Implementing MDB Reforms: A Stocktake

G20 Independent Expert Group on Strengthening Multilateral Development Banks

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April 2024

Independent Expert Group

The G20 Independent Expert Group (IEG), appointed by the Indian G20 Presidency, is comprised of Professor Lawrence Summers: President Emeritus of Harvard University; Mr NK Singh: President, Institute of Economic Growth, and Chairperson, Fifteenth Finance Commission of India Members; Ms Maria Ramos: Chairperson of AngloGold Ashanti, and former Director-General of the National Treasury of South Africa; Mr Arminio Fraga: Former Governor, Central Bank of Brazil; Professor 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: former 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.[1]

The IEG has been supported by experts from Brookings, Center for Global Development (CGD), Indian Council of Research on International Economic Relations (ICRIER), and ODI.

[1] Mr Tharman Shanmugaratnam participated in the IEG until 14 September 2023 when he was sworn in as President of Singapore.

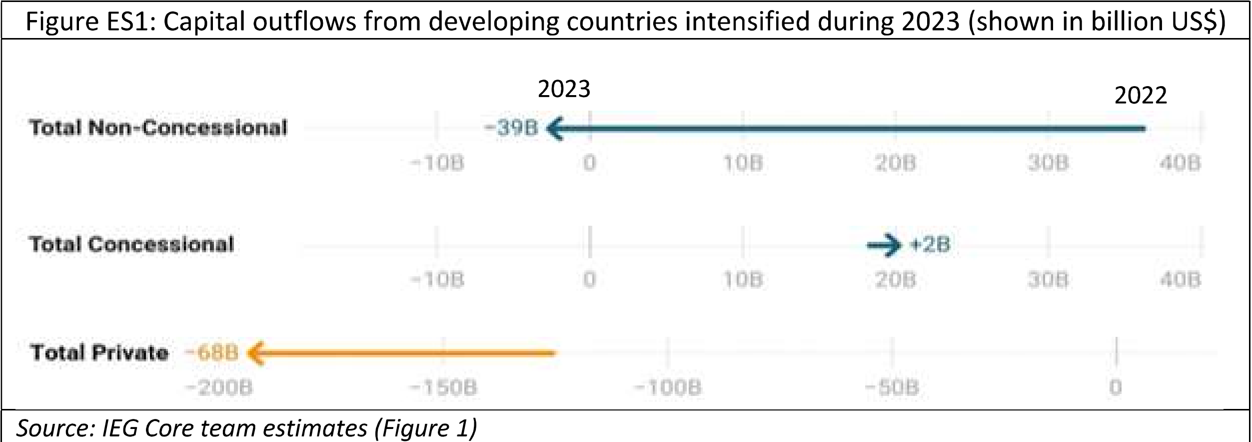
Executive Summary

The challenges facing the developing world got steeper in 2023. About half of International Development Association (IDA)-eligible countries failed to recover to pre-pandemic income levels. Per capita growth was anemic: 0.7% in Africa, 0% in the Middle East, and 1.5% in Latin America, partly because of weak investment levels. Currently, gross investment in most emerging market and developing countries (EMDCs) barely covers the depreciation of the existing capital stock; investment rates are in the range of 20-25% of GDP in all regions except Asia, where the average investment rate is 38% of GDP. The consequence of such low investment rates is that EMDCs will be unable to transition to green economies, to adapt to already-present climate change, or to sustain rapid growth, with dire impact on their own populations and on the global efforts to reach net zero.

While the imperative is to accelerate sustainable investment, external financing for EMDCs has become expensive and harder to mobilise. Meeting the challenge of increasing investment requires a pipeline of high-quality, specific bankable projects, along with confidence that these can be implemented in a timely way. It also requires secure, predictable, and affordable finance to make the investment at reasonable cost. However, external financing for EMDCs became more expensive and harder to mobilize in 2023. The external debt servicing of EMDCs rose by $40 billion. Low-income countries were hit especially hard; the debt service ratio in sub-Saharan Africa rose from 21% in 2022 to 32% in 2023.

Support from international financial institutions and bilateral donor agencies was inadequate to fully offset negative private capital outflows. Nearly $200 billion was taken out of EMDCs (ex-China) by private creditors in interest and net repayments. And while the financing from multilateral institutions continued at record levels, aid flows were diverted to meet the rising costs of humanitarian crises, including the costs associated with refugees in donor countries, as well as for the war in Ukraine. As a result, programmable official development assistance (ODA) flows received by low-income countries fell even as total ODA rose.

Figure ES1: Capital outflows from developing countries intensified during 2023 (shown in billion US$)



Source: IEG Core team estimates (Figure 1)

It was in anticipation of these trends, and of the equally alarming prospects for the rest of the decade, that the Indian G20 presidency commissioned an Independent Expert Group (IEG) to

propose an alternative path forward. In their reports of July and October 2023, the IEG identified a better, bolder, and bigger system of multilateral development banks (MDBs) as a key element of a global program to help EMDCs improve the investment climate, strengthen project pipeline development, and secure adequate levels of affordable finance. That vision envisaged a transformed MDB system that would lend three times more by 2030 and mobilize five times more private capital through a variety of new instruments and strategies. Equally importantly, the MDBs would broaden their mission and vision and play a central role in helping countries set up platforms for scaling up and speeding up investment programs in climate related and other global challenges.

The vision of better, bolder, and bigger banks was endorsed by the G20 leaders in the New Delhi Leaders' Declaration. The IEG made recommendations to streamline, harmonize and speed up MDB procedures, to promote more risk taking, and to mobilize additional capital through traditional and innovative means. Subsequent international gatherings have reiterated political support for the transformed MDB agenda, including the Paris Pact for People and Planet and the UAE Climate Finance Framework launched at COP28. The Brazilian G20 presidency has made the development of a roadmap for "better, bigger, and more effective MDBs" a central plank of its priorities for 2024. Alongside the political support, the leaders of MDBs have also welcomed the ambitious agenda set out in the IEG reports.

All MDBs have launched programs to begin implementing the various components of the broader reform agenda. As detailed in an MDB Reform Tracker, they have incorporated global challenges into mission statements and advanced the capital efficiency agenda.

Notwithstanding these developments, the pace of MDB reforms remains inadequate to have a material impact on sustainable development. Our assessment is buttressed by the results of a survey of international experts, who remain skeptical that there is enough momentum to implement sufficiently deep reforms across key areas.

We have identified five areas where progress appears slower than what was proposed in the IEG reports and where substantial acceleration and increased ambition in the current pace of implementation is required.[2]

We urge Ministers to encourage MDB managements to make a credible push on these in 2024, starting with their deliberations at the IMF/World Bank Spring Meetings.

1. **Roll out proactive and disciplined engagement with Country Platforms to help deliver scaled up investment programs.** All stakeholders urgently need to come together behind country-led strategies and plans for scaling up investments in a balanced program to address climate change and meet other development goals. Some countries like Brazil, Barbados, Egypt, and the Just Energy Transition Partnership (JETP) countries are coming forward with such plans, and more need to. The submission of the next round of nationally determined contributions

[2] We recognize that the geopolitical context and the calendar of near-term elections in many G20 members make major reform initiatives difficult. But against this we need to weigh the consequences of inadequate implementation - further erosion of trust in multilateral action and surging costs of delay in development and climate outcomes that will be no easier to pay after the delay.

(NDCs) and the preparation of prosperity plans by Vulnerable Twenty (V20) countries provide a good opportunity for setting out actionable investment and financing programs that integrate climate and development needs in shared country platforms that combine specific projects with regulatory and business climate reforms. MDBs committed to play a central role in supporting such country platforms, in the joint COP28 Statement, but without any specific targets or timelines.[3]

2. **Enhance efforts to mobilize private sector capital flows (PCM) to EMDCs. Only ADB, IDB and EBRD have set explicit PCM target ratios. Other MDBs should emulate this.** MDBs are swimming against the tide in trying to reverse private capital outflows. They have learned that subsidies deployed through blended finance, even at scale as in the IDA private sector window (PSW), are not sufficient to overcome internal MDB barriers to taking on more risk and expanding pipelines in difficult environments. Addressing these internal barriers has started in some areas, as in the World Bank's consolidation and rationalization of its guarantee offerings, but there is a long way to go in other areas such as building whole-of-bank approaches that combine support for reducing risk with tools to share risk. This may be the biggest management challenge confronting MDB leadership.

3. **Conclude the replenishments of IDA and ADF at a scale commensurate with the needs of low-income countries**. We estimate that IDA-eligible countries would need incremental external financing of $350 billion per year by 2030 to make a material impact on sustainable development. The implication is that concessional financing for key investments should reach almost $200 billion per year by 2030. This scale should frame the ambition for substantial replenishment of IDA21 and ADF14.

4. **Go further on MDB balance sheet optimization, including by better valuation of callable capital.** MDB Heads have indicated they have identified capital adequacy framework (CAF) measures that could potentially add up to $30-40 billion per year for a decade by 2030. This is in line with expectations in the IEG report, based on the CAF review. Much remains to be done to realize the potential, including on callable capital, further movements on the equity-to-loans (E/L) ratio, and sale of MDB assets.

5. **Expand MDB lending capacity by mobilizing hybrid capital and portfolio guarantees, and by recognizing the medium-term need for a capital increase**. The African Development Bank's (AfDB's) successful issuance of hybrid capital could have an important demonstration effect. Other MDBs should accelerate plans to issue similar instruments to private and public investors and standardize offerings to build the asset class. Several MDBs have also begun to mobilize guarantees from shareholders with high credit rating to cover specific risks to their loan portfolios, but the scale and coverage can be greatly expanded. The proposed 2025 shareholder review to align capital resources with ambition in the World Bank Group is welcome. Similar reviews could take place in other MDBs, where warranted.

[3] Some of the regional development banks are taking the lead. For example, the ADB's experience in supporting scaled country platforms could provide lessons for other MDBs still struggling with these financing channels.

While there is room to disagree on whether the glass of MDB reform is half-full or half-empty, what is important is the size of the glass. **Our overall assessment is that the glass is still much too small.** Our metrics of reforms suggest that there is undeniable activity, but that impact is falling short of what is required. A few green shoots offer potential for scaling in the five key areas listed above. The IMF/World Bank Spring Meetings should send signals that these shoots and other measures will grow fast.

2023 will be remembered as a year when the global community recognized the need for ambition and urgency in getting developing countries on track to meet sustainable development, climate, and biodiversity goals.

2024 needs to be the year when initial implementation of the reform agenda provides credible assurance that this vision will be realized. Our current assessment is that such an assurance would require a substantial stepping up of the pace and scope of ongoing actions both by the MDBs themselves and by their shareholders.

1. The need for speed, scale, and urgency

We are at a moment in history when the scientific evidence overwhelmingly leads us to conclude that our current economic growth model is environmentally and socially unsustainable. A new story is emerging, where economic growth and prosperity everywhere in the world can only be sustained if significant investments are made to transition economies onto more sustainable paths. Recognizing this, G20 Finance Ministers commissioned, reviewed, and welcomed two reports from an Independent Expert Group (IEG) to strengthen multilateral development banks.

The IEG recommended an ambitious reform and expansion in MDB activities (a tripling agenda) to enable economic transitions to happen swiftly and at scale in emerging market and developing economies (EMDCs).

The IEG noted that EMDCs have made national commitments on sustainable development goals, climate action and biodiversity. Much remains to be done, however, to raise the level of ambition and implementation to sustain public and private investments for decades to come. It called on MDBs to overcome four implementation obstacles faced by EMDCs, namely:

1. They have less well-developed investment and project pipelines
2. They must transition to sustainable development paths while still meeting large deficits in addressing hunger and poverty, in providing education, health, security and other public services, and in adapting to the impact of climate change that is already underway
3. Many have shallow domestic financial markets and limited access to global capital
4. They face higher costs of capital that biases their technological choices away from projects reflecting longer-term perspectives of sustainability

For these reasons, EMDCs are being left behind in the global transition. Only 10% of clean energy investment is taking place in developing countries, despite their physical advantages for solar, and they only account for 20% of conservation activities, despite having 90% of the potential benefits.

In this update, we take stock of what has happened since G20 Finance Ministers discussed our last report in Marrakech. First, we provide updated data for 2023, which reveals the situation in many EMDCs to be even more precarious than we believed at the time. Second, we review the reform measures already taken by MDBs, with special emphasis on the likelihood of private capital mobilization. Third, we report on opinions expressed through a survey of experts.

We find that the level of ambition set out and endorsed last year is unlikely to be met under the current trajectory of reform because. while progress is admittedly being made in several dimensions, the overall speed, scale, and urgency of reform are slower than required in the view of most of those we consulted.

2. Headwinds in 2023 were worse than anticipated.

Growth in 2023 and prospects for 2024 are anemic. Per capita income in sub-Saharan Africa is projected by the International Monetary Fund (IMF) to grow by only 1.4% this year. About half of IDA-eligible countries have still not recovered to pre-pandemic income levels (Figure 1). Over half the Least Developed Countries have not recovered setbacks in their Human Development Index.[4] Investment in 2023 in Africa, Latin America and emerging Europe was in the range of 20-22% of GDP. At these rates, there is no chance for economic progress or for transitioning to more sustainable development.

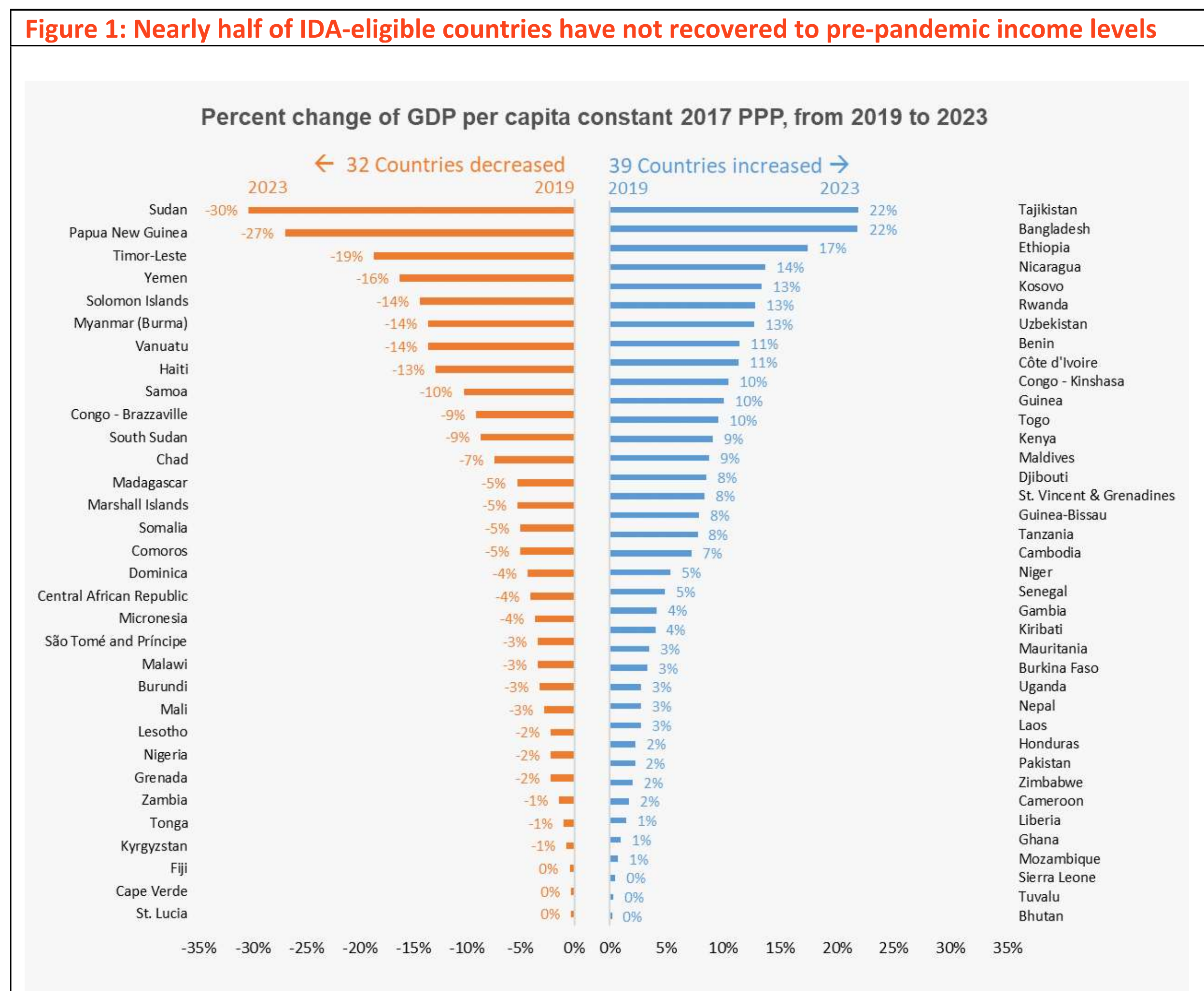


Figure 1: Nearly half of IDA-eligible countries have not recovered to pre-pandemic income levels

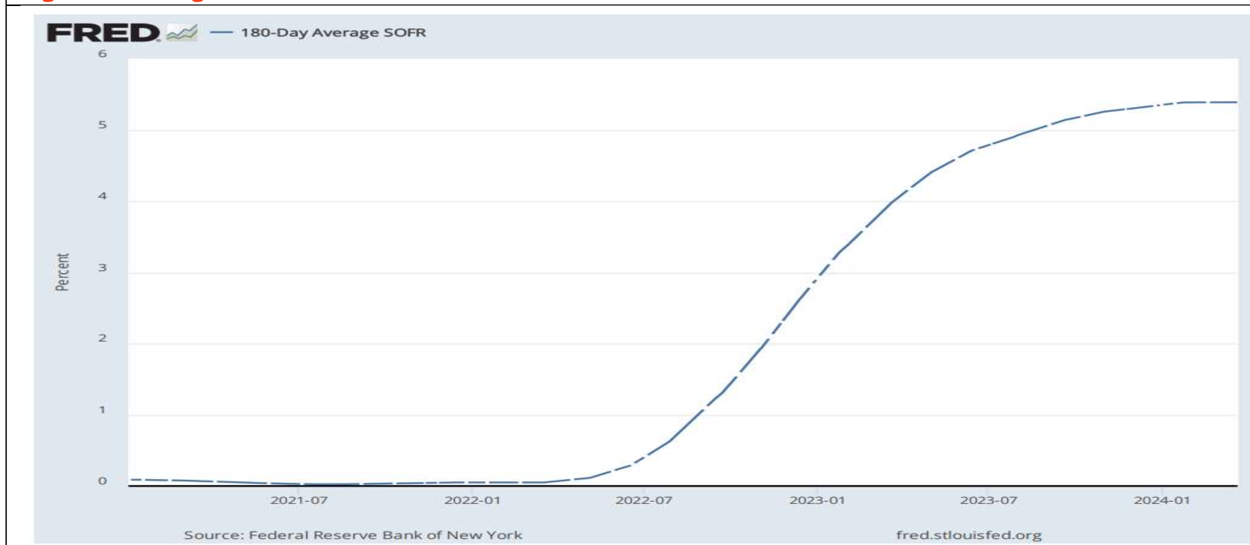
Source: *World Economic Outlook, October 2023.*
Note: *Guyana's GDP per capita increased 282% and was excluded as an outlier for visual purposes. Syria, Afghanistan, Eritrea, and Sri Lanka are excluded due to missing data.*

[4] https://report.hdr.undp.org/slivers-of-hope

2023 was the hottest year on record, averaging about 1.3 degrees Celsius above pre-industrial temperatures. Weather-related events, especially regional thunderstorms, caused record economic losses of around $380 billion (UNDP). Geophysical disasters, notably earthquakes in Syria and Turkey, resulted in 95,000 lost lives. The number of large disasters, those with billion-dollar plus losses, hit a record of 66 in 2023.

Interest payments by developing countries on public and publicly guaranteed debt went from $99 billion in 2022 to $136 billion in 2023,[5] due to sustained increases in interest rates in global capital markets, starting in mid-2022 and continuing through 2023 (Figure 2). High interest payments have sharply reduced the net transfer of resources to developing countries, limiting fiscal space for investments.

Figure 2: Rising interest rates in 2022 and 2023 have reduced net resource transfers to EMDCs



Source: FRED

Private capital continued to flow out of developing countries. No IDA-eligible country issued a bond in 2023, and issuances by other EMDCs fell sharply. As a result, bondholder net resource transfers were negative $161 billion from EMDCs in 2023, roughly evenly divided between interest receipts and net flows. Commercial banks withdrew an additional $42 billion in net resources in 2023 (Figure 3).

International financial institutions were unable to offset these resource outflows from EMDCs. Interest payments and fees from the IMF and major MDBs rose by $20 billion in 2023, reaching $37 billion. Repayment of principal rose by $14 billion. Consequently, net resource transfers fell sharply, turning negative for non-concessional flows to middle-income countries.

Concessional flows through multilaterals held up, but recycled SDRs through the Poverty Reduction Support Fund and the Resilience and Sustainability Facility disappointed: net disbursements reached just SDR2.4 billion and 0.6 billion respectively in 2023.

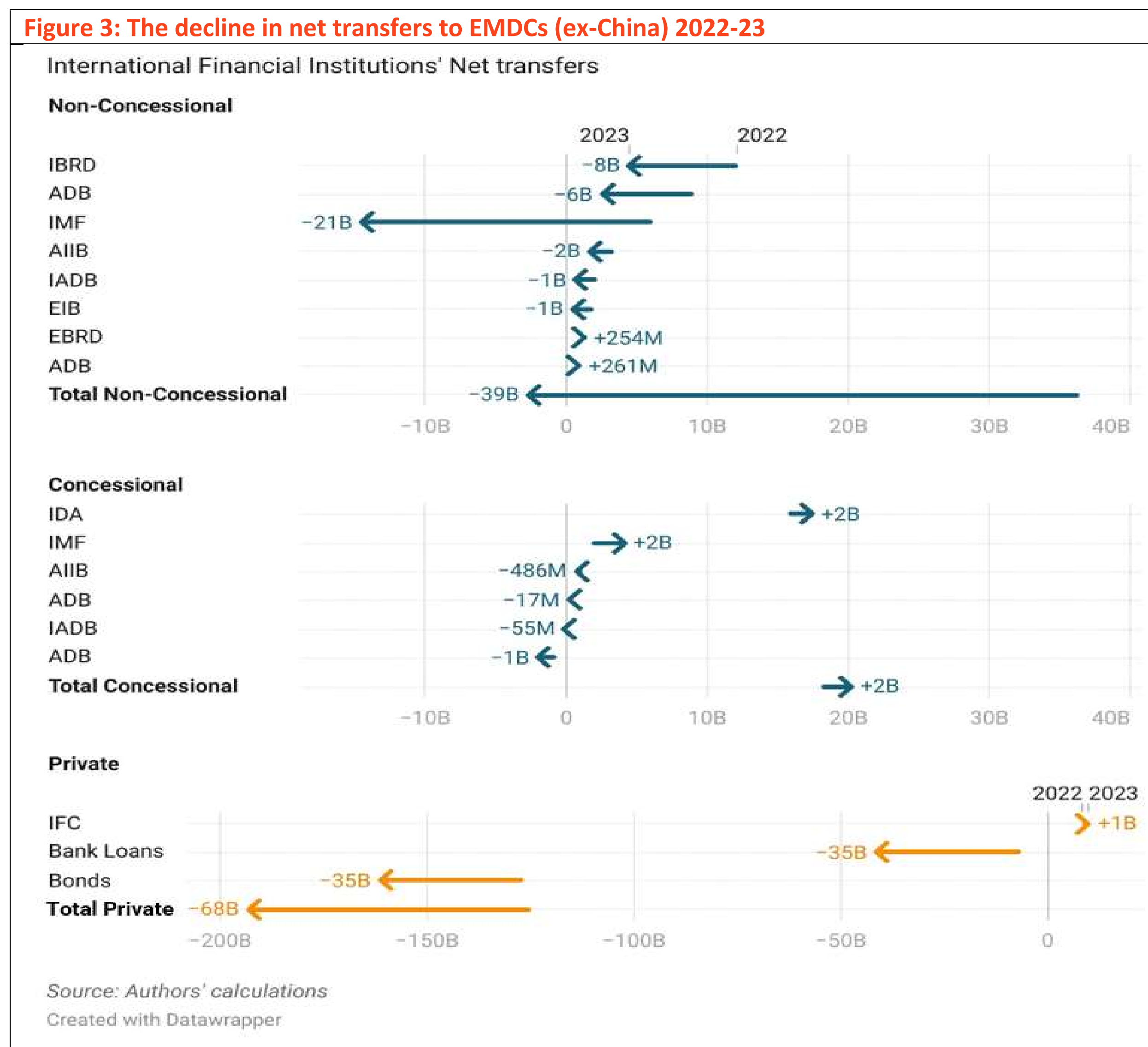
Conflict, climate disaster and economic hardship boosted the need for humanitarian assistance in 2023, putting pressure on ODA to meet immediate demands rather than investing in the future. Coverage of

[5] World Bank International Debt Statistics

humanitarian needs fell to a record low level of 40%, and disbursements of humanitarian assistance fell short of 2022 levels.[6] Some 360 million people needed assistance in 2023.

One bright spot has been developing countries' ability to avoid defaulting on their external debt. At the start of 2023, the IMF warned that 45% of low-income countries were at high risk of debt distress (IMF). In the event, only Ethiopia defaulted in 2023, missing a December bond payment. However, it is important to recgongize that continuing to pay high debt service has often translated into cutting back on health, education, and other critical public expenditures.

Figure 3: The decline in net transfers to EMDCs (ex-China) 2022-23



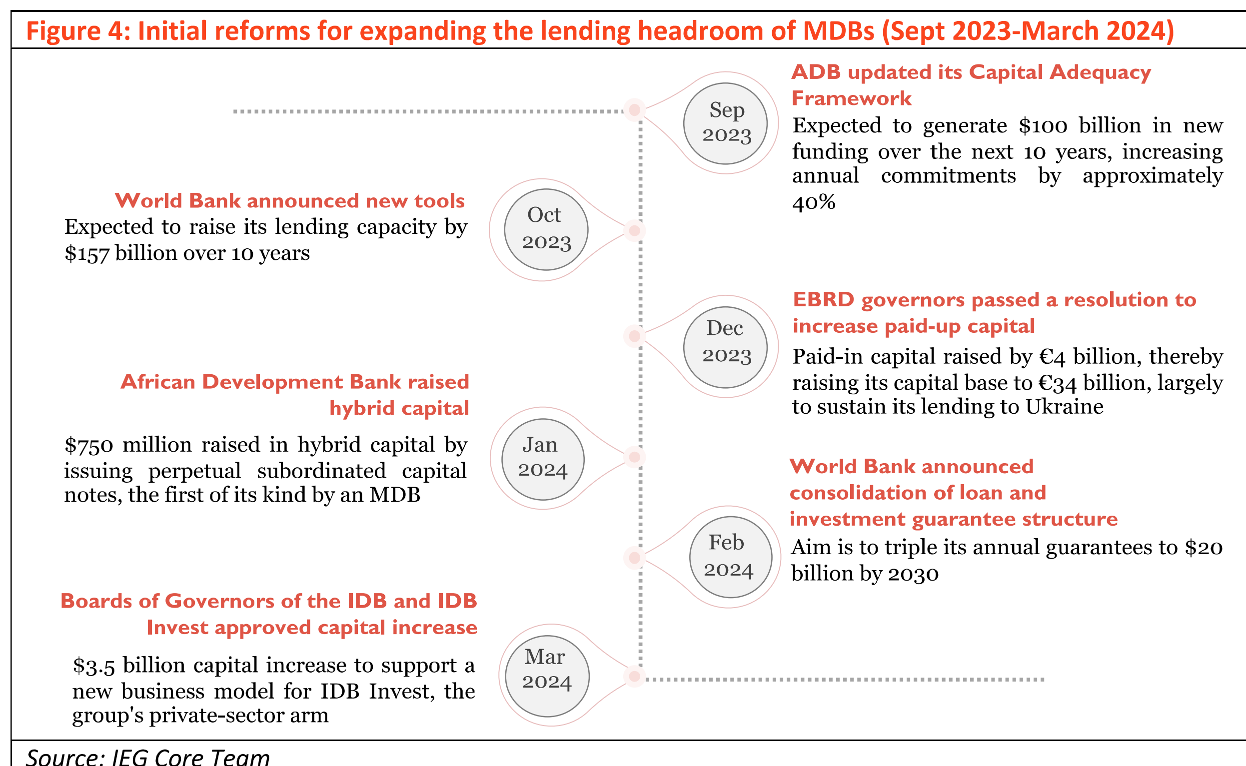
Notes: Arrows indicate movement of net transfer from 2022 levels to 2023 levels, as indicated on horizontal scale. Figures on each arrow represent the delta between 2022 and 2023 net transfers. Scale for private capital flows differs from scale for official flows.

[6] https://humanitarianaction.info/overview/2023

3. Initial reforms in the face of geopolitical headwinds

Despite political headwinds, there have been some initial MDB reforms, primarily aimed at expanding lending headroom. Visible progress has been made since September 2023 in raising lending capacity (ADB and WBG), issuance of hybrid capital (AfDB), increase in paid-in capital (EBRD), expansion in general capital (IDB and IDB Invest) and consolidation of loan and investment guarantees structures (MIGA). The combined effect of the reforms can translate to an additional $30-40 billion annual lending by the MDBs (see figure 4)

Figure 4: Initial reforms for expanding the lending headroom of MDBs (Sept 2023-March 2024)



Source: IEG Core Team

At the same time, MDBs have strengthened climate action as a priority, through new vision statements and explicit lending targets for climate. Some are considering lengthening project maturities to better match the longer stream of benefits arising from sustainable projects. In October 2023, four MDBs (the Council of Europe Development Bank, EBRD, EIB and the World Bank) agreed to harmonise and streamline their procurement practices for public sector investments in Ukraine. MDB Heads have scheduled a day-long retreat to strengthen the performance of the system.

The **World Bank Group** announced a review of its operational effectiveness and efficiency, aiming to reduce the project review and approval time by one-third. It has introduced more flexibility to permit crisis-affected countries to repurpose undisbursed commitments. It has instated climate-resilient debt clauses. It has identified eight priority global challenges to be addressed through lending and focused knowledge products. The impact of these reforms will be measured through a revamped corporate scorecard.

The **Asian Infrastructure Investment Bank** is strengthening co-financing and is pursuing a mutual recognition of standards between MDBs. It will introduce an on-line co-financing platform in April. It has started programmatic lending for climate action. It is moving to enhance local currency lending. A review of its risk management framework should lead to more financing for low-income countries.

The **African Development Bank** has become the first major MDB to successfully issue hybrid capital to private investors. Defying naysayers who questioned whether there would be private investor interest and whether bond yields would be prohibitive, the $750 million issuance (equal to 6 percent of the Bank's capital) was oversubscribed eight times. The heavily subordinated, perpetual bond was rated AA- and the coupon rate at 5.75 percent is a manageable 130-166 basis points over the bank's regular AAA bonds. The African Development Fund will increase leverage by borrowing on capital markets.

The **Inter-American Development Bank** has announced climate and biodiversity as major goals. An initial ten pilot countries have been selected to participate in its *IDB Clima* program, with identified projects totaling $1 billion accompanied by non-refundable technical assistance and project support teams. It is accelerating disbursement through larger programmatic lending.

The **European Bank for Reconstruction and Development** has increased its sustainable lending by 50 percent through the agreed increase in shareholder capital and is aiming to channel these resources through country platforms. However, these are still not operating smoothly and efforts to harmonize and mutually recognize standards face complex negotiations.

The **Asian Development Bank** has raised its headroom through a capital adequacy review and additional climate guarantees. It is supporting country platforms in Indonesia and Vietnam and, through this channel, will help decommission coal-fired power plants.

The **European Investment Bank** is accelerating efforts on Ukraine, digitalization and climate, reinforcing its role as the EU Climate bank. Its business delivery is adapting to target a higher volume of lending activity to eligible developing countries despite the higher risk involved.

Table 1: Select Actions by MDBs towards becoming Better, Bolder and Bigger Banks

MDB	Better	Bolder	Bigger
WBG	-Taking measures to reduce the project review and approval time by 1/3rd - Suspending debt payments during crisis - Improving corporate scorecard	-Instating climate-resilient debt clauses -consolidating guarantee programs	- identifying eight priority global challenges
AIIB	- Pursuing mutual recognition of standards between MDBs - Introducing on-line co-financing platform in April - Programmatic lending for climate action started	- Moving to enhance local currency lending - Reviewing risk management framework for more financing for low-income countries	-co-financing agreements with other MDBs

AfDB		- Issuing hybrid capital to private investors of $750 million	- Borrowing in capital markets to increase leverage of AfDF
IADB	- Selecting countries to participate in IDB Clima program, with projects totalling $1 billion accompanied by non-refundable technical assistance and project support teams		-Instating climate and biodiversity as major goals - Accelerating disbursement through larger programmatic lending
EBRD	- Channeling sustainable lending through country platforms		-Increasing its sustainable lending by 50% through shareholder capital
ADB	- Supporting country platforms in Indonesia and Vietnam	- climate guarantees	-Reviewing capital adequacy
EIB	- digitization		- Accelerating efforts in Ukraine - Business delivery is adapting to target a higher volume of lending

4. Mobilizing the private sector

Reforming the MDBs to mobilize more private sector finance remains challenging. It requires:

1. Bedrock considerations of risk tolerance
2. Building a whole-of-bank approach to strengthen investment climates and project pipelines
3. Using blended finance more efficiently
4. Shifting to more catalytic instruments
5. Mobilizing private finance at the portfolio and institutional level
6. Making non-sovereign finance parts of the MDB system bigger

Unless MDBs take responsibility for managing this broad agenda through guarantees, advice, technical assistance, and project identification and financing there will be little chance of mobilizing private finance at scale. We have seen more progress on the second half of this agenda (items 4-6) than on the first (items 1-3)

There have been some important steps forward on private sector mobilization instruments and scale:

- The World Bank Group (WBG) is rationalizing and simplifying the 20 guarantee products across its sovereign and non-sovereign parts, each with different processes, rules, and standards. It aims to triple its annual guarantee issuance to $20 billion by 2030, partly by meeting demand from other MDBs, such as the IDB Lab's interest in political risk insurance from MIGA.

- Guarantees and insurance are also being increasingly used to shift funding and risk out of MDB portfolios, representing a form of private finance mobilization. Unfunded risk transfers (URT), especially to the insurance market, are growing rapidly, mostly for private sector exposures.

- The EBRD, which mostly finances the private sector, had its capital increased by 4 billion euro. This will sustain lending to Ukraine of 1.5 billion euro per year during wartime and 3 billion euro per year in reconstruction after the war.

- IDB Invest got shareholder approval for a $3.5 billion general capital increase. This capital will support a new strategy that puts private finance mobilization first. IDB Invest has set an explicit target for its mobilization ratio of 1.7-2 dollars mobilized for every dollar of its own commitments. The combined effects will permit additional financing of $7.6 billion per year for the next 10 years.

- IDB shareholders also put IDB Lab on a path to financial sustainability by agreeing to a $400 million replenishment. The Lab will henceforth be financed by a combination of new funding from multiple sources and reflows from its investments. The IDB Lab finances high-impact, public and private, innovation ventures. It targets early-stage finance gaps and builds bankable pipelines for the rest of the Bank to scale.

- The ILX Fund 1, a private debt fund that transforms MDB B-loans into an asset class suitable for institutional investors, is expected to be fully invested in 2024, with a follow-up, larger fund planned to launch by mid-year.

By contrast, not much has changed on risk management:

Cutting across various dimensions of the challenge is the opportunity for MDB public and private sector arms to pull together to deliver private mobilization strategically and in an integrated way. There have been initial efforts in this respect by the MDBs, but these efforts would need to be scaled up massively across the development finance system to have material impact.

- The core issue is that "MDBs have never seriously tried to mobilize private capital at scale."[7] Private mobilization does not simply depend on reducing risk and capital costs through financial engineering but requires an integrated public-private strategy across the different arms of the MDBs, the deployment of new financial products and changes in the MDB operating model. Public and private arms of MDBs should now work systematically and in a coordinated way to 'co-create' markets suitable for private investments. The World Bank Evolution update[8] places heavy emphasis on such an approach and corresponding changes in the World Bank Group's business

[7] IEG Volume 2023
[8] Development Committee: Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution, September 2023

model, among others by introducing Global Challenge Programs. An important aspect of this new MDB approach to the private sector is the Cascade principle, which will require a considerable rewiring of incentives and a shift in operational culture to become effective.[9]

- IDA's private sector window (PSW) has piloted the use of grants to cover losses from MDB private finance activities in low-income countries, thereby shifting risk from IFC and MIGA to IDA balance sheets. It has so far allocated $5.5 billion in IDA resources over 3 replenishment cycles, with $4.6 billion committed. The evidence on impact and scalability is mixed. After a slow start, the pace of PSW commitments is accelerating and impact scores of PSW-supported projects tend to be higher than non-subsidized projects. But the PSW performs poorly on the key test of success: the scale and share of IFC investments in PSW-eligible countries has fallen, not risen, relative to the years prior to the creation of the PSW. And mobilization data in PSW-supported projects, admittedly difficult in poorer countries, show about 60 cents of private finance mobilized per dollar of IFC commitments in PSW-supported projects, less than half that for non-PSW supported IFC projects.

- The constraint on private sector mobilization does not appear to be the risk of losses. The PSW actually appears to be a money-maker for IDA: estimated net revenues to IDA were $16.3 million through June 2023, while realized losses totaled only $2.9 million.

- The basic problems instead appear to be too little on-the-ground pipeline development capacity, little evidence of a whole-of-bank approach, and continued risk aversion, even though donors have agreed to use all of the funds if needed to cover any IFC and MIGA losses.

- One low-cost way to manage risk is to fill information gaps about credit performance. There is no better source of information on sovereign and non-sovereign credits in EMDCs--at least credits in which MDBs are participants--than the GEMs database, which includes probability of default and loss-given-default data for 25 MDBs and DFIs over 35 years. But only members of the GEMs consortium have access to the data.

- The GEMS consortium published a new report on March 25, 2024 on loss-given-default, which provides data on the shares of loans in default that were repaid to MDBs and DFIs betweeen1994-2022. The data allow a comparison of recovery rates by region and income group, but not by country or sector. A surprising finding is that the regions perceived to be highest risk – Sub Saharan Africa and the Middle East and North Africa-- consistently have the highest recovery rates. GEMs is expected to release another report on default rates and recoveries around the 2024 annual meetings. Unfortunately, progress towards a standalone database remains unclear, and GEMs steering committee members remain highly resistant to providing disaggregated data by country.

5. Expectations and groundwork for future reform

[9] The Cascade is a subsidiarity principle according to which the public sector part of the MDBs should refrain from financing what could and should be done by the private sector and private finance, thus avoiding the creation of additional public debt.

MDBs have taken ownership of the reform agenda but are looking to shareholders for guidance on the speed and scope of change. Under the Brazilian Presidency of the G20 in 2024, the International Financial Architecture Working Group (IFAWG) is aiming to continue playing a key role in building major shareholder agreement on how to strengthen the MDB system, developing a multi-year roadmap for reform. This G20 MDB Roadmap is expected to focus on three main areas: (i) a better MDB system to make it easier for clients to access MDB borrowing, and for MDBs to better leverage each other; (ii) a bigger MDB system by increasing financing capacity; and (iii) a more effective MDB system by developing frameworks supporting a strong focus on development impact. The roadmap focus-areas correspond to the areas in which the IEG recommendations are clustered. In each area, through a survey, experts (Annex 1 outlines the methodology and scope) were asked for views on the likelihood of success. The results are presented below (Figure 4).

Broadly speaking they suggest that the areas where most progress has been made are those under the control of MDB management. Questions pertaining to mission, prioritization of global challenges, and collaboration are generally positively answered by experts. So are questions related to the introduction of new tools and instruments, such as the introduction of natural disaster clauses, portfolio guarantees, and balance sheet optimization.

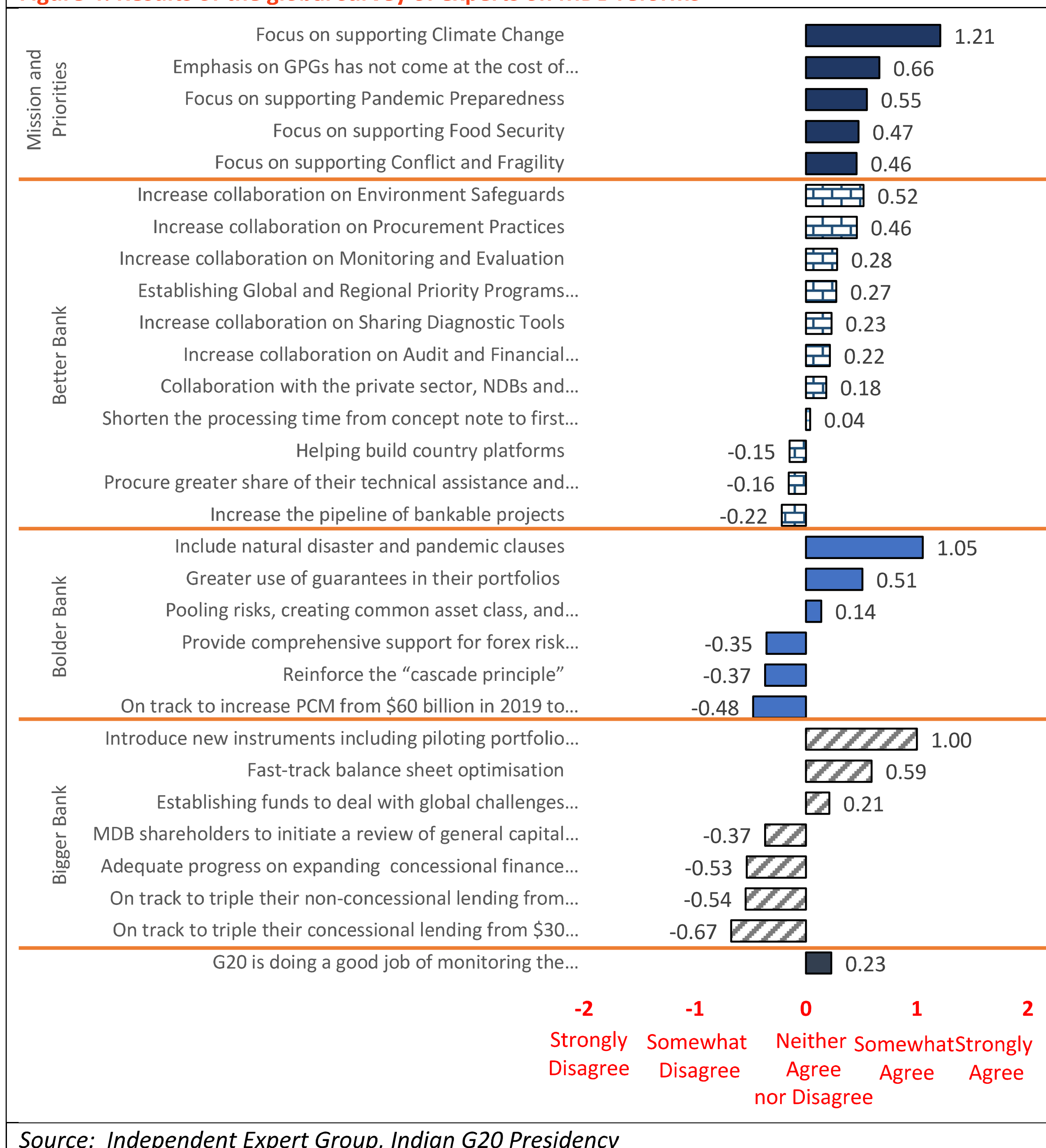
Experts are, however, more negative on questions involving MDBs partnering with other actors. For example, building country platforms, using local technical assistance, and generating a more solid pipeline of bankable projects are all viewed skeptically by experts, as are managing forex risk, and using Cascade principles in dealing with the private sector.

Experts give least credence to the likelihood of MDBs achieving the recommended targets on scaling up resource flows, which depend on actions being taken by shareholders as well as MDB management. The most negative responses related to being off-track on the tripling of concessional flows and non-concessional lending, the quadrupling of private capital mobilization, and the underlying expansion in shareholder capital to achieve these targets.

Finally, the experts were underwhelmed by the G20's ability to monitor the reform program and thereby hold MDB management and partners accountable for successful reform, being almost completely neutral on this score (with a mean close to "Neither Agree nor Disagree").

Our overall assessment, therefore, is that a substantial stepping up of the pace and scope of ongoing actions is needed, both by the MDBs themselves and by their shareholders.

Figure 4: Results of the global survey of experts on MDB reforms



Source: Independent Expert Group, Indian G20 Presidency

Annex 1: The expert survey on MDB reforms: scope, methodology and mechanics

An online survey was administered by the Core Team supporting the G20 IEG – comprising of researchers from Brookings, CGD, ICRIER (India), and ODI -- in the months of February and March 2024. Nearly 325 global experts, many of whom were consulted during the preparation of the IEG reports, were requested to fill the survey. With 63 responses, across 24 countries, the response rate was 20 percent – comparable to other surveys of this kind. The average level of familiarity of the respondents to the MDB reform process was 8 on a scale of 0 (not familiar at all) to 10 (highly familiar). The respondents have near universal familiarity with the World Bank Group (90%), followed by ADB (38%), AfDB (32%), AIIB and IADB (both 22%) --93% of the respondents have professionally worked or collaborated with one or more MDB.

The responded were given a statement and they were asked to choose between the following six responses: (i) Strongly Agree; (ii) Somewhat Agree; (iii) Neither Agree nor Disagree; (iv) Somewhat Disagree; (V) Strongly Disagree; (vi) Don't Know. For reporting purpose, we convert the above responses to numbers as follows: +2, +1, 0, -1, -2, and blank, respectively. The average score for the various questions is shown in Figure 1.

Annex 2: A new approach to private capital mobilization

The past few years have seen the emergence of a range of new private finance mobilization (PFM) instruments by the MDBs.

Table: Financing instruments supporting scale and replication

Stage	Single asset	Multiple assets
Transaction point	Private debt syndication Green and sustainability bonds Guarantee structures	Bond funds Managed platforms
Portfolio stage	Asset recycling Unfunded risk transfers	Synthetic securitization Collateralized loan obligations

The table classifies various finance mobilization approaches by the stage of the project cycle at which private funds are mobilized, and by whether the MDB is mobilizing finance into single exposures at a time, or within a framework covering multiple exposures. These categories can be fluid, for instance, private debt funds may purchase both primary and secondary assets from MDBs; single assets may be acquired as part of strategies to build structured portfolios; and unfunded risk transfers can be applied at transaction point as well as to multi-exposure portfolios.

All of these approaches are relatively new for MDBs. The traditional PFM instrument has been the syndication of B-loans to international commercial banks. Demand for B-loans suffered from stepped-up capital charges and regulatory costs following the global financial crisis. Most of the newer, scalable approaches target the non-bank market. The greatest mobilization potential is associated with the following measures enabling institutional investors to buy exposure to MDB-originated assets:[10]

- the standardization of assets,
- the transformation of bank loans into capital market instruments,
- aggregation into large individual ticket sizes,
- risk mitigation through diversification, structuring and/or de-risking methods

PFM has, in the past, been primarily the preserve of the private sector arms of the MDBs but many approaches could, in principle, extend to sovereign portfolios as well. The main obstacle to private finance mobilization with sovereign exposures is the cooperative pricing model of the MDBs, which may compress margins and result in steep discounts. Nevertheless, project-level guarantees (PRG/PCG) have been deployed for many years, and there has been recent willingness to experiment with new guarantee designs, with unfunded risk participations as well as with sovereign portfolio securitizations.

[10] See, for instance, GFANZ, "*Actions to Mobilize Capital to Emerging Markets and Developing Economies*", 2022; Convergence Resources (database), website; GISD Alliance (United Nations), "*Increasing private finance mobilization: Recommendations for development banks and the global development community*", 2021