THE G20 INDEPENDENT EXPERT GROUP REPORT CARD ON STRENGTHENING MULTILATERAL DEVELOPMENT BANKS:

AN INCOMPLETE GRADE

OCTOBER 2024

LAWRENCE SUMMERS AND NK SINGH, CO-CONVENERS OF G20 INDEPENDENT EXPERT GROUP ON MDB REFORMS

Preface

A year ago, an Independent Expert Group, which we co-convened on behalf of the Indian Presidency of the G20 recommended a vision for better, bolder, bigger multilateral development banks (MDBs) as a central tool to respond to the issues facing emerging markets and developing economies (EMDEs). It entailed: (i) revamping vision, mandate and role to respond rapidly and effectively to clients addressing global and national challenges; (ii) bringing engagement with the private sector to the center through a culture of informed risk taking; and (iii) tripling direct financing and quadrupling private finance catalyzed by their efforts.

Our recommendations were endorsed by the G20 Finance Ministers and Central Bank Governors. The Brazilian G20 has followed up by developing a Roadmap of MDB reforms. We, nevertheless, believe we have an obligation to monitor the progress and inform public opinion.

What have we learned in the past year?

First, our diagnosis was right. While new technologies, for example in renewable energy, offer enhanced economic growth opportunities, their adoption in emerging economies will be slowed by limited access to affordable financing. With their special role as low-cost capital providers and technical and policy advisors, MDBs remain necessary leaders in the required transitions.

Second, while every MDB has embarked on a program of reform, the pace and ambition of implementation falls well short of what is required to deliver on the vision set out in our report. MDBs have put in place measures to expand annual sustainable lending by making better use of their balance sheet and attracting additional capital through innovative channels, but the volumes involved - about 30% of current lending volume – fall far short of the tripling they need, given their enlarged mandate. We had also recommended a tripling of concessional finance channeled through MDBs to the poorest countries, but we see few signs of any meaningful rise. Expanding mandates with insufficient financial resources will not work effectively.

Third, changing MDB relationships with the private sector has proven to be hard and difficult. Despite some commendable improvements, for example on the expanded use of guarantees, the aggregate volume of private capital mobilization- about $70 billion in the last year – demonstrates an incremental approach, not a radical transformation of business models.

Major shareholders of the MDBs must shoulder the main responsibility for this disappointing performance. History has shown that MDB reform proceeded most substantially when it had the full backing and energy of the largest shareholders. Unfortunately, shareholder signaling of support for the overall agenda has not been matched in the implementation phase or in the provision of additional resources. MDB management can also learn from each other to ensure that best practice in one bank rapidly spreads to others.

The picture is not all bleak. The attached note highlights a few examples of innovation, risk taking and evolution in both large and smaller MDBs. However, commendable as they are, these examples do not yet reflect the system wide transformation that is needed for MDBs to play the role dictated by science and societal goals. Nor can we be assured that the current trajectory will deliver the vision that we set out in our reports.

In our view, the short-sighted approach of waiting until a crisis hits before acting forcefully on MDB reform will turn out to be a costly misjudgment. Time is not on our side.

Lawrence Summers and N.K. Singh
Co-Conveners of G20 Independent Expert Group on MDB Reforms

The G20 Independent Expert Group Report Card on Strengthening Multilateral Development Banks: An Incomplete Grade

October 2024

In academic institutions, a professor may grant an incomplete grade to a student who has performed satisfactorily but is unable to complete the final assignment due to mitigating circumstances. In this spirit, the members of the Independent Expert Group of the G20 on strengthening the multilateral development bank system feel an incomplete grade is warranted for the shareholders and management responsible for multilateral development bank (MDB) reform.

This assessment is based on three judgments that are expanded on below. First, we have reviewed the vision that we laid out for strengthening MDBs and conclude that it is still relevant. Second, we have looked at the reforms that have taken place in the MDBs. We find commendable progress on many fronts. Indeed, if our assignment were to write down all the reforms that have been made, the list would be long and, in many cases, show innovation and new thinking. But third, we have assessed the likely impact of these reforms against what has to be done to assist developing countries to make transformational changes towards sustainable, inclusive growth. Here, our judgment is that we are still falling well short of "good enough progress."

Among the changes that have been made, progress is strongest in those areas that are fully under management control, such as reconfiguring vision and mission statements, and weakest where shareholder consensus is needed, such as on expanding lending. To move MDB reform from an "incomplete" to an "A" grade, MDB shareholders must be bolder, and they must encourage MDB management to be bolder still.

The Vision

G20 leaders committed to "pursue reforms for better, bigger and more effective Multilateral Development Banks (MDBs) to address global challenges to maximize developmental impact" in their New Delhi Leaders Declaration.[1] They noted a need for an international finance system that is fit for purpose, with the MDBs at the center of solutions to global challenges. MDB Heads crystallized their vision for what the MDBs should do, individually and collectively, around five areas:[2]

1. Scaling up MDB financing capacity
2. Boosting joint action on climate
3. Strengthening country-level collaboration and co-financing
4. Catalyzing private sector mobilization
5. Enhancing development effectiveness and impact

[1] G20 Leaders, September 2023, https://www.mea.gov.in/Images/CPV/G20-New-Delhi-Leaders-Declaration.pdf
[2] "Statement of the Heads of Multilateral Development Banks Group: Strengthening Our Collaboration for Greater Impact", October 2023, https://www.worldbank.org/en/news/statement/2023/10/13/statement-of-the-heads-of-multilateral-development-banks-group-strengthening-our-collaboration-for-greater-impact

These areas correspond closely with the vision laid out by the G20 Independent Expert Group to triple annual sustainable lending levels, to add global public goods including climate to the mandate, to co-create multiyear country platform programs, to bring engagement with the private sector to the center, and to sharpen analytical support and speed up business processes for enhanced impact.[3]

Since then, MDB Heads have started to meet on a regular basis, and issued a Viewpoint Note outlining progress in April 2024 after their first such meeting.[4] Under the Brazilian presidency of the G20, the International Financial Architecture working group has developed a Roadmap for MDB Reform, to be submitted this month to Finance Ministers for approval. The communique from the Third Finance Ministers and Central Bank Governors meeting further welcomes the transformation of MDBs and how they work together.[5] That document welcomes progress made on expanding MDB lending capacity but calls for the shareholders of MDBs to raise their ambition in replenishing concessional funds and in reviewing the capital adequacy of individual institutions. In the UN's Pact for the Future, member states also agreed that MDBs play a vital role in supporting sustainable development and call for accelerated reforms.[6]

Each of these meetings has underscored the importance of the new vision of the MDBs: to scale up their own financial capacity; to address global challenges, including climate, in an integrated way along with core mandates for poverty reduction and boosting prosperity; to work with national institutions for planning and financing of transformative investments; to be intentional about mobilizing and catalyzing the private sector; and to do all of the above with speed to achieve better and faster development results.

There is no longer significant debate over the direction of a new vision or mandate of the MDBs. Consensus has been built to expand their scope to address priority global challenges and this is now reflected in many MDB mission and vision statements. The crucial discussions now center on deliverables and timelines. We are encouraged that there is an institutionalized process for maintaining political attention on MDB reform in international high-level meetings. Annual meetings of the G20, G7, COP, and next year's 4th Conference on Financing for Development regularly discuss MDBs. However, in the inter-governmental negotiations that we have observed, there are still differences in views about the level of ambition and speed of reform. Most developing countries are advocating for faster and more ambitious reforms, while major advanced economies, who would have to provide the financing and guarantees for speedier action, have been more cautious, given their own internal budget constraints.

Our vision, laid out in the *Triple Agenda* volumes, was that the ambition and speed of reforms should be driven by science, especially the urgent need to reduce greenhouse gas emissions and adapt to global warming as a here-and-now threat to global economic development not a far-distant risk. On this aspect of the vision, political agreement in international meetings has yet to translate into forceful financial

[3] IEG, September 2023, "Strengthening Multilateral Development Banks: The Triple Agenda, Volume 2", https://icrier.org/g20-ieg/pdf/The_Triple_Agenda_G20-IEG_Report_Volume2_2023.pdf
[4] Viewpoint Note, April 2024, "MDBs working as a system for impact and scale," https://www.iadb.org/en/news/multilateral-development-banks-deepen-collaboration-deliver-system
[5] G20 Finance Ministers and Central Bank Governors, July 2024, https://globalgovernanceprogram.org/g20/2024/240726-finance-communique.html
[6] United Nations, September 2024, "Pact for the Future, Global Digital Compact, and Declaration on Future Generations", https://www.un.org/sites/un2.un.org/files/sotf-the-pact-for-the-future.pdf

actions in domestic political settings. As a result, monitoring and accountability mechanisms—setting quantitative timebound targets—remain a work in progress.

Reforms to date[7]

Scaling up financial capacity

Several MDBs have reported on progress made to implement recommendations made in the G20 Independent Review of Multilateral Banks' Capital Adequacy Frameworks (CAF).[8] The reforms include lowering equity/debt leverage ratios and other measures to optimize balance sheets.

Additional reforms are in progress. Some MDBs have introduced portfolio guarantees to permit partners to move beyond support for individual projects to a programmatic approach. MIGA has a new instrument which allows MDBs to shift loans off their balance sheets to private capital markets, thereby freeing up headroom for additional lending. There have been discussions to clarify an understanding of how existing shareholder commitments to provide up to $796 billion in callable capital to the five largest MDBs in the event of a default should be reflected in MDB credit ratings.[9] The anticipation is that these clarifications could yield more flexibility in the financial policies and lending headroom options of the MDBs.

MDBs have introduced innovations to attract hybrid (non-voting) capital, and some member states have expressed a willingness to participate but uptake has been slow. Conversations continue on whether SDRs can be recycled for this purpose, with different jurisdictions taking differing positions. While there are alternative channels for recycling SDRs, notably through the IMF's Poverty Reduction and Growth Trust and its Resilience and Sustainability Facility, these do not leverage SDRs in the way that could be possible using hybrid capital.

New capital has been injected into the European Bank for Reconstruction and Development and IDB Invest, the private sector arm of the Inter-American Development Bank. The International Bank for Reconstruction and Development is receiving the last installments of its 2018 capital package and has called for a shareholder review of its capital adequacy in 2025.

To date, identified measures have raised lending headroom by $357 billion, implying an increase in sustainable lending of approximately $30 billion per year, a 30% increase over 2019 levels.[10] Fitch, a credit rating agency, has estimated that the 12 MDBs it assessed could raise lending a cumulative $480

---

[7] See the Center for Global Development's Multilateral Development Bank Reform Tracker for details: https://www.cgdev.org/media/mdb-reform-tracker

[8] Independent Expert Panel, July 2022, "Boosting MDBs' Investing Capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks", https://cdn.gihub.org/umbraco/media/5094/caf-review-report.pdf

[9] "Shareholder Statement on the MDB Callable Capital Exercise", April 2024, https://home.treasury.gov/news/press-releases/jy2253

[10] G20 Finance Ministers and Central Bank Governors, July 2024, https://globalgovernanceprogram.org/g20/2024/240726-finance-communique.html

billion before any downgrade, although it notes that is deems it unlikely that MDBs will use the full extent of this headroom.[11]

To put these numbers in perspective, however, the measures now envisaged could lead to a 30-50% increase in MDB lending, well short of the tripling of annual sustainable lending by 2030 envisaged in the IEG reports. There, the funding scenario showed approximately a 50% increase in balance sheet optimization and new financial policies that would result in reduced equity/debt; a further 50% increase from innovative sources including the use of hybrid capital; and an additional 100% increase from new shareholder capital subscriptions.

Against these benchmarks, the MDBs are doing reasonably well on the first 50%, permitting equity/debt levels to decline, a measure that requires shareholder/Executive Board approval but has no immediate budgetary consequences for shareholders. On innovative capital and new capital, which formed three-quarters of the IEG funding scenario, however, there is very limited progress towards the target levels, perhaps because such measures would require shareholder budget authorizations.

A further, and potentially larger, challenge comes in the ability of MDBs to mobilize concessional finance from advanced economies. The largest multilateral concessional fund, the International Development Association, is finalizing its 21st replenishment in a context where several major donors, including the United States, the United Kingdom, Germany and France have announced cuts to their foreign aid budgets. We recommended tripling IDA disbursements by 2030 to meet both the pressing needs of low and lower-middle-income countries as well as global public goods such as pandemic surveillance and coal decommissioning. Meeting this target seems out of reach. It will have consequences for the world's ability to meet its ambitions for people, planet and prosperity.

Boosting joint action on climate

MDBs have collaborated on boosting joint action on climate. They have incorporated global challenges, including climate, into their institutional mandates and most MDBs have integrated these issues into country specific strategies and operational programs.

MDBs have also increased their climate-related financing. In a joint statement by 10 MDBs, they report $75 billion in climate-related financing commitments in 2023, up from $42 billion in 2019. Of the $75 billion, $50 billion was for mitigation and $25 billion was for adaptation activities.[12] In upcoming revisions to their adaptation monitoring methodologies, MDBs have agreed to take a broader view to adaptation that reflects enhancing the resilience of development pathways. In this context, education, health, social protection, financial services and selected research activities may also be included in future if the activities enhance the resilience of the development pathway.

MDBs have made, and are updating upwards, financing commitments for 2030 climate-related financing as a share of total commitments, with targets currently in a range between 30-35% of total

[11] Fitch Ratings, October 2024, "Rated MDBs Have Scope to Lend Up to USD480, All Things Equal, Before Negative Rating Impact, https://www.fitchratings.com/research/sovereigns/major-mdbs-have-rating-headroom-for-usd480-billion-in-new-lending-09-10-2024

[12] "2023 Joint Report on Multilateral Development Banks Climate Finance", September 2024, https://publications.iadb.org/en/2023-joint-report-multilateral-development-banks-climate-finance

commitments (IADBG, IsDB, WBG) and 75% (ADB).[13] The constraint on MDB climate-related action, then, is the level of total lending rather than the share of that total directed towards climate-related projects and components.

Strengthening country-level collaboration and co-financing

MDBs are increasingly supporting country-level platforms, as recommended by the IEG.[14] At COP 28, Bangladesh invited the AsDB to support its climate and development platform. North Macedonia similarly requested support from EBRD. Voluntary support to other platforms is also evident, including in food security and nature-based platforms.

Considerable discussion on how to establish principles and guidelines for effective country platforms is now underway. Since 2020, the G20 has had processes for identifying more effective country platforms.[15] In the Brazil G20, Task Forces on Hunger and Poverty and on Climate have been taken forward. MDBs are being tasked with supporting planning, design, facilitating co-financing with private and public foreign and domestic lenders, policy reform and data transparency. For large transformational projects and programs, MDB have a particular role in developing bankable projects, attracting financing, including for project preparation costs, and establishing sound policy and regulatory frameworks.

MDB Heads are looking to harmonize procurement and tendering practices through mutual reliance agreements, but differences between institutions remain on how to address sustainability and value for money approaches. A digital co-financing portal for large projects has been set up to facilitate coordination. However, there is limited joint financing among MDBs. In climate finance, where prospects are arguably greatest, MDBs are attracting co-financing at a rate of around one dollar for each dollar of their own-account financing.[16]

Catalyzing private sector mobilization

Each MDB has advanced on private sector mobilization but the numbers and prospects remain a fraction of the $500 billion per year of private finance that was set out in the Triple Agenda. Most have set explicit targets for mobilizing private capital. More priority is being given to reforms to improve the enabling environment for private investment, especially in the context of country platforms. Guarantees, equity and first-loss instruments to de-risk private capital are being expanded in non-sovereign MDB operations. Local currency lending, however, remains underdeveloped, with only a few examples. MDBs do not appear to be optimistic about the potential for developing new instruments that would permit to significantly scale their local currency activities.

MIGA has launched a new guarantee platform to consolidate the instruments of the entire World Bank Group. It envisages growing this business line from $10.3 billion in 2024 to $20 billion by 2030—a commendable growth but on a scale that remains small in the context of the $500 billion per year of

[13] ADB targets relate to the share of the number of projects, while other MDBs have set targets related to the share of the value of new lending.
[14] IEG, Vol. 2
[15] "Saudi Arabia G20 Leaders' Declaration", November 2020, https://g20.utoronto.ca/2020/2020-g20-leaders-declaration-1121.html
[16] "2023 Joint Report on Multilateral Development Banks Climate Finance"

private finance to be mobilized and catalyzed to meet the transformations in developing countries that we set out in the *Triple Agenda*.

Enhancing development effectiveness and impact

MDBs have revamped their scorecards with the objective of making them more focused on the impact being achieved on the ground. One example is the Mission 300 program developed by the World Bank and the African Development Bank, to provide electric power to 300 million people in Africa, about half the number of those who currently do not have such access, by 2030.

MDBs have also simplified and shortened loan processing times. The World Bank estimates it has reduced loan processing by about 3 months already. Speed is also important in responding flexibly to crises—the introduction of natural disaster-related debt service suspension clauses into MDB loans serves this purpose. In another innovation to enhance impact, the World Bank has introduced a long maturity instrument, up to 50 years, for projects that contribute to a global challenge. It is also hoping for philanthropic grants to reduce the interest rates on such projects.

The bigger picture

All the reforms listed above are commendable steps in the right direction. However, the bigger picture question is whether MDBs are reducing the gap between what client countries, and indeed the world, needs and the solutions being offered.

On this bigger picture question, the sense of urgency has, if anything, grown since we published our report one year ago. A number of data points illustrate:

- Only 17% of sustainable development goals are on track to being met by 2030 and hunger and malnutrition are on the rise[17]
- Conflict continues to worsen—of the 50 countries with significant conflict, 39 are experiencing sustained or worsening levels[18]
- Outbreaks of mpox and of avian influenza H5N1 in cattle with spillover to humans shows that concern and vigilance over pandemics must continue
- The risk of debt crises in developing countries remains elevated and the servicing of debt continues to crowd out investments in health, education and infrastructure investments in the majority of low-income countries
- Marine and land protected areas are far smaller than what is needed to preserve biodiversity and, with many of the world's biodiversity hotspots in developing countries that cannot afford to expand their programs, prospects for nature preservation are concerning
- Developing countries are being left far behind in investing in renewable energy to meet the baseline International Energy Agency pathway for net zero decarbonization – excluding China, they account for only 15% of global renewable energy investments.[19]

---

[17] United Nations, June 2024, "The Sustainable Development Goals Report 2024", https://unstats.un.org/sdgs/report/2024

[18] ACLED, July 2024, "ACLED Conflict Index Results", https://acleddata.com/conflict-index/index-july-2024/#:~:text=Are%20conflict%20levels%20worsening%20or,or%20escalating%20levels%20of%20conflict.

[19] IEA, June 2024, World Energy Investment 2024", https://iea.blob.core.windows.net/assets/60fcd1dd-d112-469b-87de-20d39227df3d/WorldEnergyInvestment2024.pdf

- Investment rates—public and private—and trajectories remain unaltered and are too low in major developing regions to achieve transformative economic change.[20]

The Appendix to this report provides a graphical representation of each of these issues. Cumulatively, they point in a common direction. At a macro scale, there is very limited change or transformation in many developing country regions, especially in Latin America and Africa. What is worse, prospects for transformational change are also poor. The IMF projections for investment in these regions suggest there will be little, if any capital deepening. Achieving economic transformation under such conditions is unlikely.

In a global economy that produces value of well over $100 trillion per year, risks are rising on many dimensions. These risks cannot be isolated in individual countries and require cooperative action from many countries to be contained.

Multilateral development banks and other international financial institutions are the best instruments for providing the needed financial, technical, advisory, and partnership programs, quickly and effectively.

The current pace of MDB reform does not match the ambition of keeping risks at current levels, let alone reducing them. Lowering ambition or postponing action raises risks and future costs.

It is time for shareholders to double down on the speed of evolution of the MDBs. If they do this, there is still time for them to get an “A” grade. But time is slipping by, and the likelihood of an “F” is growing.

[20] If a country invests 20 percent of GDP, and has a capital stock of 4*GDP and a depreciation of 5%, it will have a zero growth in its real capital stock. Along a decarbonization pathway, depreciation rates are likely to be even higher as existing capital becomes obsolete. In Africa, the capital stock should rise by at least 2.4% just to keep pace with population growth. The implication is that Latin America and Africa today and in current projections for the future will have no capital deepening.

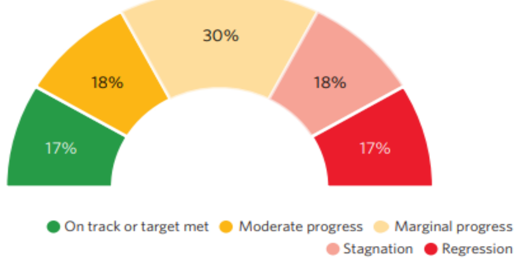
Appendix

A1: Only 17% of sustainable development goals are on track for achievement by 2030

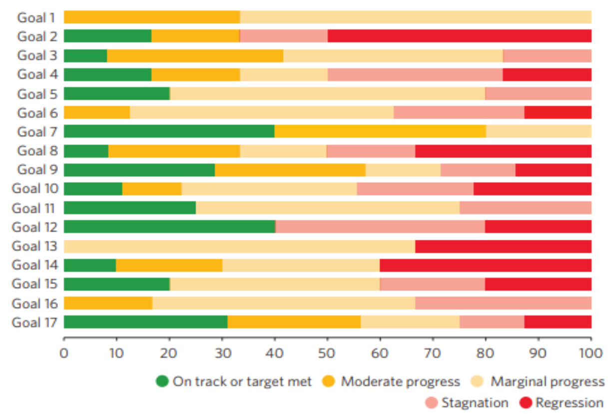
I. The current status of the SDGs: severely off track

The progress assessment carried out in 2024 reveals that the world is severely off track to realize the 2030 Agenda. Of the 169 targets, 135 can be assessed using available global trend data from the 2015 baseline to the most recent year, along with custodian agency analyses; 34 targets lack sufficient trend data or additional analysis. Among the assessable targets, only 17 per cent display progress sufficient for achievement by 2030. Nearly half (48 per cent) exhibit moderate to severe deviations from the desired trajectory, with 30 per cent showing marginal progress and 18 per cent moderate progress. Alarmingly, 18 per cent indicate stagnation and 17 per cent regression below the 2015 baseline levels.[1] This comprehensive assessment underscores the urgent need for intensified efforts to put the SDGs on course. Detailed analysis by target can be found at the end of this report.

Overall progress across targets based on 2015–2024 global aggregate data



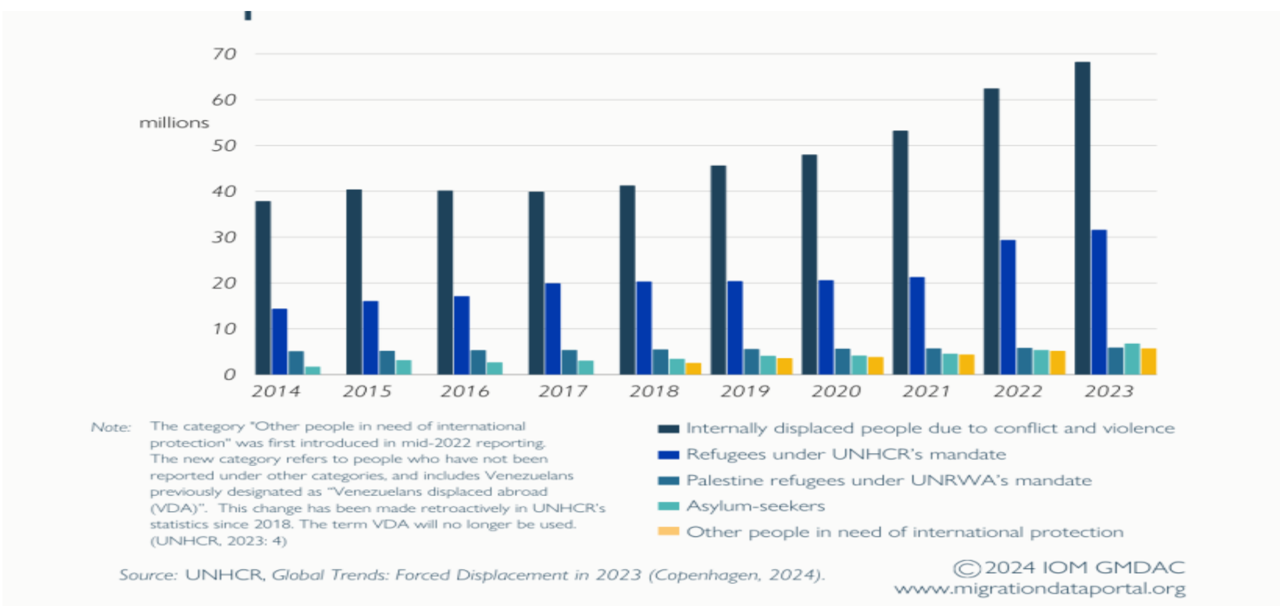
Progress assessment for the 17 Goals based on assessed targets, by Goal (percentage)



Source: [UN Sustainable Development Goals Report 2024]

A2: Over 100 million people displaced due to conflict, violence, or seeking refuge, asylum, or other international protection

Global Trends of Forced Displacement, end of 2014 – end of 2023



Source: UNHCR via the Migration Data Portal

A3: Epidemics with spillover effects are increasing

Chart 1: Increasing Frequency of Epidemics caused by Wildlife Zoonoses (excluding Influenza) (log-normal scale)

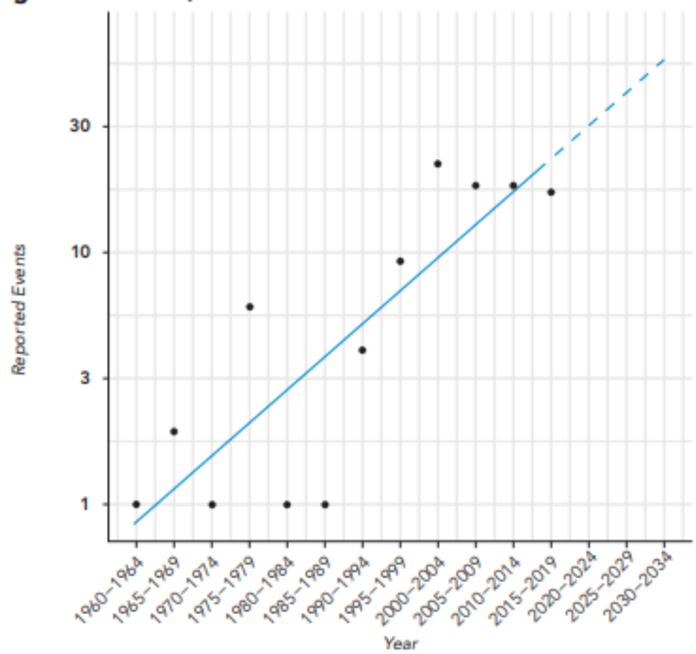
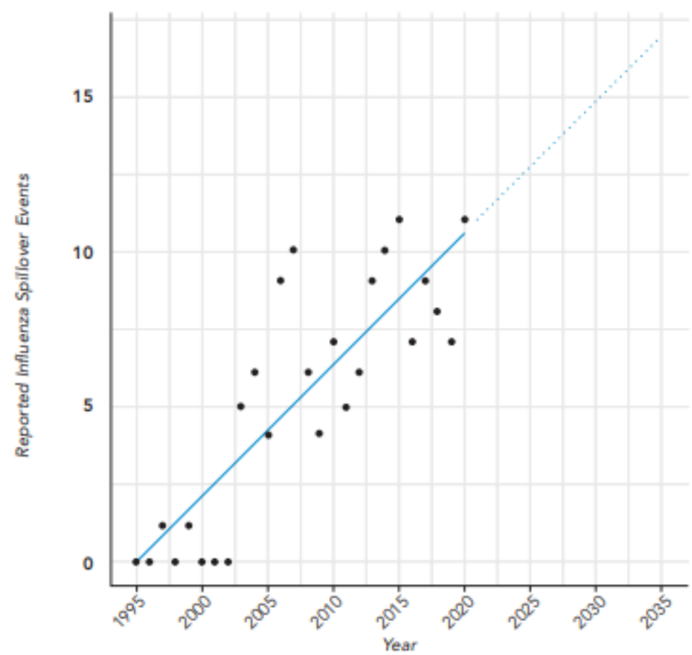
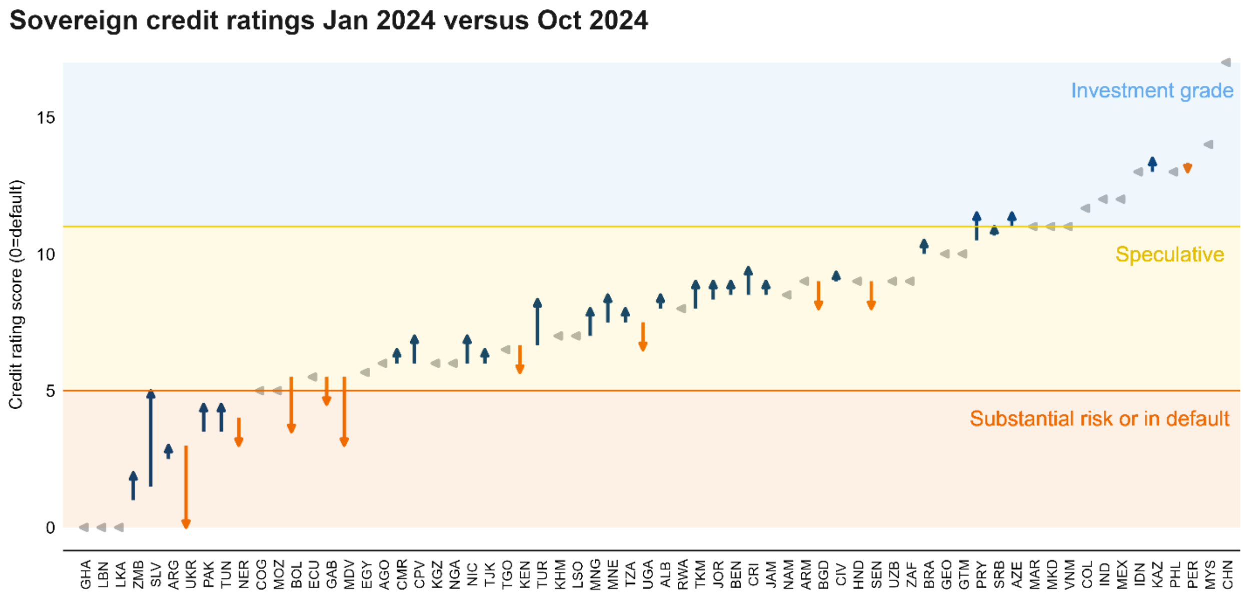


Chart 2: Increasing Frequency of Reported Influenza Spillover Events



Source: G20 HLIP. [A Global Deal for our Pandemic Age](). 2021

A4: Few developing countries are close to having investment grade ratings—MDBs are their only option for greater access to development finance



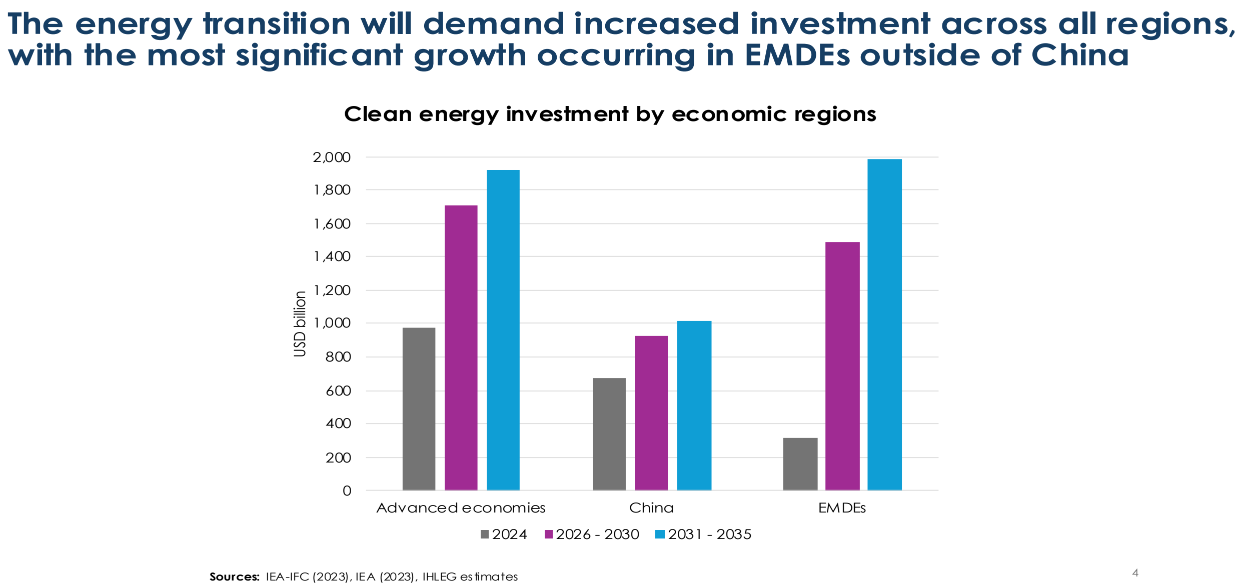
Note: Vertical axis measures average credit rating of 3 major agencies: S&P, Fitch, Moody's with ratings converted to a 0 (default) to 21 (best rating) scale. Credit risk is classified as Investment grade (<=21 & > 11), Speculative grade (<=11 & >5), and Substantial risk or in default (<=5).
Source: Author estimates from scraping of Trading Economics and Fitch ratings 10/8/2024. Arrows indicate change from January, 2024 to October, 2024.

A5: The world is falling well short of its targets to protect marine and land areas

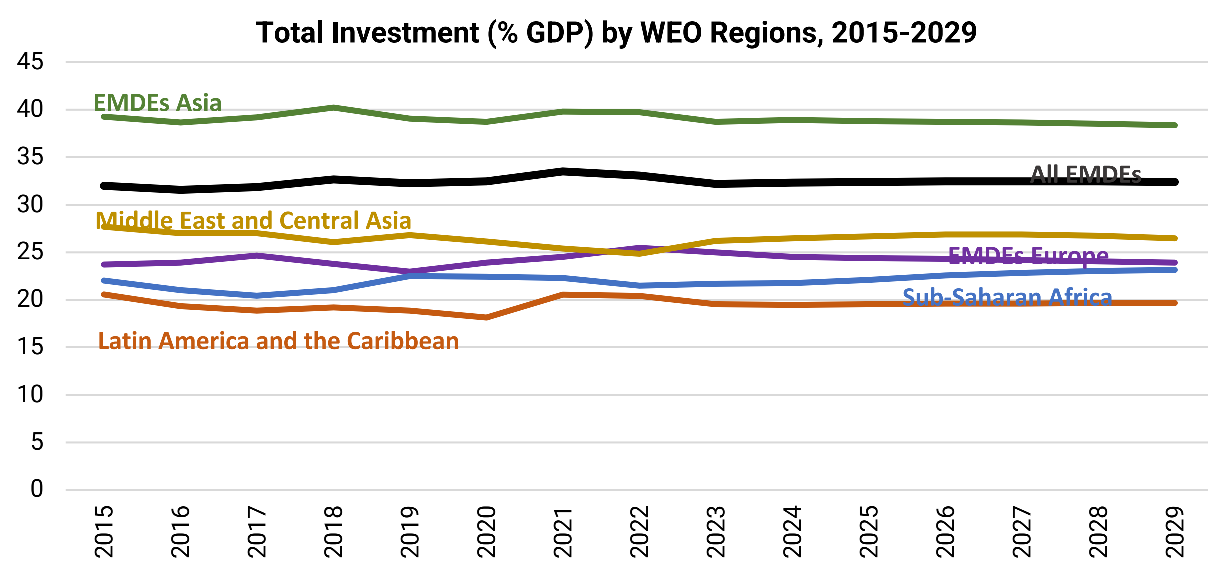
Sources: Authors' calculations based on UNEP-WCMC and IUCN (2021).
Note: The 2030 targets are from 2022 Kunming-Montreal Global Biodiversity Framework.

Source: Kharas, McArthur and Onyechi, 2024

A6: Developing countries have huge investment needs if the central path of global net zero decarbonization is to be met



A7: There is little scope for transformational change if public and private investment rates in Africa, Latin America, the Middle East and Emerging Europe remain on their current trajectory



Source: IMF World Economic Outlook, April 2024