MULTILATERAL DEVELOPMENT BANKS

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WHY ARE MULTILATERAL DEVELOPMENT BANKS DISCUSSED? WHY NOW?

Multilateral development banks (MDBs) were first envisioned after World War II to help finance the rebuilding of war-torn countries. Over the 20th century, their mission shifted from reconstruction to economic development and poverty eradication.

In addition, today this means addressing urgent challenges which are shaped by persistent development challenges and by climate change. MDBs are part of a complex but fragmented global financial system and were not designed to tackle these from the get-go.

Momentum has built over the past year, to reform MDBs such that they can address the multiple challenges countries face.

MDBS TODAY: WHICH ARE THEY?

The World Bank (IBRD) dates back to 1944 and is the largest, with 189 member countries. It lends to governments (through IBRD and IDA) and to private firms through the IFC (established in 1955).

Other banks are more regional and some are smaller.

They help bridge knowledge or expertise gaps, and their financing gaps.

The U.S. is not a member of the AIIB, IsDB, and NDB.

MDBS ARE PART OF THE GLOBAL FINANCIAL SYSTEM

Multilateral development banks (MDBs) traditionally provide finance for economic development and increasingly for climate finance.

For example, they can support countries who want to work with them to make the investments to reduce greenhouse gas emissions and protect their people against the impacts of climate change.

In 2022, MDBs committed some $60 billion to low- and middle-income economies, and $38 billion to high-income economies* - around 43% of their total commitments were specifically intended for climate finance.

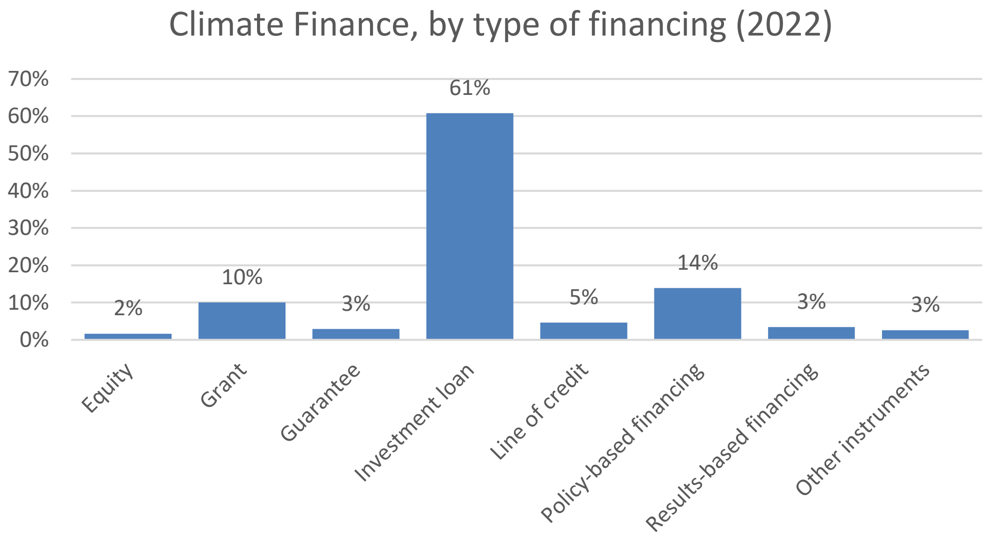
MDBs bring part of the solution to financing gaps - but they are not the only ones: other international financial institutions, bilateral development partners, private financial institutions, philanthropies, etc.

*MDB joint report on climate finance 2022

HOW DO MDBS PROVIDE PROVIDE CLIMATE FINANCE?

Different types of financing:

- Climate finance provides both for mitigating GHG emissions and for investing in adapting activities by making them more resilient
- MDBs offer a range of possible financing options to invest in low-carbon, resilient solutions: loans, primarily, but also policy-based financing, few grants
- MDBs use a range of approaches to mitigate different types of risks and mobilize private capital



Source: WRI, data from the MDB joint report on Climate finance 2022; https://www.wri.org/insights/de-risking-low-carbon-investments https://www.wri.org/research/mobilizing-private-investment-climate-solutions-mdbs

WHAT IS INCLUDED IN SUCH TYPE OF FINANCING ?

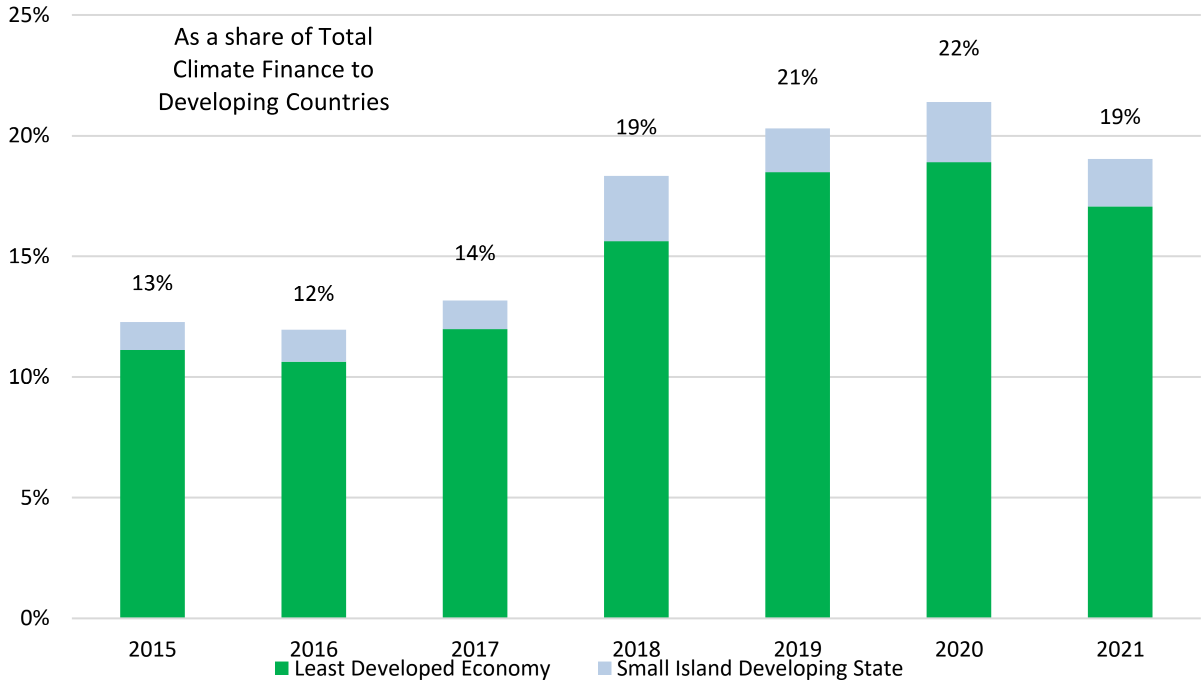
Examples of mitigation finance:

- Clean energy and energy access
- Transport: clean urban transport
- Buildings: public infrastructure and energy efficiency

Examples of adaptation finance:

- Water and wastewater systems
- Crop and food production
- Coastal and riverine infrastructure

ADAPTATION FINANCE IS PARTICULARLY IMPORTANT IN SMALL ISLAND STATES AND LEAST DEVELOPING COUNTRIES



Source: WRI, data from the MDB joint report on climate finance

GAPS BETWEEN NEEDS AND AVAILABLE RESOURCES

Acknowledge gaps in finance and investment, for example:

- Current global climate finance accounts for around 30% of what is needed to align with the well below 2°C or 1.5°C trajectories (UNFCCC, 2022)
- Adaptation finance for developing countries is 5 to 10 times below estimated needs, which are projected to reach $160 billion to $340 billion annually by 2030 (UNEP)
- WRI's own research estimates that public and private investments will need to increase more than 10 times faster by 2030 to limit warming to 1.5°C and adapt to intensifying climate impacts. (WRI)
- Overall, long-term financing for development of developing countries needs at least $500 billion a year (UN, FSDR, 2023)

https://www.unep.org/resources/adaptation-gap-report-2022 ,
https://www.un.org/sustainabledevelopment/financing-for-development/

WHY MDBS?

- MDBs have relevant expertise and knowledge about sectors and countries
- Present on the ground, public and private sectors in the countries
- Support infrastructure investment, support strengthening of institutions and policies, or build capacity in countries
- Multiple financial tools: loans, budget support, project financing, guarantees; for climate finance, including grants and other highly concessional forms of finance
- Well-positioned to lead the transition to low-carbon and resilient economies, jointly committed to working together on Paris Alignment, with methodologies to deliver on climate, and to assess and monitor impact
- Financial model - paid in capital contributions from shareholders are small in relation to the volume of additional lending capacity leveraged

HOW CAN MDBS CONTRIBUTE MORE TO DELIVER ON CLIMATE AND DEVELOPMENT OBJECTIVES ?

The G20 mandated an independent expert group that lays out a triple agenda for MDBs' contribution to bridging these gaps. It would take:

- MDBs mandates that add global challenges to poverty and shared prosperity goals
- Tripling annual MDB finance - lending levels by 2030
- Having new investors partner to expand MDB lending capacity, incl. private sector.

MDB REFORM TO ADDRESS COMMON GLOBAL CHALLENGES

To support countries' strategies to solution development and climate challenges:

- MDBs can support countries in formulating and financing their strategies for low-carbon and resilient development path
- MDBs can share data, knowledge and provide technical assistance
- MDBs can prioritize interventions that align with climate and development goals
- MDBs can focus on outcomes and impact
- MDBs can work as a coherent system

Lee, N., Laxton, V., Matthews, S., What would the Ideal Multilateral Development Bank Look Like?, June 2023, CGDev and WRI.

MDB REFORM TO ADDRESS COMMON GLOBAL CHALLENGES

To support countries' strategies to solution development and climate challenges:

- MDBs must be well resourced
- MDBs should be allowed to take on more risk
- MDBs should define 'successful' interventions to deliver
- MDBs and partners should be accountable for their performance in support of these strategies
- MDBs' institutional culture and practice has to change to deliver on the above