Climate Leaders Group", the MDBs are trying to raise collective ambition and strengthen collaboration on how to accelerate climate action and mobilise the necessary finance from the MDBs and the private sector. Other ideas to strengthen the web of cooperation activities are being advanced, notably by the AIIB. **A leadership push to elevate the profile of such efforts would strengthen impact.**

There is undoubtedly room for improvement in how MDBs develop a shared understanding with their shareholders on the vision for the system and in how to integrate GPGs into core country-focused business planning, based on common diagnostic tools like the World Bank's Country Climate and Development Reports.

First, MDBs should commit to coordinated efforts to strengthen and engage in country platforms. These require a common understanding among stakeholders of the transformational plan and the links with other aspects of sustainable development, including poverty reduction; sector diagnostics; public investment management improvements; regulatory reforms; project pipeline development; and monitoring and evaluation systems and metrics.

Second, MDBs can reduce their costs of doing business by advancing harmonization and mutual recognition of processes concerning safeguards, audits, speed of delivery,

[34] *Report of the G20 Eminent Persons Group on Global Financial Governance (2018) and Bhattacharya et al. (2018).*

procurement, supervision, and evaluation, so that implementation of the programs under each country platform takes place within a single set of rules.

Third, MDBs can share access to the tools and instruments they use. Augmenting MIGA could provide an instrument for risk sharing that would serve all MDBs. Jointly developing project pipelines, and sharing costs as is done through the Global Infrastructure Facility, would increase efficiency and effectiveness. Permitting others to access IBRD's Global Public Goods fund would benefit clients.

In the same vein, the proposed global challenges funding mechanism and any new currency hedging mechanism should be accessible to all MDBs.

A specific example of one such tool is the GEMs risk database that provides credit default statistics on MDB activities. Such data is invaluable for private investor decision-making, but the information is only made available at aggregated levels, reducing its value. A joint MDB effort to invest in collecting data relevant for risk management, and then communicate the data while respecting privacy would provide a pure "public good" that would benefit a range of public and private investors in emerging markets.

Fourth, MDBs can augment their efforts on balance sheet optimization. Exposure exchange arrangements and other innovations (such as hybrid capital) can be standardized and extended to more MDBs. Approaching credit rating agencies as a group would enhance better understanding of the mechanics of how MDB creditworthiness should be assessed and build a shared understanding among MDBs on how to treat callable capital and preferred creditor treatment.

All these changes provide benefits to the system but have costs that are borne by individual MDBs. Without strong incentives and a determined leadership push, it is unlikely that system-wide collaboration can be sustained over time. **Accordingly, we recommend that G20 members include MDB system collaboration in their evaluation and accountability of the leadership team of each MDB where they are shareholders.**

We further recommend that the MDBs provide a report for G20 review, every two years, on how ecosystem improvements are advancing development outcomes at national, sectoral and global levels.

IX. Necessary supporting activities outside the MDB system

Foster coherence between the MDBs and other parts of the global financial architecture

MDBs operate within a broader global architecture of official support for developing countries. Their overall impact can be greatly enhanced if there is coherence with other parts of the system. We have already pointed to the importance of G20 members supporting IMF efforts to recycle surplus SDRs into the PRGT and RST. We also hope that ways can be found to permit use of SDRs for hybrid capital expansion in the MDBs, as proposed by the African Development Bank. It is also useful to try to stem capital outflows from developing countries that may be related to MDB operations.[35] **G20 members should redouble efforts to curb illicit financial flows from developing countries and to facilitate the return of stolen assets.**

A major element of the system that needs strengthening is domestic resource mobilization. In our schematic, most of the resources for SDG and climate investments come from domestic resource mobilization, a broad term encompassing taxes, subsidy reduction, borrowing from national development banks and local capital market reform. MDBs have been active in these areas, but progress has been mixed and no MDBs are accountable for success or have country-specific targets against which they can benchmark their own support.

Ultimately, a restoration of growth is the surest way of generating DRM for the required investments. Prospects for growth, however, are lack-luster in many developing countries. They could be further jeopardized if efficient and sustainable global supply chains are disturbed as a side-effect of new industrial policies being enacted in advanced economies and geo-political fragmentation. The WTO must vigorously guard against creeping protectionism.

The IMF has put forward a proposal for a stratified global tax on carbon. Such an instrument would be a powerful driver of the change envisaged in this report and we recommend that G20 members consider it. We note that the OECD global minimum tax on multinational enterprises will be coming into force, with expected revenue gains of $220 billion per year. We hope that G20 members will allocate a share of these revenues towards the programs we have outlined to help developing countries.

The IMF is the largest provider of technical assistance to developing countries on tax policy. We commend these efforts and suggest they be amplified within a framework that provides for the restoration of economic growth.

[35] *Andersen, Johannesen & Rijkers (2020).*

There is no doubt that an investment package of the scale envisaged will have macroeconomic implications that need to be carefully considered: on output, trade and balance of payments, inflation, and fiscal prospects. We have reviewed the results of a large number of simulations undertaken by the IMF of models calibrated to individual development country circumstances.[36] These point to enhanced growth, income and welfare effects from higher public spending, with larger impact as the efficiency of public spending rises. The growth effect nets out the negative impact on exports of a stronger exchange rate.

Close coordination is needed between MDBs and the IMF to bridge between the microeconomic imperatives of investing in the SDGs and climate action and the macroeconomic consequences and this should be reflected in Article IV surveillance reports.

The IMF has concluded that "fiscal consolidations do not reduce debt ratios, on average" in developing countries.[37] A stronger driver of creditworthiness is growth and institutional factors such as improvements in the rule of law. Hence, the macroeconomic impacts of a large investment push would appear to be positive—higher growth, higher domestic revenues, and higher welfare due to improvements in SDG targets and in climate action. Nevertheless, such research has not yet been incorporated into IMF/World Bank debt sustainability assessments that rely on fiscal consolidation as the main instrument for debt improvements.

With more countries experiencing difficulties in servicing debt in the face of tighter global credit markets, the need for official liquidity to stabilize the situation has risen. The IMF is the primary provider of such liquidity, but it relies on financial assurances from other lenders, including MDBs. Accordingly, MDBs maintain significant buffers to provide liquidity to clients, in conjunction with IMF programs, in the event of tightened liquidity in global capital markets.

However, every dollar that MDBs provide in such short-term oriented development policy operations is a dollar less for long-term investments in the SDGs and climate action. In order to ensure that MDBs do not feel the need to save their capital to build large crisis-response buffers, it would be useful if IMF resources and policies are strengthened to provide more liquidity in crisis situations. **MDBs could then recalibrate their own crisis buffers and free up capital to support long-term investment programs.**

We join with other voices in commending the efforts to improve the working of the G20 Common Framework. We believe that introduction of climate and pandemic related clauses into debt contracts would be valuable and costless to developing countries and urge MDBs and G20 countries to pilot such clauses to accelerate their acceptance in the market.

[36] *Gurara, Melina & Zanna (2019)*
[37] *International Energy Agency. (2023)*

X. Next steps: the second report and the need for independent monitoring

In this first volume, we have presented the G20 with our initial findings and recommendations, with a focus on immediate action, based on a relatively short period for analysis and consultation.

We intend to prepare a second volume for discussion of the G20 finance ministers prior to the October Marrakech meeting in October 2023. This report will review multiple suggestions for reforms that have been made and will elaborate further on operational reforms and speed of response, private capital mobilization, including prospects for scaling up MIGA and for a new foreign currency hedging mechanism, system-wide collaboration, and the proposed global challenges funding mechanism.

In addition, the second volume will provide more details on the timing and sequencing of measures beyond the current year of the reform roadmap. It will also include detailed analytical notes supporting each of the policy recommendations in the main report. Beyond providing the substantive basis underpinning the recommendations, this will also ensure that ambiguities and queries about the recommendations can be more easily addressed during the implementation phase.

In our estimation, reforming the MDB agenda and scaling them appropriately are urgent issues requiring action now. We submit the following roadmap to Ministers for consideration:

- By September 2023, G20 members agree on the vision of the triple agenda and initiate a process within each institution to identify how best to achieve the goal of tripling non-concessional commitments and doubling concessional contributions by 2030. Such a process should also include commitments for private capital mobilization.

- Within the Brazil G20 Presidency, G20 members review and endorse financing plans for each MDB and build consensus on operational reforms that balance speed, scale, and safeguards. In parallel, G20 members should review proposals to coordinate climate and development spending with macroeconomic frameworks.

- Within the South Africa G20 Presidency, G20 members review a consolidated report on MDB contributions to country SDG and climate outcomes, policy and institutional progress, financing, and status of project pipelines. In parallel, modalities of collaboration with national development banks should be articulated.

While the reform agenda needs to be decisively put on track this year, implementing it will be a multi-year endeavor. Therefore, there is a need for an independent monitoring group to encourage and catalyze full implementation of recommendations over multiple presidencies and report to G20 on progress beyond this year. Such a group will complement the work being done by the International Financial Architecture Working Group and provide the governance to ensure the system works as a system.

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Annex 1: Terms of reference of the G20 expert group on strengthening multilateral development banks

In the G20 Chair's Summary and Outcome Document of the February 2023 FMCBG meeting, Ministers and Governors have indicated that they look forward to receiving, by their 3rd meeting, the report of the Expert Group (EG) proposed by the G20 Indian Presidency for deliberations on strengthening multilateral development banks to address the shared global challenges of the 21st century.

Objectives

a. A roadmap for an updated MDB ecosystem for the twenty-first century, with milestones and timelines, touching upon all aspects of MDB evolution, including but not limited to vision, incentive structure, operational approaches and financial capacity so that MDBs are better equipped to finance a wide range of SDG and transboundary challenges such as climate change and health.

b. An evaluation of various estimates regarding the scale of funding required by and from MDBs for addressing their and member countries' increased financing needs for SDG and transboundary challenges, taking into account the additional capacity that can be derived from the CAF recommendations alongside other important sources such as the private sector and public sector funds (AND)

c. Mechanisms for coordination among MDBs for them to address and finance global development and other challenges more effectively.

Composition

Co-convenors:

- **Professor Lawrence Summers:** President Emeritus of Harvard University
- **Mr NK Singh:** President, Institute of Economic Growth, and Chairperson, Fifteenth Finance Commission of India

Members:

- **Mr Tharman Shanmugaratnam:** Senior Minister, Government of Singapore;
- **Ms Maria Ramos:** Chairperson of AngloGold Ashanti, a global gold mining company and former Director-General of the National Treasury of South Africa;
- **Mr Arminio Fraga:** Former Governor, Central Bank of Brazil;
- **Prof Nicholas Stern:** IG Patel Professor of Economics and Government, London School of Economics;
- **Mr. Justin Yifu Lin:** Professor and Honorary Dean of National School of Development at Peking University and former Senior Vice President & Chief Economist of the World Bank;
- **Ms Rachel Kyte:** Dean of the Fletcher School of International Affairs at Tufts University and former Vice-President of World Bank; and
- **Ms Vera Songwe:** Non-resident senior fellow in the Africa Growth Initiative at the Brookings Institution and former Executive Secretary, Economic Commission for Africa

Annex 2: List of organizations and individuals consulted and submissions received

Table A1: List of Consultation with Dates

Consultation with Indian Experts organised by ICRIER on 6th April 2023	
Ashima Goyal	Indira Gandhi Institute for Development Research
Charan Singh	E-GROW Foundation
Indu Bhushan	Ex-CEO Ayushman Bharat and Ex-Director General, Asian Development Bank.
Rakesh Mohan	Centre for Social and Economic Progress
Rathin Roy	Overseas Development Institute
Shankar N. Acharya	Indian Council for Research on International Economic Relations (ICRIER); Former Chief Economic Adviser to the Government of India
Surjit Bhalla	The Observatory Group; Part-time member of Prime Minister Modi's Economic Advisory Council; Former Executive Director, IMF for India, Bangladesh, Bhutan and Sri Lanka.
Consultation with Multilateral Development Bank Heads on 14th April 2023	
Ambroise Fayolle and Thomas Östros	European Investment Bank
Axel van Trotsenburg and Anshula Kant	World Bank Group
Carlo Monticelli	Council of Europe Development Bank
Hassatou N'Sele	African Development Bank
Ilan Goldfajn	Inter-American Development Bank
Jin Liquin	Asian Infrastructure Investment Bank
Leslie Maasdrop and Anil Kishora	New Development Bank
Masatsugu Asakawa	Asian Development Bank
Odile Renaud-Basso	European Bank for Reconstruction and Development
Consultation with Thought Leaders on 15th May 2023	
Alessandro Rivera	Treasury, Italy
Andres Velasco	Former Finance Minister, Chile
Frannie Leautier	Main Author of CAF Report, Tanzania
Mari Pangestu	Former MD World Bank, Indonesia
Mauricio Cardenas	Former Finance Minister, Colombia
Morgan Depres (representing Laurence Tubiana)	Climate Action, France
Naoko Ishii	Former CD, World Bank, Japan
Peter Drysdale	Professor, Australian National University

Consultation with Civil Society Organisations on 16th May 2023 organised by the Center for Global Development	
Amanda Catanzano	International Rescue Committee
Amy Dodd	Third Generation Environmentalism (E3G)
Asger Garnak	CONCITO
Carolyn Reynolds	Pandemic Action Network
Charlotte Friar	Oxfam America
Christian Donaldson	Oxfam
Dan Peters	Bill and Melinda Gates Foundation
Emily Slater	Bretton Woods Committee
Farwa Sial	EURODAD
Gary Forster	Publish What You Fund
Gregory Chen	BRAC International
Isabel Whisson	BRAC International
John Sward	Bretton Woods Project
Jolie Scwarz	Bill and Melinda Gates Foundation
Jordan Teague Jacobs	Bread for the World
Kate Donaldson	CAP
Kelsey Harris	International Center for Research on Women
Linda Oduor-Noah	Oxfam
Paul James	Publish What You Fund
Ryan Anderton	Publish What You Fund
Sally Paxton	Publish What You Fund
Sonia Dunlop	Third Generation Environmentalism (E3G)
Verena Kröss	World Economy, Ecology, and Development
Vinay Bhargava	Partnership for Transparency
Xochitl Sanchez	ACTION Global Health Advocacy Partnership
Consultation with Former Multilateral Development Bank Heads on 19th May 2023	
Bertrand Badré	World Bank Group
Donald Kaberuka	African Development Bank
Jin-Yong Cai	International Finance Corporation
KV Kamath	New Development Bank
Luis Alberto Moreno	Inter-American Development Bank
Philippe Le Houérou	International Finance Corporation
Suma Chakrabarti	European Bank for Reconstruction and Development
Takehiko Nakao	Asian Development Bank
Thomas Mirow	European Bank for Reconstruction and Development

Consultation with World Bank Group Executive Directors on 2nd June 2023	
Abdoul Karim Kotondi, Abdoul Karim Ouro Samah, Abdullah Alroomi ,Adriana Kugler, Aftab Qureshi, Alexey Morozov, Anna Dravniece, Annalisa Bucalossi, Anne-Marie McKieran, Arnaud Buisse, Atiqah Yassin, Aurelien Billot, Ayumi Kikuchi, Azhari Elamin, Benedikt Huerzeler, Brian Langrin, Camila Carneiro Costa, Caroline Richard, Cecilia Nahon, Christiane Hieronymus, Dagmar Lohan, Dominique Favre, Dzhanneta Mzhidova, Erivaldo Gomes, Ernesto Acevedo, Evgeny Busygin, Floribert Ngaruko, Gokben Yener, Harold Tavares, Hayrettin Demircan, Hisham Seifeldin, Ines Menendez de Luarca, James Clark Jeehan Abdul Ghaffar, Jessica Freeman, Jiangnan Qian, Jon Jonasson, Junhong Chang Katharine Rechico, Katrin Schroer, Katrina Harrigan, Kerstin Wijeyewardene, Khalid Bawazier, Khuong Ha, Koen Davidse, Lamia Benmime, Lei Huang, Leopold Mba, Louis Albisson, Lucila Rosso, Ludovica Soderini, Majed Alsharif, Marcelo Laraburu, Miguel Coelho Miriam Golan, Mr. Dalyono, Naveed Baloch, Nina Nedelkovska, Nyeso George, Olga Fuentes Olivier Elias, Parameswaran Iyer, Peter Wisner, Philip Sewing, Pille Pruunsild, Rajeev Topno Roman Marshavin, Salih Ercan, Santiago Chelala, Sarah Short, Sauda Seinu, Sharmila Bihari Sharon Almanza, Suhail Saeed, Takahiro Yamakawa, Takashi Miyahara, Tshering Dorji, Velavan Gnanendran, Venuste Ndikumwenayo, Wafaa Charafeddine, Weifeng Yang, Youssouph Diallo, Zainab Allawi.	
Consultation with African Finance Ministers on 12th June 2023	
Enoch Godongwana	Minister of Finance, South Africa
Faouzia Zaaboul	Director of Treasury and External Finance Department, Morocco
Ingrid Ebouka-Babackas	Minister of Planning, Statistics and Regional Integration, Republic of the Congo
Ken Ofori-Atta	Minister of Finance, Ghana
Mohamed Maait	Minister of Finance, Egypt
Oulimata Sarr	Minister of Economy, Planning and Cooperation, Senegal
Peggy Serame	Minister of Finance and Economic Development, Botswana
Rindra Hasimbelo Rabarinirinarison	Minister of Economy and Finance, Madagascar
In-person meeting with the Treasury Secretary on 29th June 2023 and Consultations with the United States Department of the Treasury on 16th June 2023	
Janet Louise Yellen; Jay Shambaugh; Alexia Latortue; Brendan Gribbons; Chuck Moravec; Madhavi Chavali; Margaret Kuhlow; Shannon Ding; Timothy Mills; William Howlett	
Consultation with Civil Society Organisations on 20th June 2023 organised by the Indian Council for Research on International Economic Relations	
Amita Puri	Centre for Advocacy and Research
Auguste Tano Kouame	India Office, World Bank Group
B. M. Rao	National Highways Authority of India

Hari Menon	India Country Office, Bill & Melinda Gates Foundation
K. Srinath Reddy	Public Health Foundation of India
Kedar Upadhye	ReNew Power
Manish Shrivastava	The Energy and Resources Institute
Manjeev Singh Puri	Former Ambassador of India to the EU
Namrata Jaitli	Save the Children
Neichute Doulo	The Entrepreneurs Associates
Ravi Chellam	Metastring Foundation
Rituj Sahu	The Rockefeller Foundation
Sabyasachi Kar	Institute of Economic Growth
Other important consultations	
Ajay Banga	President, World Bank Group
Montek Singh Alhuwalia	Centre for Social and Economic Progress; Former Deputy Chairman of the Planning Commission of India
Adrien Abecassis	French Delegation
William Roos	French Delegation
Jean-Pierre Landau	French Delegation
Ombeline Gras	French Delegation
Remy Rioux	French Delegation
Majid Al Suwaidi	Director General, COP 28
Devesh Kapur	Director of Asia Programs and Starr Foundation Professor of South Asian Studies, School of Advanced International Studies, Johns Hopkins University
Indermit Gill	World Bank Group
Manuela Ferro	World Bank Group
Victoria Kwakwa	World Bank Group
Hassan Zaman	World Bank Group
Natarajan Chandrasekaran	Chairman, Tata Sons
Nandan Nilekani	Non-Executive Chairman, Infosys
Sultan Ahmed Al-Jaber	Minister of Industry and Advanced Technology of the United Arab Emirates and President, COP 28
Consultation with the EU Directorate-General-EFA on June 21, 2023	
Elena Flores; Giulia Filippeschi; Guergana Stanoeva; Julia Lemke; Manuela Giordano; Marco Buti; Marco Piantini; Monica Esposito; Paolo Gentiloni; Severine Payet	
Consultation with the Ministry of Finance, Brazil on June 28, 2023	
Rebeca Gouget Miranda; Sérgio Ricardo Calderini Rosa; Silvia Helena Machado Drummond Tatiana Rosito	

Table A2: Written submissions made to the G20 Independent Expert Group

Author(s)/ Organization(s)	Affiliation	Title of the submission	Nature of submission
David Miliband	International Rescue Committee	World Bank non-sovereign partner case study summary	Word file
Manjeev Singh Puri	Former Ambassador of India to the EU	A proposal on FX hedging entity/ mechanism at MDBs for climate finance	Newspaper op-ed article
Paul James	Publish What You Fund	Outlining of specific transparency steps for reforms of MDBs	World File
2nd International Financial Architecture Working Group Meeting	G20	Side-Event on the expectations of CRAs of CAF Review recommendations and the potential impact on MDBs' ratings	Concept Note-PDF
Christian Ibsen	CONCITO	On MDBs catalysing private investment and finance AKA "Commitment to Catalyse"	Word File
Christian Ibsen	CONCITO	MDB "Commitment to Catalyse"	Word File
Vinay Bhargava	Partnership for Transparency Fund	PTF Recommendations to G20 Expert Group on Strengthening Multilateral Development Banks	Word File
Albert Cheung, Shantanu Jaiswal and Tarun Balakrishnan	Tata Power	Energy Transition Briefing	PDF
Vera Songwe and Rakan Aboneaaj	Center for Global Development	IDA : The Case for Greater Ambition	PPT
Nicole Pinko, Bella Tonkonogy, Vikram Widge and Barbara Buchner	Climate Policy Initiative	An Innovative IFI Operating Model for the 21st Century: A roadmap	PDF
Indu Bhushan	Former CEO of Ayushman Bharat	G20 Expert Group on Strengthening Multilateral Development Banks (MDBs): Suggestions	Email

Author(s)/ Organization(s)	Affiliation	Title of the submission	Nature of submission
Rachel Kyte	Tufts University	Paris summit for a new global financing pact	PDF
Natarajan Chandrasekaran	Tata Group	Pension fund	PDF
Nicholas Stern and Joseph E. Stiglitz	London School of Economics and Columbia University	Climate change and growth	PDF
Justin Yifu Lin	Peking University	Public Debt and Development: The New Structural Economics Perspective	Word File
K.V Kamath	Former chief of the New Development Bank of BRICS countries	A Contribution by The New Development Bank (NDB) to G20 Eminent Persons Group (EPG) on Global Financial Governance Symposium on Global Governance, Frankfurt	PDF
Anantha Nageswaran (Sent by)	Government of India	Breaking the Deadlock on Climate: The Bridgetown Initiative	Word File
Nick Hurd	Impact Taskforce	Time to deliver: mobilising private capital at scale for people and planet	PDF
Rohit Khanna and Claire Healy	Former Manager at the World Bank and Senior Associate at E3G	The World Needs a Bank for Global Public Goods and the World Bank should be reformed to play that role: A new Global Public Goods Bank within the World Bank Group	Word File
Hari Menon	Gates Foundation	BMGF's submission Consultation with Non-State Organizations on 'Funding by Multilateral Development Banks'	World File

Source: Compiled by IEG core team

Annex 3: Optimising the balance sheet of MDBs and injection of fresh capital by shareholders

Table A3: Specific actions that MDBs will have to undertake to triple their non-concessional commitments by 2030

Objective and specific actions	Assumptions, explanations and other comments	IBRD (billion $)	Other MDBs (billion $)
1. **More efficient use of capital:** The E/L ratio here refers to the ratio between equity and commitments on development loans outstanding. (Even though this metric is only used by the World Bank, it is a convenient shorthand for our purposes)		11.6	28.4
1.1 Callable capital proposals & balance sheet leverage	• Clarify the procedure on the use callable capital • Leverage the preferred creditor status (without affecting credit ratings). • Eliminate the statutory requirement that lending should be below paid in and callable capital. • We propose a 2.6 percentage points reduction in the E/L ratio for all MDBs (excluding IFC, EBRD, & EIB) • For IBRD, each percentage point reduction creates space for a $4bn increase in annual sustainable lending	10.4	22.6
1.2 Transferring portfolio risk/ increasing turnover	• Transfer a portion of the credit risk through insurance or reinsurance through MIGA. • Securitize loan book through donor assistance, following the case of AfDB (Room2Run program). • PDBs can unlock a higher lending value due to their different structure compared to sovereign MDBs. • PDBs can increase their lending by 15%, and other MDBs 5.25% through insurance/reinsurance & securitization.	1.2	5.8

Objective and specific actions	Assumptions, explanations and other comments	IBRD	Other MDBs
		(billion $)	
2. **Augmenting capital**		8.5	31.5
2.1 Portfolio guarantees	• MDBs switch from direct project guarantees to IF-CAP (ADB) type structures, generating $11 billion annually over ten years in additional lending with a paid-in guarantee of $22 billion. • For PDBs there is no shareholder guarantee	2.5[38]	8.5
2.2 Hybrid capital	• Issue hybrid capital equivalent to 24% of current equity over five years for MDBs (ex IFC, EBRD & EIB). • The assumption is that the hybrid capital has a lending multiplier of 6:1 ratio over 10 years (as per WB Evolution Report). 5/6th of this issuance will be from shareholders and 1/6th from capital markets. • For PDBs should issue hybrid capital equivalent to 20% of equity over 5 years which is due to higher returns to equity. Most of this issuance will come from the capital markets rather than the shareholders. The lending multiplier is assumed to be 4:1 here.	6	23
3. **Increasing paid-in capital:** Recommend an increase in shareholder contribution of $100b across all MDBs over a period of 10 years. This will amount to $10B a year. For IBRD, this will amount to approximately $2.4B every year.		24	76
4. **Global Challenge Funding Mechanism:** Establish a global funding mechanism that takes advantage of flexible coalitions-of-the-willing of some donors and non-sovereign investors that wish to be associated with MDB activities in a structured way.		20	-
5. **Total increase in commitment (1+2+3+4)**		64.1	135.9
6. **Total increase in commitment by all MDBs (IBRD plus Other MDBs)**		200	

Note: "Other MDBs" include the regional MDBs plus EBRD, EIB and IFC, each with very different business model. For each estimate there is a wide range and we report only the mean value. Therefore, these estimates are only indicative and should not be used to mechanically set target for MDBs. Instead, these numbers should be used as a starting point for negotiations with MDBs for their capital raising plan.

[38] *The $11B is split according to ratio of IBRD commitments in 2019 to overall commitments across the system.*

Table A4: Estimated fresh capital that G20 members will have to contribute to IBRD and IDA in order to help developing countries attain SDGs and contribute to GPGs.

Cumulative capital infusion for IBRD (USD Million)	
G20 Members	**IBRD**
United States	4,008
Japan	1,824
China	1,416
Germany	1,080
United Kingdom	960
France	960
India	768
Russia	722
Saudi Arabia	648
Canada	643
Italy	624
Brazil	490
South Korea	408
Mexico	360
Australia	343
Turkey	274
Argentina	257
Indonesia	242
South Africa	190

Annual capital replenishment for IDA (USD million)	
	IDA
United States	2,850
Japan	2,514
United Kingdom	2,079
Germany	1,599
France	1,161
Saudi Arabia	1,008
India	873
Canada	810
China	756
Italy	678
Brazil	462
Argentina	414
Australia	360
South Korea	327
Indonesia	255
Turkey	177
Mexico	138
Russia	93
South Africa	78

Note: *In the past, a significant part of the fresh capital infusion has come from the WBG's own retained earnings. Here we assume no contribution from retained earnings and hence these numbers are more like the maximum contribution possible. Actual contributions are likely to be lower.*

Annex 4: List of MDBs and their mission statements

Table A5: MDBs and their mission statements

African Development Bank	Spur sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction.
Arab Bank for Economic Development in Africa	Strengthen economic, financial and technical cooperation between the Arab and African regions and for the embodiment of Arab-African solidarity on foundations of equality and friendship
Asian Development Bank	Achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty
Asian Infrastructure Investment Bank	Prosperity and economic development for Asia by investing for tomorrow in sustainable infrastructure, through the unlocking of new capital, technology, and new ways to address climate change and connect Asia, and the world
Black Sea Trade and Development Bank	Economic prosperity of the people of the region by accelerating development and promoting co-operation among its shareholder countries
Caribbean Development Bank	Reducing Poverty and Transforming Lives through Sustainable, Resilient and Inclusive Development
Central American Bank for Economic Integration	Promote the economic integration and the balanced economic and social development of the Central American region
Council of Europe Development Bank	Promotes social cohesion in Europe, which is defined as the capacity of a society to ensure the well-being of all its members, minimising disparities and avoiding marginalisation
Development Bank of Latin America	Promotes a sustainable development model through credit operations, non-reimbursable resources, and support in the technical and financial structuring of projects in the public and private sectors of Latin America
European Bank for Reconstruction and Development	Furthering progress towards 'market-oriented economies and the promotion of private and entrepreneurial initiative' to those countries 'committed to and applying the principles of multi-party democracy [and]pluralism'.

European Investment Bank	Further the objectives of the European Union by providing long-term finance for specific capital projects in keeping with strict banking practice.
Inter-American Development Bank	The IDB's mission is to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively. The Bank pursues this mission through two strategic objectives: fostering sustainable growth and reducing poverty and inequality.
International Bank for Reconstruction and Development	Reduce extreme poverty and increase shared prosperity in a sustainable way
International Investment Bank	Facilitate connectivity and integration between the economies of the Bank's member states in order to ensure sustainable and inclusive growth and the competitiveness of national economies, backed by the existing historical ties
Islamic Development Bank	We believe all people have the right to live in dignity and prosperity, and that nurturing economic growth is the best route out of poverty. We equip people to drive their own economic and social progress at scale, putting the infrastructure in place to enable them to fulfil their potential. We build collaborative partnerships between communities and nations, across the public and private sectors. We foster innovative and sustainable solutions to the world's greatest development challenges, as we work towards the UN Sustainable Development Goals.
New Development Bank	Mobilizing resources for infrastructure and sustainable development projects in emerging markets and developing countries (EMDCs).
North American Development Bank	Provides financing to support the development and implementation of environmental infrastructure projects, as well as technical and other assistance for projects and actions that help preserve, protect and enhance the environment of the border region in order to advance the well-being of the people of the United States and Mexico.

Source: Compiled by IEG core team

Annex 5: Innovations in Multilateral Development Bank (MDB) Financing

Innovations included in this note share the following attributes: are at scale or scalable (e.g., across donors); replicable across other MDBs; piloted in at least one MDB; function at the portfolio or institutional level; and free up MDB capital.
Innovations from the following multilateral development banks are listed below: Asian Development Bank; Asian Infrastructure Investment Bank; African Development Bank; European Bank for Reconstruction and Development; European Fund for Sustainable Developments plus; Inter-American Development Bank; Trade and Development Bank (TDB Africa) and the World Bank Group.

Asian Development Bank (AsDB)

- *New Climate Facility Supported by Donor Guarantees (Launched)*
  At its May 2023 annual meetings, the Asian Development Bank launched the Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP). IF-CAP seeks to raise $3 billion in guarantees over the next five years from public, private and philanthropic financing partners. Taking this risk off the ADB's balance sheet could generate up to $15 billion in new climate finance.

- *Insurance for non-sovereign financing (Launched)*
  In 2022, the AsDB signed the Master Framework Program for Financial Institutions which is an agreement with five leading global insurers that allows for the AsDB to transfer credit risk from its portfolio to insurers balance sheets, freeing up the AsDB to mobilise up to $1 billion in co-financing capacity to support financial institutions.

- *Revisions to the AsDB's Capital Adequacy Framework (Under Discussion)*
  AsDB Board members and management are in active discussion on how to expand lending capacity through financial reforms. The effort is not expected to conclude until Fall 2023.

- *International Finance Facility for Education (IFFeD) (Launched)*
  In September 2022, IFFeD was established in Switzerland to provide financing for education in lower-middle-income countries (LMICS), which house the majority of the world's poorest children and youth. The facility will support partner MDBs by helping them scale up lending for education. Under this model, donors provide loan repayment guarantees which serve as a form of quasi-equity to MDBs, which they can leverage on financial markets. In 2023, IFFEd is aiming to disburse $2 billion through the ADB and AfDB, and unlock $10 billion in new lending for education by 2030.

Asian Infrastructure Investment Bank (AIIB)

- *Guarantee with IBRD (Under Discussion)*
  AIIB and IBRD have been working together to address the G20 Capital Adequacy Framework Working Group recommendations for multilateral development Banks

to expand their use of financial innovation to provide additional lending capacity. The proposal would utilize AIIB's capital surplus to issue one billion USD guarantees against sovereign backed loans made by IBRD, which would provide relief against capital constraints enabling IBRD to provide fresh lending, as well as diversifying and enhancing AIIB's portfolio, which would in turn enable it to increase lending to low-income borrowers. This project finalization is subject to the respective approval process of both institutions.

African Development Bank (AfDB)

- *Securitization Initiative: "Room to Run" in 2018 (Launched)*
  A path-breaking initiative is AfDB's Room2Run, which transferred mezzanine risk on a pool of non-sovereign 47 AfDB loans worth $1 billion for a fee to the private sector through purchase of private insurance and synthetic securitization. The loans stay on the AfDBs books. The deal was partially supported by the European Commission. Overall it freed up $650 million in new lending for the AfDB. This deal was the first of its kind for Multilateral Development Banks.

- *Securitization Initiative: "Room to Run" in 2022 (Launched)*
  In October 2022, the AfDB built on its 2018 initiative and created new lending headroom by transferring the default risk of $2 billion worth of sovereign loans to a group of UK insurers (20%) and the UK Foreign Office (UK FCDO) (80%). The loans remain on the AfDB's books but in the event of a default, the insurers and UK FCDO will cover the cost. This deal frees up the AfDB to make up to $2 billion in new loans for its hard loan window. The AfDB deal is particularly noteworthy because it involves commercial investors taking a stake in a portfolio of sovereign loan risk – a first in the MDB space.

- *Hybrid Capital Issuance with SDR Purchases (Under discussion)*
  The AfDB has put forward the first fully worked through proposal to leverage a portion of the $100 billion of SDRs pledged by advanced economies to support more vulnerable countries. Under the AfDB's proposal, SDRs would be used as hybrid capital which the AfDB could leverage 3-4 times on private capital markets. The mechanism has been judged to be no riskier than recycling through the IMF Resilience and Sustainability Trust. The mechanism allows contributing countries to reclaim their recycled SDRs should they urgently need to tap their reserves for balance of payments purposes. For the proposal to go ahead, the AfDB requires five donor countries to contribute in equal amounts.

- *International Finance Facility for Education (IFFeD) (Launched)*
  In September 2022, IFFeD was established in Switzerland to provide financing for education in lower-middle-income countries (LMICS), which house the majority of the world's poorest children and youth. The facility will support partner MDBs by helping them scale up lending for education. Under this model, donors provide loan repayment guarantees which serve as a form of quasi-equity to MDBs, which they can leverage on financial markets. In 2023, IFFEd is aiming to disburse $2 billion through the ADB and AfDB, and unlock $10 billion in new lending for education by 2030.

- *African Development Fund Hybrid Financing Model (Under Discussion)*
  The ADF is exploring issuing debt in commercial bond markets against its equity (i.e., outstanding loans valued at $14.5 billion) to supplement its other sources of finance.

European Bank for Reconstruction and Development (EBRD)

- *Remove Statutory Lending Limit (Launched)*
  At its 2023 Annual Meeting in May, the EBRD Board of Governors approved a resolution to remove the EBRD's statutory lending limit from its statutes and replicate it in a board level policy. Once ratified by a qualified majority of shareholders, this decision will remove an outdated and unnecessary constraint on the EBRD's activity level. It will provide the EBRD with increased flexibility to manage its capital adequacy more efficiently in line with CAF recommendations and modern banking practices. The step is aligned with plans discussed at the World Bank and other MDBs.

- *Consolidation of Shareholder Special Fund into EBRD Financials*
  The EBRD Shareholder Special Fund (SSF) – an entity funded through annual allocations from the EBRD's net income to provide grant and technical assistance alongside EBRD projects – was consolidated into the Bank's financials at the end of 2022. This was achieved by changing the rules of the Fund so that any residual cash flows on termination of the SSF are now available for payment to EBRD's bondholders. This resulted in a one-off increase to capital of the EBRD by around €0.6 billion, providing much needed support in the face of strong financial headwinds caused by the Russian invasion of Ukraine.

- *EBRD/EU/ILX Partnership*
  The EBRD signed a statement of intent with the EU and asset manager ILX Management (ILX) in May 2023 under the EU's EFSD+ Guarantee Programme. The innovative initiative will enable the EBRD to enhance its partnerships with private institutional investors in its countries of operation and to support its goal of doubling private sector co-financing by 2025. The partnership aims to facilitate a cumulative ILX B Loan co-financing volume of up to EUR 300 million over three years, focusing on climate-smart solutions, digital transformation, and financial inclusion in projects that would not have otherwise benefited from private sector participation.

- *EBRD/MIGA partnership – Trade Facilitation Programme*
  In 2023, the EBRD and MIGA in signed a landmark co-financing agreement, under which MIGA will issue Trade Finance Guarantees for up to US$200 million over a period of up to 6 years, against the risk of non-payment by SOBs to EBRD with respect to EBRD guarantees issued under its Trade Facilitation Programme. This is the first time that MIGA covers short-term trade finance risk, in addition to investments and project finance. The instrument is designed to support trade transactions conducted through State-Owned Banks in emerging markets and developing economies.

European Investment Bank

- *NDICI/EFSD+ Guarantees (Launched)*
  Under the umbrella of the European Union's multi-annual Neighborhood, Development and International Cooperation Instrument – Global Europe (NDICI), the European Commission provides guarantees for the implementation of projects in emerging and developing economies to further EU policies. These guarantees carry a substantial leverage effect and are the backbone of much of EIB's activities outside the EU. Guarantees are provided under a number of investment windows. At the heart of NDICI is a EUR 26.7 billion guarantee which is mainly dedicated to EIB projects with sovereign counterparts. NDICI also includes EFSD+ guarantees, which are extended mainly for private sector operations and which benefit a number of implementing MDBs and DFIs under an open architecture. In December 2022, the Board of the EFSD+ approved €6 billion in portfolio guarantees to support 40 programs in Sub-Saharan Africa, Latin America and Asia-Pacific and is expected to generate investments of around €50 billion. In January 2023, the fund approved a further package of 24 guarantee programmes worth €2.4 billion to support programmes in the EU's neighbourhood and enlargement countries and is expected to generate investments of around €17 billion. Implementing partners include the EIB, MDBs and national development banks.

Inter-American Development Bank (IDB) Group

- *Exposure Exchange Agreement (Launched)*
  In 2015, the IDB, along with the AfDB and IBRD, successfully designed and executed a sovereign Exposure Exchange Agreement (EEA) totaling $4.9 billion, whereby each institution insured the risk associated with specific loan portfolios of the other two institutions. The EEA helped improve the Bank's loan portfolio diversification, reducing risk-weighted assets (RWA) and releasing risk capital. In 2020, the Bank executed a third EEA with the ADB, which secured an additional $1 billion in credit protection on its sovereign lending portfolio. In 2022, IDB conducted a **fourth EEA transaction** with the ADB totaling $1.500 billion, bringing the total credit protection exchanged under the program to $7.4 billion. These efforts strengthened IDB's resilience against further stress and increased lending for development.

- *SDR Recycling (Under Discussion)*
  Today, the IDB is exploring a range of new transactions with public and private sector counterparts to continue optimizing the balance sheet and maximizing the value of shareholder contributions. One particularly innovative area is the IDB's role, in close collaboration with the AfDB, in designing a hybrid capital instrument that would be funded through the channeling of IMF SDR. Much work remains in this area, but the potential impact is significant, and the analysis that underpinned the design is opening up doors for new innovative structures. The IMF **approved** IDB's application to become a prescribed holder of SDRs on February 2023.

- *Portfolio Guarantee (Launched)*
  In 2020, the IDB negotiated a **guarantee** with the Government of Sweden through SIDA, the Swedish International Development Cooperation Agency, to cover losses for up to $100 million stemming from Brazil's sovereign exposure to enable the IDB to increase lending in other countries. The released capital was leveraged three times in various sectors, including poverty alleviation, gender equality, and environment and climate change in these other countries: Bolivia, Colombia, and Guatemala. In Colombia, the capital generated from the Guarantee already enabled the IDB to approve an $800 million policy-based loan, supporting sustainable and resilient growth following the COVID-19 crisis. This was the first portfolio guarantee established by SIDA with an MDB. It has proven effective in allowing the IDB to use its balance sheet to provide additional capital to borrowing countries.

- *IDB Invest: Unfunded Mobilization Instruments (Launched)*
  Since its inception, IDB Invest has faced the challenge of pursuing high impact with a limited balance sheet. As a result, the institution has long been on a path that dovetails with the G20 CAF recommendations. Key among these efforts has been the expanding use of credit insurance as a risk transfer mechanism. Credit insurance represents approximately 20% of IDB Invest's portfolio. Capital relief from this initiative is estimated at US$240MM or 8% of IDB Invest equity.

- *IDB Invest Crowding-in (Launched)*
  Creation of the sustainable debt framework for IDB Invest funding and our joint work with IDB to develop the thematic asset class in the region. Various mobilization instruments have been initiated, including but not limited to 144a reg S B-Bond and Risk Participation structures, bringing US$ 6+ billion of private sector capital to LAC towards adaptation and mitigation projects.

- *IDB Invest: Operating model reform (Under Discussion)*
  To substantially increase the volume of resources it mobilises to the region, IDB Invest proposes a new vision and business model (IDB Invest 2.0.), which aims to evolve from the traditional buy-and-hold model to a new impact-driven originate-to-share business model. Under the new model, IDB Invest will be able to bridge the gap between global and local investors and impactful projects in LAC, taking on more risks to increase its impact and its ability to mobilise third-party capital.

World Bank Group

International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD)

- *Financial Model Reforms (Some Completed and Some Under Discussion)*
  As part of its Evolution Roadmap, the World Bank has implemented an initial package of measures including lowering its equity to loan threshold, increasing the limit of bilateral

shareholder guarantees, launching the work to pilot capital market hybrid capital, and recommending to the Governors to remove the statutory lending limit from its Articles of Agreement. Together these measures are expected to generate up to $50 billion in IBRD capacity over the next ten years.

The World Bank is also considering reforms to enhance callable capital to provide additional leverage. This includes potentially retrofitting the existing callable capital stock on a voluntary basis and/or approving a new callable capital increase with more flexible and well-specified terms. In addition, it is also working on a potential portfolio guarantee platform as a variation on the International Finance Facility for Education (IFFEd) that the World Bank helped develop and which was launched in 2022. The World Bank is also working on shareholder hybrid capital. These initiatives are to be discussed with shareholders and ratings agencies.

MDBs have so far not used hybrid instruments in their capital structure. In conjunction with developing the hybrid capital bond facing the capital market, the World Bank is exploring a hybrid capital bond instrument facing shareholders and other development partners with attractive features, to offer the ability to leverage typically unleveraged development resources efficiently through IBRD.

The World Bank is also working on a guarantee arrangement with AIIB, which would free up capital for IBRD, as well as ease country lending limits, while providing portfolio diversification benefits for the AIIB – see AIIB above.

- *IDA-Hybrid Financing Model (Launched)*
  In 2017, IDA introduced a hybrid financing model by issuing debt in commercial bond markets against its equity (i.e., outstanding loans) to supplement its other sources of finance. This has made IDA's financial model more efficient while supporting significantly larger replenishments: IDA increased its program by close to 50 percent from IDA-17 to IDA-18 despite a slight decline in donor grant financing. Due to the hybrid financing model, IDA20 achieved the largest envelope ever of $93 billion by providing close to $4 of financing to client countries for each $1 of donor contributions. Also, by reducing the interest rate sensitivity of its loans through swaps and issuing long-term fixed rate bonds, IDA reduced capital set aside for interest rate risk, which boosted its financing capacity.

- *IDA Crisis Facility (Launched)*
  The IDA Crisis Facility represents an innovative approach to support countries affected by the conflict in Ukraine by leveraging donor contributions via IDA's hybrid model, with its targeted fundraising that allows donors to cite preference between two programs (SPUR or CRW+), as well as via different modalities of payment including a Special Transfer Fund, enabling donors with varying budgetary constraints to contribute to the facility.

International Finance Corporation (IFC)

- *Managed Co-Lending Portfolio Program (MCPP): One Planet*
  MCPP is IFC's portfolio syndications platform for institutional investors. Its latest iteration – MCPP One Planet – was announced at COP26. The first One Planet commitments were made to clients in late 2022 and a total of US$1.5 billion is already allocated to specific projects. IFC has executed two closes totaling US$2.5 billion: US$1.5 billion from the Hong Kong Monetary Authority and Allianz in Sept. and US$1 billion from China's State Administration of Foreign Exchange in April. The program is mobilizing institutional investors to support new IFC loans that meet Paris alignment criteria across all sectors and countries. One Planet builds on MCPP's long track record of success to create the world's first portfolio of EMDE loans aligned with the Paris agreement. Since 2013, MCPP has raised $12.6 billion from 11 partners; over $9 billion has been allocated to specific projects of which $7.7 billion is already committed to borrowers.

- *Equity Funds: EM Sustainability Funds (EMSF)*
  IFC mobilises third-party (primarily equity) capital for IFC investments through IFC-managed funds. Fundraising is underway for two new sustainability-focused equity funds to mobilise additional financing for IFC investee companies in all sectors and regions. These will be the first of the IFC's Asset Management Company (AMC) funds to "follow the fortune" and invest automatically in all new qualifying IFC equity investments. They will help connect investors with difficult-to-access investment opportunities in smaller economies. IFC is targeting a four-year investment period and mobilization up to US$500 million across the two funds (US$250 million for each fund). They will be the first new AMC funds to launch since 2016. Since 2010, AMC has raised $10 billion from 59 investors for 13 funds.

- *Equity Funds: Private Equity (PE) Funds Mobilization*
  The product was approved by IFC Management Team in January 2023. IFC plays a strong mobilization role for PE funds in which it invests, primarily by making a commitment to the first closing of the fund. IFC involvement signals support to other investors, as IFC sets legal terms and conditions acceptable to other investors, as well as best-practice terms and conditions including on E&S, governance, and policy rights. The product aims to mobilise institutional and commercial investors (e.g., fund of funds, pension funds, and endowments) to come in subsequent closings. IFC completed its first PE fund commitments for Multiples IV (US$295 million) and Lighthouse IV (US$126 million) in March.

- *Loan Warehousing and Securitization: Warehouse-Enabled Securitization Program (WESP)*
  The WESP proposal was approved by IFC Management Team in February 2023. The program will entail a multi-year effort for IFC to lead the development of a new multi-MDB mobilization platform to reach institutional investors. The program is initially targeting a pool of $2 billion of MDB assets to sell to institutional investors, of which $1 billion would come from IFC. Phase 1 of platform development is underway to design a warehouse to aggregate and fund MDB loan syndications. A later effort will

entail the creation of a new distribution vehicle to securitize and sell the warehoused loans to institutional investors. Preliminary conversations are ongoing with key market counterparts, including investors, MDBs, and private insurance companies. IFC needs the support and engagement of other MDBs to achieve broad reach and optimal scalability of the new platform.

- *Sustainable Debt Funds: BEST Bond Fund*
  IFC has developed successful mobilization models via groundbreaking debt funds in EMDEs: EGO with Amundi (green bonds for FI issuers) which at the time of launch in 2018 was the world's largest green bond fund focused on EMDEs; and REGIO with HSBC (green bonds for real sector issuers) in 2019. Fundraising is underway for new BEST Fund with manager Amundi. The fund aims to mobilise up to US$1.2 billion of institutional capital into EMDEs and will invest in social, sustainability, and sustainability-linked bonds for private firms in EMDEs. Issuers will include both financial institutions and real sector. BEST will be the first fund exclusively targeting these three types of sustainability-related thematic issuances in EMDEs.

- *Supply Chain Finance: Global Supply Chain Finance (GSCF) Program*
  The GSCF Program approved by IFC Management Team in January 2023. The Program will help channel more funding to EMDE firms seeking to expand their role in global supply chains. It entails partnerships with local, regional, and global banks based on existing models for trade (Global Trade Liquidity Program) and commodity finance (Critical Commodity Finance Program) assets. The Program evolved from IFC's success with the Global Trade Supplier Finance (GTSF) program, which has disbursed US$11 billion of short-term financing to 2,500 suppliers of 12 large international rated corporates since its inception in 2010. First investments are under development.

Multilateral Investment Guarantee Agency (MIGA)

MIGA is working to operationalizing various innovations, including:

1. a pilot platform that would aim to free up capital currently held against MDBs' sovereign loan exposures using MIGA's credit enhancement guarantee and reinsurance capacity;

2. scaling up an innovative but proven structure to achieve an uplift in credit rating of EMDE green bonds to investment grade to attract institutional capital by combining MIGA's political risk insurance cover with a contingent back-stop liquidity facility; and

3. exploring a shift from an "originate to hold" to an "originate to distribute" approach for select categories of MDB project loans where private capital would be mobilised through a MIGA guarantee to refinance MDB loans after projects are operational.

Annex 6: List of Policy Recommendations with timeline

S. No.	Actions	Accountability and Timeline
I.	**Vision and Mission:** Each MDB's vision statement should address global challenges to send a clear signal of intent and guide internal efforts and external interactions.	
	(i) Formally adopt a triple mandate of eliminating poverty, fostering shared prosperity and incorporating GPGs and closely-related transboundary challenges explicitly in their mission statement	MDB Board Q4:2023
	(ii) Annually report progress on tackling global challenges and how the individual country results are contributing to global outcomes.	Annual exercise
II	**Scale of Financing:** Triple the sustainable lending levels of the MDB system by 2030, reaching $300 billion per year in own-account non-concessional finance and $90 billion per year in concessional finance	
II.A	**Concessional Finance**	Q3:2023
	(i) G20 members should restore their contributions to IDA, and then increase them sharply to achieve a tripling in the size of IDA by 2030.	G20 members
	(ii) Donors provide indicative guidance to IDA of their determination to significantly increase contributions, thereby permitting IDA to immediately accelerate its market borrowing and avoid the cliff it faces in FY24.	IDA share-holders
	(iii) For the African Development Fund, market borrowings based on equity could/should be considered to expand lending at an appropriate time (for)	AfDB
	(iv) MDBs should develop a financing instrument that provides rapid and automatic concessional international assistance to countries including middle income countries hit by major natural disasters	MDB Board

II.B	**Non-Concessional Finance**	**Q1 2:2024**
	(i) Each MDB to implement recommendations of G20 CAF report, taking better account of callable capital, preferred creditor treatment, risk transfers and issuing hybrid capital, including using SDRs.	MDB Board
	(ii) MDBs to report back jointly to G20 Finance Ministers on expectations for impact of such measures on system-wide sustainable lending levels by 2030.	MDB Board
	(iii) Each MDB to present recommendations to their Executive Boards on the magnitude of any General Capital Increase that may be necessary to triple sustainable lending levels by 2030, after full implementation of CAF recommendations, and to present such calculations in a joint report to G20 Finance Ministers.	MDB Board
II. C	**Global Challenge Fund Mechanism:** G20 members consider establishment of a new Global Challenges Funding Mechanism, initially located in the World Bank Group but with separate governance, to take advantage of coalitions-of-the-willing among donors and non-sovereign investors.	Q4: 2023
III	**Engagement with the private sector:** MDBs should change their approach to partnering with the private sector	Q2:2024
	(i) Work systematically with the private sector in sovereign and non-sovereign activities, co-creating investment opportunities and establishing PCM targets of at least 1.2:1 for the MDB system as a whole (against the baseline of 0.6:1) and with targets above and below this level in each institutional context.	MDB Board
	(ii) MDBs set ambitious mobilisation targets, for individual agencies and for group aggregates where appropriate and develop credible strategies for operating model changes to achieve the targets.	MDB Management
IV	**Operating Model:** MDBs need to transform their operational and financial business models	Q1: 2024
	(i) Set benchmarks for speed and flexibility to provide scalable, low-transaction cost support, based on country-owned transformation platforms.	MDB Board

	(ii) Upgrade knowledge and advisory services for sustainable development.	MDB Board
	(iii) They must change their culture, become more client responsive, and take more risk.	MDB Management
	(iv) Timelines for project preparation should be shrunk and procedures rationalized.	MDB Management
	(v) They must also increase the scale and nature of their activities.	MDB Management
VI	**MDBs as a system: The system must become more than the sum of its individual entities**	Q4:2024
	(i) Work better as a system through joint financing and risk-sharing	MDB Board
	(ii) Put in place intuitional incentives to reinforce MDB cooperation	G20
	(iii) Hold MDB leaders accountable for progress on this agenda and to jointly report on how their activities have contributed to improving the environment for scaled-up transformation investments.	G20
	(iv) Initiate regulatory and institutional reform, and information exchange, for example by making the Global Emerging Markets (GEMs) database public.	MDB Board
	(v) MDBs should harmonize and reciprocally recognize others' financial, procurement and safeguard standards, and share diagnostic tools	MDB Board
	(vi) MDBs to report jointly to G20 every two years on system-wide strengthening measures.	G20
VII	**Necessary supporting activities outside the MDB system:** Foster coherence between MDBs and other parts of global financial architecture	
	(i) Strengthen domestic resource mobilization for SDGs and climate investment	MDB client countries
	(ii) Ensure close coordination between MDBs and the IMF to bridge the microeconomic imperatives of investing in the SDGs and climate action with the macroeconomic consequences and reflected it in Article IV surveillance reports.	G20

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http://www.emergingmarketsforum.org
2522 Virginia Avenue NW, Washington, DC 20037, USA.
Tel:(1) 202 393 6663 Fax: (1) 202 393 6556
@EmrgMktsForum
Email: info@emergingmarketsforum.org

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