

# Energizing MDB Financing Capacity

Identifying and Filling Gaps to Raise Ambition  
for the 2030 Agenda and Beyond

BOSTON UNIVERSITY GLOBAL DEVELOPMENT POLICY CENTER



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## LIST OF ABBREVIATIONS

AfDB	African Development Bank
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
BSO	Balance sheet optimization
CAF	Capital Adequacy Framework
CAF	Development Bank of Latin America and the Caribbean
CDB	Caribbean Development Bank
CEB	Council of Europe Development Bank
CRA	Credit rating agency
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EMDE	Emerging market and developing economies
FONPLATA	FONPLATA Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IDB Invest	Interamerican Investment Corporation
IEG	G20 Independent Expert Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IDB	Islamic Development Bank
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
NDB	New Development Bank
PCM	Private capital mobilization
SDGs	Sustainable Development Goals
UN	United Nations
GFC	Global Financial Crisis
GCI	General capital increase
RAC	Risk-adjusted capital

## EXECUTIVE SUMMARY

This report examines the extent to which multilateral development banks (MDBs) have the necessary policies and processes in place to regularly assess how MDBs can increase financing to meet shared development and climate goals by 2030 and beyond. Furthermore, a framework for assessing resource needs is advanced, as well as a series of estimates of resource needs across the MDB system based on lower-bound financing needs from the literature and MDB reporting on Capital Adequacy Frameworks (CAF) implementation reported to the Group of 20 (G20) in May 2024.

We find that with some notable exceptions the MDBs lack uniform, evidence-based policies and processes to assess new lending targets and resource needs. Finally, we find that while MDBs have made important strides toward increasing their lending headroom, pledging to generate \$300 billion to \$400 billion over the next decade in new financing, but more ambition is necessary in order to achieve development and climate goals in a timely and affordable manner. To meet the lower-bound estimates of the system's lending needs by 2030, MDBs will need to increase their lending by at least a factor of three in order to provide the necessary non-concessional and concessional financing. Pursuing those increases by raising ambitious CAF recommendations, particularly on hybrid capital would result in the least amount of need for capital increases across the MDB system. The current trajectory would necessitate major increases in MDB capital.

**The global community is falling behind and running out of time.** The financing gap to reach the United Nations 2030 Sustainable Development Goals (SDGs) and Paris Agreement climate pledges has risen to 56 percent since 2020 as the global community has struggled to respond to the multiple shocks that have struck emerging market and developing economies (EMDEs). Eight-five percent of the SDGs are now off track (UN 2023), stagnating or reversing. The economic and social costs of inaction, especially on climate change, continue to mount while developing countries grapple with century-high levels of debt distress triggered by overlapping shocks. More than 3 billion people live in a country that is paying more on servicing external public debt than on education or healthcare. Even for those countries that do not face debt distress, the costs of international capital are at new highs (and fiscal space an all-time low). This all comes at exactly the moment when the global community needs to make a stepwise increase in productive investment.

**MDBs have a central role to play in rapidly scaling up global investment for development and climate** in a fiscally sound and financially stable manner. Given their unique mandates and business model, MDBs can play a leadership role by becoming champions of the need for scale, by increasing public investment through their own financing, and by mobilizing private capital to sustain new levels of investment and growth. In 2023, G20 leaders declared that, "The 21st century also requires an international development finance system that is fit for purpose, including for the scale of need and depth of the shocks facing developing countries, in particular the poorest and most vulnerable. We are working to deliver better, bigger and more effective MDBs" (G20 2023, p.19). With respect to making MDBs bigger, G20 leaders said, "Stronger MDBs will be important to our efforts to mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development" (G20 2023, p.19).

This directive has been embraced by the Brazilian Presidency of the G20, which has pledged to deliver an implementation roadmap for this agenda. Stemming from the 2022 report of the G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (CAF Review), the G20 has been working with MDBs to assess the potential for measures such as balance sheet optimization and financial innovation including hybrid capital and guarantee frameworks, as well as reporting efforts to ensure consistency and comparability across the system. On climate

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finance, MDBs have been evolving as a system by jointly setting goals and financial targets, and by co-creating standardized methods for tracking and measuring performance. MDBs can build from these experiences to scale efforts toward achieving the SDGs and Paris Agreement climate targets.

**This report advances a framework for assessing MDB financing capacity to meet development and climate goals and provides a series of accompanying estimates of capital needs across the system** through analyses of MDB reporting on CAF recommendation implementation, MDB documents and data, interviews with MDB officials, and engagement with G20 members. MDBs face key trade-offs: as MDBs assess their capital needs to meet higher financing targets, they will need to consider the potential risk to their own balance sheets on the one hand, and borrower capacity to absorb a significant increase in long-term, affordable finance while maintaining debt sustainability on the other hand. In other words, MDBs and their shareholders need to engage in balance sheet optimization and new capital requirements in order to boost MDB efficiency while managing balance sheet risks. Concomitantly, MDBs need to provide affordable lending in order to support borrowers' financing needs and maintaining debt sustainability. Based on this framework, we conducted an analysis of MDB capital needs under different scenarios based on CAF recommendations and borrower capacity.

**MDBs will need significant levels of increased capital if they do not raise ambition on CAF implementation, especially hybrid capital.** Based on the current level of ambition reflected in the implementation of CAF recommendations as reported to the Brazilian G20 in May 2024, as well as recent capital increases, this report determines that new capital will be required across MDBs for the system to play a central role in meeting the financing needs for the SDGs and Paris targets.

According to our calculations, the current level of ambition reflected in the CAF recommendations will require the largest level of new capital injection to support financing, meet development needs and maintain debt sustainability with non-concessional and concessional financing. Under the current trajectory, new capital needs of the MDB system would range from \$255 billion to \$572 billion, which at the upper range would require yearly investments of paid-in capital over approximately seven years at roughly 0.11 percent of shareholder budget revenues annually. Raising ambition on CAF recommendations will demand less new capital into the system, although it will not exclude capital increases altogether.

**More ambitious implementation of CAF recommendations combined with increased use of hybrid instruments could bring the need for new capital down to as low as \$60 billion,** or 0.03 percent of shareholder budget revenues per year for seven years—a relatively small cost compared to the benefits of increasing MDB lending headroom and relative to the cost of inaction on climate change.

**The MDB system lacks regular, evidence-based and systemic policies to identify capital needs.** After conducting a benchmarking exercise of MDB capitalization policies and processes, we find (with some notable exceptions) that MDBs lack policies and processes to determine optimal levels of resources needed for financing strategies to meet the strategic goals of MDB shareholders and global challenges such as the SDGs and Paris targets. To fill this void, the G20 is uniquely poised to enable MDBs to rapidly conduct capital needs reviews that assess how a concurrent set of balance sheet optimization, hybrid capital strategies and capital increases will enable the system to meet its financing needs by 2030 and beyond.

The analyses conducted for this report suggest three policy recommendations that can help the G20 build a roadmap to energize MDBs to become 'bigger,' while concurrently pursuing efforts to become 'better' and 'more efficient.'

- 1. Further raise ambition to create more lending headroom.** MDBs have made important strides toward increasing their lending headroom, pledging to generate \$300 billion to \$400 billion over the next decade, but more ambition from G20 members is necessary. Raising ambition will enable MDBs to increase lending headroom to meet financing needs, provide buffers to maintain current credit ratings and will require the least level of new capital into the system from shareholder taxpayers. Moreover, MDBs have begun to engage in a number of guarantee and hybrid capital innovations that have promise for replication across the system. Recently, the International Monetary Fund (IMF) has sanctioned the re-channeling of Special Drawing Rights (SDRs) for MDBs to deploy as hybrid capital. Considering the G20 note on SDR channeling and the immediate need to scale up MDBs finance (G20 2024a), the G20 could facilitate the establishment of a group of countries with strong external positions that are willing and permitted to acquire this hybrid capital instrument, alongside additional countries willing to provide guarantees for liquidity. The G20 could energize MDBs to scale up the use of SDR-based and other types of hybrid capital as an immediate bridge to meeting shared development and climate goals while constructing broader capital needs reviews and subsequent capital increases in the intermediate term.
- 2. Identify where further ambition may be needed.** The G20 should encourage MDBs to review resource needs calibrated to achieving the SDGs and Paris targets and conduct MDB-led reviews regularly thereafter every three to five years. Such reviews would be scientific and evidence-based with common principles and metrics across MDBs, though tailored by individual MDBs to their circumstances recognizing that each MDB is unique but also part of a broader system in an evolving world. Reviews would also consider a broad suite of financial measures that can be implemented within and across MDBs, including loan pricing, CAF recommendations, collaborations with other MDBs and private capital mobilization, as well as reforms to improve outcomes (make MDBs ‘better’) and more efficient—in addition to the prospect of new capital.
- 3. Coordinate efforts to fill gaps in the MDB system.** The G20 can be a platform for setting principles and tracking progress over time to assess the extent to which the individual MDB capital needs sum to a level of capital adequacy and financial capacity to put the MDB system on track ahead of 2030. These reviews would be conducted on a regular basis while avoiding impinging on the work of MDB boards and guided by robust frameworks that promote coherence with strategic objectives, operational effectiveness and resource efficiency. The G20 will need to develop a common methodology and reporting template for MDBs to report on progress. A methodology will also be needed for the G20 to assess the extent to which the individual assessments scale to meet the needs of the system as a whole. Common principles should be developed and agreed upon under the Brazilian Presidency, followed by a reporting template, and reviews should be carried out over the next year—focusing on needs to 2030. Capital Needs Reviews should be submitted to the International Financial Architecture Working Group on MDBs to assess the extent to which there are gaps in the system and how they might be addressed.

There is no time to waste, but MDB capital cannot be wasted either. As agents at the center of global resource mobilization for development, bigger, better and more efficient MDBs can enable new growth trajectories in EMDEs that will spill over to the broader global economy. Through common and individual efforts, the G20 and MDBs have created significant momentum to help make MDBs fit for purpose for the 21<sup>st</sup> century. This report points to the need to build on that momentum and raise ambition to scale the system for sustainable development for 2030 and beyond.

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Addis Ababa, Ethiopia. Photo by Abiy Temesgen via Unsplash.





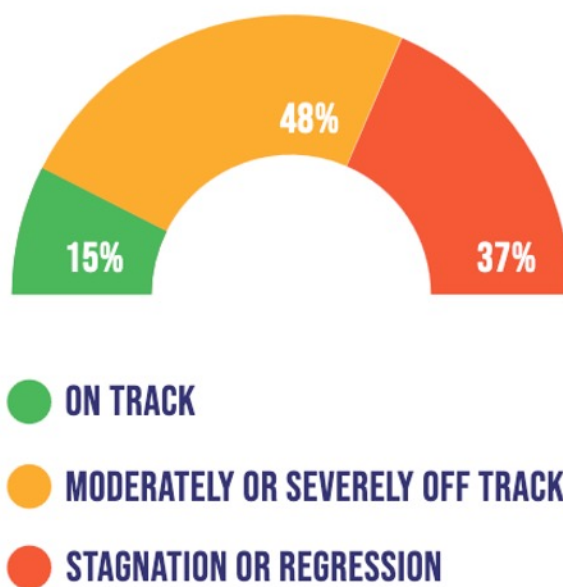
## SECTION 1

# FALLING BEHIND AND RUNNING OUT OF TIME FOR DEVELOPMENT FINANCE

The multiple shocks that have struck emerging market and developing economies (EMDEs) since 2020 have put efforts toward achieving the United Nations 2030 Sustainable Development Goals (SDGs) and the climate objectives of the Paris Agreement in jeopardy. The costs of inaction in achieving these goals far outweigh the immediate investments needed to achieve them. Multilateral development banks (MDBs) have a central role to play in urgently raising ambition to get the international community back on track.

The global community has passed the halfway mark to achieving the SDGs. Alarming, in their most recent stocktake of progress toward the SDGs, the UN estimates that 85 percent of SDGs are off track or regressing, as seen in Figure 1.1. According to the UN, the global population now experiencing chronic hunger has increased from 7.9 percent to 9.2 percent since 2020, or by 750 million people worldwide. One-third of the world's population, or 2.4 billion people, are now facing food insecurity (UN, 2023).

**Figure 1.1. 85 percent of the SDGs are off track, stagnating or receding**



Source: UN (2023).

The levels of clean energy investment in the Global South are very concerning as well, with over 90 percent of all investment in clean energy being made to developed countries and China since 2019 (IEA, 2023).

The latest scientific evidence on climate change underscores the importance of an urgent course correction. The Intergovernmental Panel on Climate Change (IPCC) in its last assessment report, estimated that global surface temperature has already increased by 1.1 degrees Celsius (Calvin et al, 2023). Figure 1.2 illustrates the increase in global surface average temperature from 1850-2022 (UN 2023). Despite governments announcing a range of climate policies, there continues to be a

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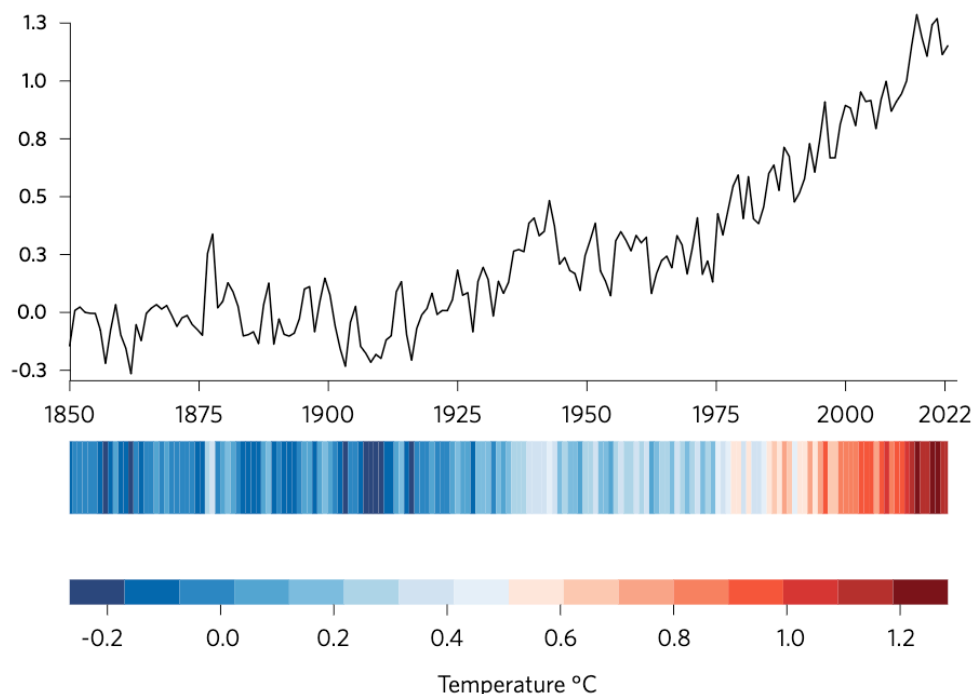
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major gap between what current policies can achieve and the ambition required to limit warming in line with the goals of the Paris Agreement. The IPCC concluded that it was likely for warming to exceed 1.5 degrees in the 21st century based on the policies announced thus far and predicts a global temperature increase of 2.8 degrees by 2100 based on current policy pathways (Calvin et al, 2023).

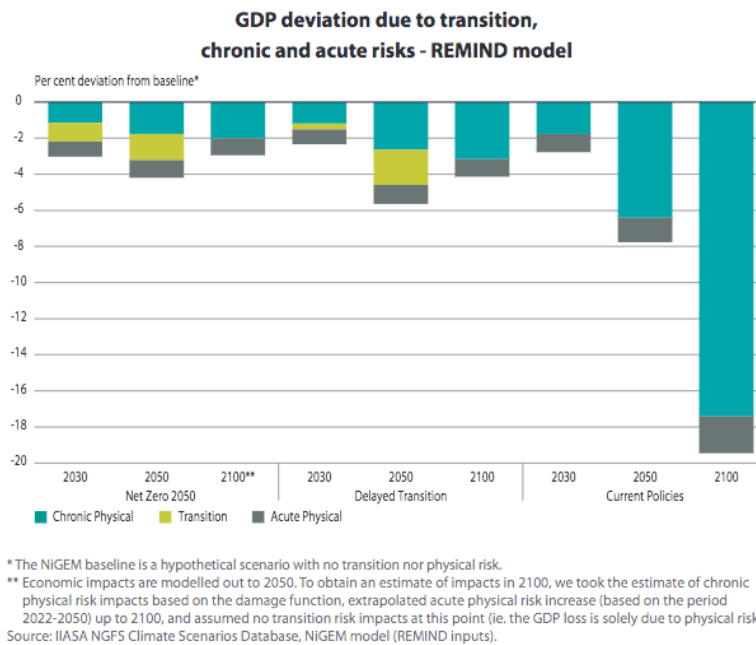
**Figure 1.2. Increase in Global Surface Average Temperature**



Source: UN (2023).

The costs of inaction on climate and development are staggering and potentially catastrophic without urgent action. The literature is in strong agreement about the costs of climate inaction, while the precise estimates vary due to methodological differences. The Network for Greening the Financial System (NGFS) - a network of 114 central banks and financial supervisors - finds that the economic impact of transition risks and physical risks could be as high as 20 percent by 2100 if current policies, which are inconsistent with net-zero pathways, are maintained (see Figure 1.3) (NGFS, 2022). Achieving net-zero by 2050 would substantially lower physical risk, however, its persistence across all scenarios highlights the importance of adaptation investments. Further, as climate impacts have intensified, studies have revised their estimates of the adaptation finance required. For example, the UN Environment Programme's Adaptation Gap Report 2023 found that adaptation finance needs are 50 percent higher than estimated earlier (UNEP, 2023). Net economic damages are expected to increase non-linearly with continued warming.

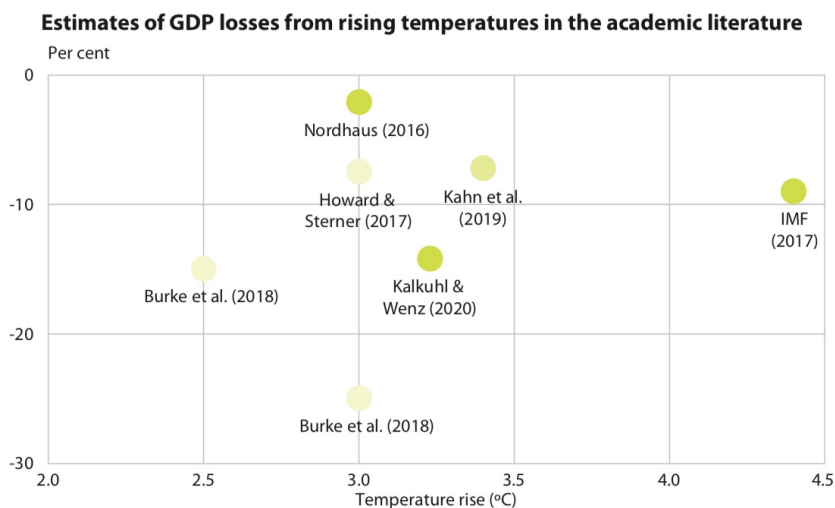
**Figure 1.3. Climate Risks and Impact on Gross Domestic Product (GDP)**



Source: NGFS (2022).

The most recent estimates of the impacts of climate change paint a more worrying picture (see Figure 1.4). A paper that estimates climate damages based on sub-national data expects income to be reduced by 19 percent over the next 26 years regardless of the emissions scenario chosen (Kotz, et al, 2024). These damages are locked in given the already committed levels of warming. In this estimation, climate damages outweigh mitigation costs by a factor of six. Investment in climate resilience will significantly shape the actual economic impact. Similarly, Bilal and Känzig find that 1 degree increase in global temperature is associated with a 12 percent decrease in global GDP (Bilal and Kanzig, 2024).<sup>1</sup>

**Figure 1.4. Temperature Increases and GDP losses**



Source: NGFS (2022).

<sup>1</sup> Bilal and Känzig use global mean temperatures rather than local temperatures. Since extreme events are more correlated with global mean temperatures than local temperatures, the impact of global mean temperature on GDP is more likely to be sensitive to a larger range of impacts.

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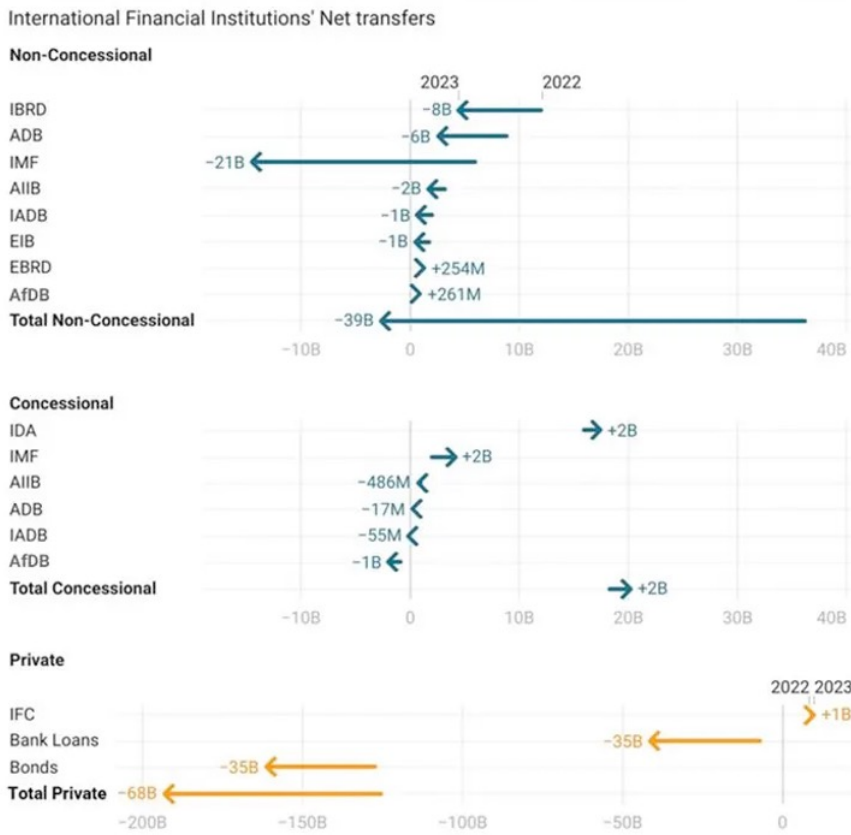
The Inter-Agency Task Force on Financing for Development consisting of UN agencies, the International Monetary Fund (IMF), the World Bank and other international institutions estimates that the economic and social costs of climate change are upwards of five times larger than the climate finance needed to limit temperature increases to 1.5 degrees Celsius (UN, 2024). The Global Commission on Adaptation found that \$1.8 trillion in adaptation investments globally between 2020-2030 could lead to \$7.1 trillion in net-benefits (Global Commission on Adaptation, 2019). Nevertheless, according to the Inter-Agency Task Force, SDG financing gaps have increased by 56 percent since 2020 (UN, 2024).

Calls for MDBs to increase their role in development, climate adaptation and clean energy have gained momentum (G20 2023, G20 IEG 2023, Bermel et al. 2024, Bridgetown Initiative 2024, Vulnerable Twenty Group 2024). Given their missions, governance structures and unique business model, MDBs are poised to play a central role in mobilizing a sustained and long-run set of investments toward achieving shared development and climate goals. Not only will the benefits of such investments outweigh the costs, but if made effectively, they can trigger transformational growth trajectories across the Global South. MDBs can provide long run, low-cost financing that can not only furnish crucial investments themselves, but catalyze private sector and domestic resource mobilization as well.

MDBs have increased their efforts since 2020 when multiple shocks began to wrack the global economy, increasing lending to low- and middle-income countries from a century-wide low of 0.3 percent of Gross National Income in 2011 to just 0.6 percent in 2020, the highest level to date this century. Moreover, MDBs have been working to use their balance sheets to crowd-in private sector capital mobilization. More recently, energized by the G20, a number of MDBs have also been innovating a variety of capital adequacy measures such as Balance Sheet Optimization (BSO), hybrid capital arrangements and guarantees, and in some cases, capital increases to expand their lending portfolios.

Global economic conditions and the nature of the international financial architecture have not been aligned with MDB efforts to raise ambition. For Figure 1.5, we reproduce a striking figure from Kharas and Rivard (2024) showing that net transfers to the Global South have turned negative, with only the European Bank for Reconstruction and Development (EBRD), the African Development Bank (AfDB), the International Development Association (IDA) and the IMF's concessional arm have had positive transfers, while net transfers from the private sector and the IMF's main lending arm have been alarmingly negative.

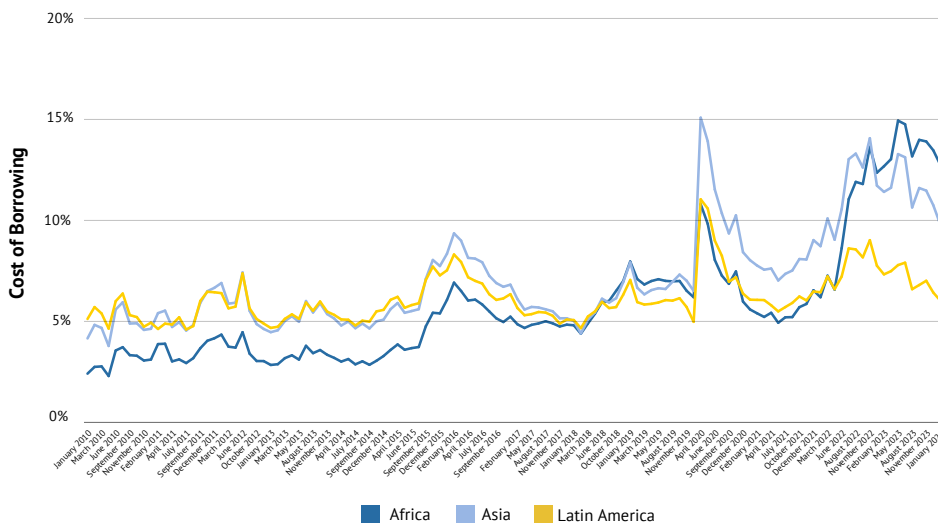
**Figure 1.5. Declines in Net Transfers to EMDEs (excl. China), 2022-2023, USD billions**



Source: Kharas and Rivard (2024).

For 2022, MDB transfers were a positive net \$36 billion, but in 2023, MDB non-concessional transfers were a negative \$2.7 billion. Concessional transfers (reflected in their second panel) increased from \$18 billion to \$20 billion across the system. What is alarming is that the private sector (bondholders and commercial banks) withdrew \$125 billion in 2022 and \$193 billion in 2023 (Kharas and Rivard, 2024).

**Figure 1.6. Cost of Capital at New Highs for Many Developing Countries**



Source: Zucker-Marques et al. (2024).

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These reversals have led to currency depreciation and a further rise in external public and publicly guaranteed (PPG) debt in EMDEs that is stunting recoveries from these multiple shocks and stifling prospects for domestic resource mobilization in the intermediate term. The cost of capital for developing nations in private markets has reached all time highs and outstrips the projected growth rates to 2030 for an increasing number of EMDEs (Zucker-Marques et al, 2024). According to the UN, 3.3 billion people are living in a country that spends more on external debt service than on healthcare or education (UN Global Crisis Response Group, 2024).

MDBs have a unique role to play through their ability to provide low-cost, longer-run, counter-cyclical financing that can crowd in the private sector and generate positive spillovers in the global economy (Humphrey, 2022).

It is in this context that G20 leaders committed to the following at their 2023 Summit in New Delhi: “The 21st century also requires an international development finance system that is fit for purpose, including for the scale of need and depth of the shocks facing developing countries, in particular the poorest and most vulnerable. We are working to deliver better, bigger and more effective MDBs by enhancing operating models, improving responsiveness and accessibility, and substantially increasing financing capacity to maximise development impact. Stronger MDBs will be important to our efforts to mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development” (G20, 2023).

The G20 has committed to delivering a ‘roadmap’ to meet these commitments (G20 2024). As part of that process, the G20 Brazilian Presidency has commissioned experts to produce a report on the capital needs of the MDB system in order to provide inputs to the development of the G20 Roadmap on better, bigger and more effective MDBs.<sup>2</sup>

This report serves in the capacity recommended by the G20 Presidency and has four additional parts following this introduction.

The second section provides an overview of the current size of the MDBs and their lending evolution over time alongside a literature review of the financing needs for global challenges. In addition to financing operations directly from the MDBs, this section also assesses the success to date on mobilizing private capital.

The third section presents exercises consistent with existing literature, indicating that despite commitments to capital adequacy measures, additional capital will be required to meet development and climate goals while minimizing risk to MDB balance sheets and risks to debt sustainability of borrowing members.

The fourth section provides the results of a benchmarking exercise conducted for this report on the level of capital increases across the system since the 2008-2009 global financial crisis, in addition to the processes and policies under which such capitalizations occurred. This section identifies a gap whereby there is a general lack of regular, evidence-based reviews of capital needs across the MDB system.

The fifth section outlines the impressive track record the MDBs have on scaling their resources and concludes with a proposal for the G20 to raise ambition on the CAF recommendations and enable regular, evidence-based capital needs reviews across the system that are designed to meet shared development and climate goals as they pertain to shareholder objectives, without jeopardizing the risk profiles of individual MDBs.

<sup>2</sup> The MDBs covered for this report, as per instruction of the G20 Presidency, are: Inter-American Development Bank (IDB), Inter-American Investment Corporation (IDB Invest), African Development Bank (AFDB), Asian Development Bank (ADB), European Investment Bank (EIB), CAF Development Bank of Latin America (CAF), World Bank Group (WBG), which includes the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), Asian Infrastructure Investment Bank (AIIB), Islamic Development Bank (IsDB), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), New Development Bank (NDB), Fonplata Development Bank (Fonplata), Council of Europe Development Bank (CEB).

## SECTION 2

# THE ROLE OF MDBS TO SCALE FINANCING FOR SHARED DEVELOPMENT AND CLIMATE GOALS

MDBs have a central role to play in providing and catalyzing a stepwise increase in investment toward lower carbon, socially inclusive and resilient economic growth trajectories across the Global South. MDBs' unique financial model requires taxpayers across the globe to contribute relatively small amounts of shareholder capital to achieve the strategic objectives of their memberships. MDBs are able to leverage their capital through private sector bond issuances and subsequently on-lend to borrowing members at costs and maturities that the borrowing member would not be able to mobilize on their own (Humphrey, 2022). At their best, MDBs not only provide affordable and longer-run financing, but do so in a counter-cyclical manner (Galindo and Panizza, 2018). Finally, MDB efforts can leverage in private sector and domestic resource mobilization.

Through their own financing, from catalyzing the private sector, and as knowledge providers, MDBs can be at the center of a system-wide transformation of the world's developing economies. To do so, they will need to raise their ambition to become bigger, better and more efficient. MDBs can raise ambition and work concurrently on a variety of scaling activities while working to make the system better and more efficient. MDBs will need to become advocates and agents for a long-run and sustained increase in investment throughout the century. MDBs will need to provide essential low-cost and long-run financing for public investments in education, electricity grids, loss and damage, transportation, and the like. Moreover, MDBs will need to play a major role in catalyzing private capital mobilization and domestic resource mobilization. Such efforts can be jump-started through ambitious implementation of the MDB Capital Adequacy Frameworks (CAF Review) and further guided by regular reviews tailored by each MDB for 2030 to deliver the transformational investments necessary to meet shared goals and create lasting low-carbon, socially inclusive and resilient growth trajectories for the 21st century. MDBs have made important steps in the right direction through their own financial activity and through private capital mobilization (PCM). However, their lending levels have not notably increased in proportion to the GNI of the countries they serve.

Acting in parallel and as a system, the MDBs can concurrently work to scale their own financial capacity and mobilize private and domestic resources to 2030 while pursuing reforms to become better and more efficient (see Figure 2.1, meant to be concurrent action, not ordered). Such a concurrent and multipronged strategy should be inherent in designing capital needs reviews.

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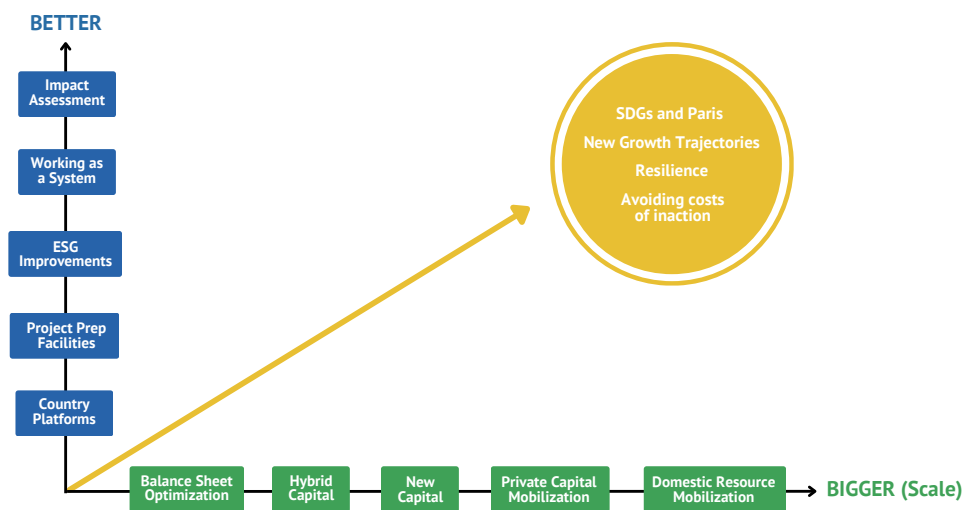
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**Figure 2.1. MDBs Can Become Systemic Catalysts for Scale**



Source: Authors' own elaboration.

The MDBs are already underway in beginning to implement recommendations from the CAF Review, announcing that they plan to mobilize upwards of \$300 billion to \$400 billion in new lending from such measures over the next decade. For the Brazilian G20 presidency, MDBs have agreed to enable a common template for capital adequacy and related policy metrics to facilitate comparison across MDBs and share information in a systematic way, covering capital, liquidity and other relevant metrics in a comparable format. Table 2.1 summarizes the progress to date in this area and forms the basis of model estimations on future capital needs discussed in the next section (Humphrey, 2024).



**Table 2.1. Estimates and Description of Lending Capacity Gains from CAF**

	Implemented as of June 2024	In Progress (end-2024)	Expected	TOTAL
<b>1A</b> Adjust CAF Risk Tolerance	ADB: \$100 billion IBRD: \$40 billion* IDB Invest: \$1.98 billion			\$141.98 billion
<b>1B</b> MDB-specific Factors in CAFs	AIIB: \$15 billion			\$15 billion
<b>2A</b> Incorporate Callable Capital				
<b>3A</b> Hybrid Capital	AfDB: \$2 billion	ADB: \$20 billion IBRD: \$7.4 billion	AfDB: \$4.8 billion EBRD: \$3.745 billion IDB: \$15 billion NDB: \$4 billion	\$56.945 billion
<b>3B</b> Commercial Risk Transfer	ADB: \$2 billion AfDB: \$2 billion (combined with 3c) EBRD: \$1.605 billion IDB: \$550 million IDB Invest: \$1.56 billion	IDB Invest: \$1.3 billion IFC: \$130 million	CDB: \$350 million EBRD: \$3.21 billion IDB: \$1 billion IDB Invest: \$34.56 billion IFC: \$1.8 billion	\$49.895 billion
<b>3C</b> Shareholder Portfolio Guarantees	EBRD: \$3.21 billion IDB: \$469 million	ADB: \$10 billion IBRD: \$74 billion	IDB: \$1.5 billion NDB: \$3 billion	\$92.179 billion
<b>3D</b> Counter-cyclical Callable Capital				
<b>3E</b> MIGA Risk Transfers			IDB: \$1 billion	\$1 billion
<b>3F</b> Central Bank Liquidity Lines				
<b>4B</b> Rating Agency Methodologies				
<b>TOTAL CAF</b>	<b>\$170.374 billion</b>	<b>\$112.66 billion</b>	<b>\$73.965 billion</b>	<b>\$356.999 billion</b>
Exposure Exchange Agreements	IDB: \$5.5 billion	ADB: \$3 billion CDB: \$700 million IDB: \$10 billion NDB: \$4 billion	IDB: \$15 billion	\$38.2 billion
Guarantees from Other MDBs	IBRD: \$1.5 billion AIIB: \$400 million			\$1.9 billion
Non-shareholder Guarantee			CDB: \$600 million	\$600 million
<b>TOTAL ADDITIONAL MEASURES</b>	<b>\$7.4 billion</b>	<b>\$17.7 billion</b>	<b>\$15.6 billion</b>	<b>\$40.7 billion</b>

Source: Humphrey, 2024.

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Exploring various forms of hybrid capital are important as well. In 2024, the AfDB conducted its first sustainable hybrid capital transaction through the issuance of a \$750 million perpetual maturity bond that will deliver significantly higher lending capacity. The IBRD has also established a hybrid instrument where the coupon can be paid to the investor or forgone and directed to development projects. What is more, shareholders can redeem such investments and convert them to paid-in capital contributions in the event of future capital increases (Humphrey et al. 2023). Zucker-Marques and Gallagher (2023) have proposed similar 'Sustainable Futures Bonds' that are issued by MDBs to central banks and converted into perpetual equity investments and serving as safe reserve assets for central bank portfolios. The authors estimate that by deploying just 0.5 percent of global foreign reserves as Sustainable Future Bonds, at least \$45 billion per year in fresh capital to MDBs would be mobilized. The purchase of the AfDB's hybrid capital issuance by central banks shows there is demand for such instruments.

The IMF Executive Board has also recently approved the use of re-channeled SDRs as hybrid capital instruments with a current limit of \$15 billion SDRs in total hybrid issuances. While maintaining their status as reserve assets through liquidity support arrangements, the AfDB and the IDB each have proposals to deploy SDRs for the use of hybrid capital. The next hurdles will be designing the support agreements and finding parties to re-channel SDRs (Plant, 2024).

While hybrid capital options have promise, it should be noted that according to a report submitted to the World Bank Group (WBG) Governors in 2023, the potential capital market option of hybrid capital for the IBRD was anticipated to incur a significantly higher cost, ranging from 250 to 300 basis points above IBRD's regular market borrowing cost. If this is the case, this would result in a substantial increase in the IBRD's lending rates (WBG, 2023).

Guarantees and insurance schemes with third parties can be useful as well. Indeed, in some cases, such schemes can be innovative across MDB balance sheets. As some MDBs have 'trapped' or unused capital that can lower risk for other MDBs in mutually reinforcing ways. The Asian Investment Infrastructure Bank (AIIB) is deploying its surplus capital to issue guarantees against loans by the IBRD. This not only allows the IBRD to provide new lending, but allows the AIIB to reduce the concentration of its portfolio and provide financing to lower income members. The OECD's 2024 Multilateral Development Finance report shows that MDBs will require additional measures beyond balance sheet optimization and financial innovations such as hybrid capital to achieve the scale of mobilization envisioned in the G20 IEG report (OECD 2024).

**Table 2.2. Multilateral Development Banks: Callable and Paid-in Capital Commitments and Disbursements, USD billions**

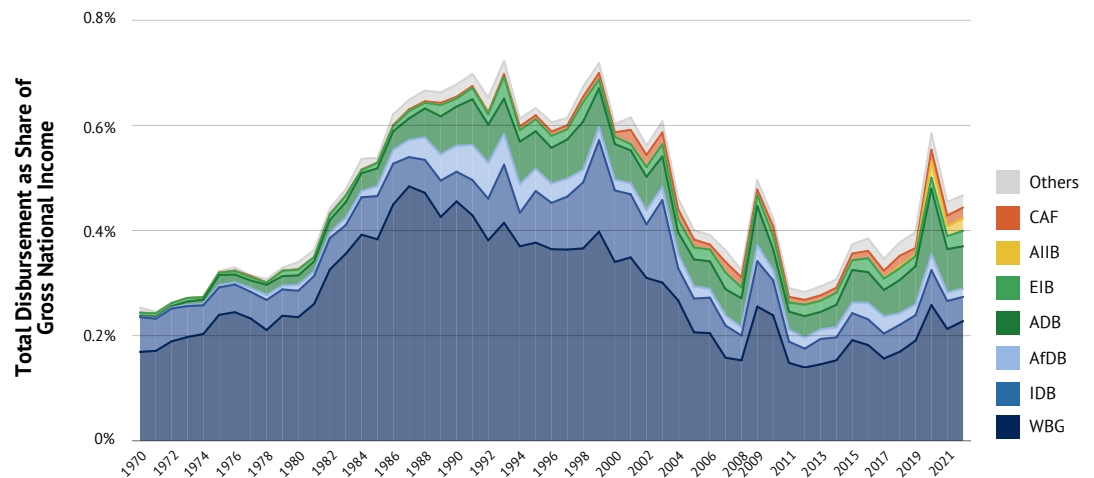
	LENDING ACTIVITY (2022)				SUBSCRIBED CAPITAL (DEC. 2023)	
	Total Disbursement (USD Billion)	Total Commitments (USD Billion)	Commitments to EMDE (excl. China) (USD Billion)	Share Commitments EMDE (excl. China)/Total (%)	Callable (USD Billion)	Paid-in (USD Billion)
EIB	52.7	65.5	8.8	13%	243.1	23.8
IBRD	26.8	35.8	34.1	95%	296.0	21.8
IFC	15.9	25.0	25.0	100%	-	22.6
ADB	18.8	20.2	18.5	92%	135.6	7.2
IDB	11.7	14.7	14.7	100%	164.9	11.9
CAF	7.2	14.1	14.1	100%	1.8	5.6
EBRD	10.3	13.8	12.2	88%	24.0	6.7
IsDB	9.9	10.5	10.5	100%	54.9	9.0
AIIB	6.4	6.8	6.2	91%	77.6	19.4
IDB Invest	4.0	6.6	6.6	100%	-	3.2
CEB	3.7	6.5	1.9	29%	5.5	0.7
AfDB	3.4	4.9	4.9	100%	188.7	8.7
NDB	1.2	2.7	1.5	55%	42.2	10.5
FONPLATA	0.4	0.5	0.5	100%	1.7	1.3
CDB	0.3	0.2	0.2	100%	1.4	0.4
<b>TOTAL</b>	<b>173</b>	<b>228</b>	<b>160</b>	<b>70%</b>	<b>1,237</b>	<b>153</b>

**Source:** Own calculations based on MDBs' annual reports and financial statements.

**Note:** Most MDBs' capital structure information is current as of December 2023. Exceptions include the IBRD and AfDB, with data from June 2023, the NDB and CDB from September 2023, and the EIB and EBRD from December 2022.

The MDB system is now equipped with roughly \$1.4 trillion in callable and paid-in capital. Table 2.2 shows that total disbursements to EMDEs from the MDBs in 2022 (the last year with complete data) for all countries was \$173 billion, with the MDBs committing \$228 billion in total. The weighted average of all financing for EMDEs outside China was 70 percent, or \$160 billion of the \$228 billion in total commitments. At the end of 2023, the MDB system had \$153 billion in paid-in capital and over \$1.2 trillion in callable capital, totaling \$1.4 trillion. In 2022, MDBs disbursed \$173 billion and committed a total of \$228 billion. Of this amount, \$160 billion (70 percent) was committed to EMDEs outside China. However, when compared to GNI, the disbursements to these countries are relatively low.

**Figure 2.2. Low- and Middle-income Countries (Excl. China): Multilateral Development Banks' Total Disbursement as a Share of Gross National Income, 1970-2022**



Source: World Bank International Debt Statistics 2023.

Note: Includes PPG and Publicly Non-Guaranteed (PNG) debt. Inter-American Development Bank (IDB), African Development Bank (AfDB), Asian Development Bank (ADB), European Investment Bank (EIB), CAF Development Bank of Latin America (CAF). World Bank Group (WBG), which includes the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA). "Others" include banks which disbursement represented less than 0.01 percent of low- and middle-income countries' GNI: Asian Infrastructure Investment Bank (AIIB), Islamic Development Bank (IsDB), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD). Low- and middle-income countries as per World Bank classification for each year.

MDB financing levels have not kept pace with income levels and are down from their peaks in the early 1990s. On average, lending from MDBs to low- and middle-income countries has stood at less than percent of GNI since 1970, peaking in 1993 with 0.71 percent of GNI. Across the system, in 2022 the WBG alone was responsible for supplying 0.23 percent, though down from a 1987 peak when the WBG was close to half of all MDB lending.

MDBs have also begun to catalyze private capital mobilization through various means (Humphrey, 2022). A sub-group of the MDBs have subsequently worked to track and self-report their private capital mobilization (see Table 2.3). According to these self-reporting methods, the MDBs have catalyzed an additional \$66 billion on average per-year for low- and middle-income countries since 2016 when they first began to track PCM. On average, MDBs have mobilized private sector finance about 40 percent more in high-income countries than in developing countries.

**Table 2.3. Total Private Capital Mobilization from MDBs in EMDEs, USD Billions**

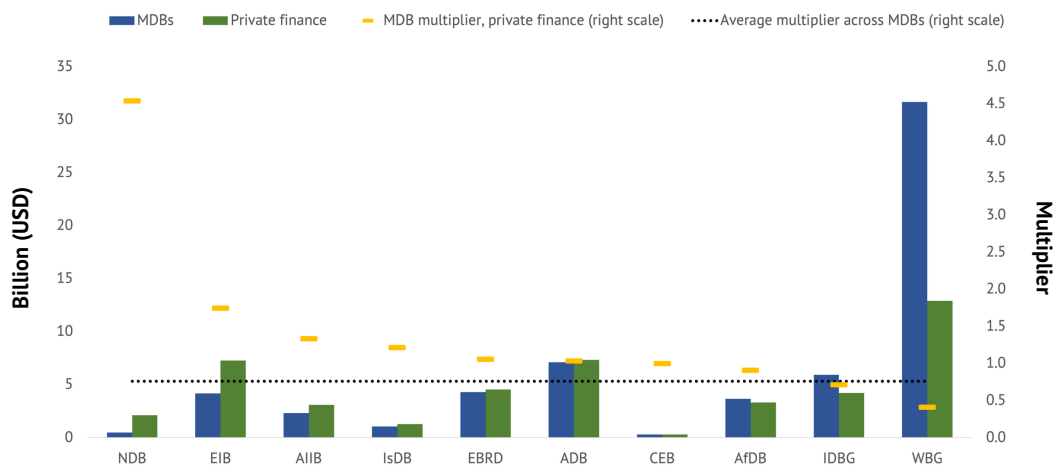
	2016	2017	2018	2019	2020	2021	2022
<b>World Bank Group</b>	36.8	28.1	32.0	24.1	16.2	26.5	33.7
IFC	19.1	18.9	17.8	18.8	11.9	21.4	24.6
MIGA	6.7	5.3	7.0	2.7	3.1	3.5	4.7
IBRD	11.0	4.0	7.1	2.6	1.2	1.6	4.5
<b>IDB Group</b>	1.5	4.5	8.0	4.1	3.4	4.0	9.4
EIB	8.2	8.2	7.3	10.8	12.5	9.4	8.1
EBRD	6.4	4.5	6.5	7.6	1.7	9.0	4.8
<b>IsDB Group</b>	7.3	4.0	1.0	-	7.4	5.0	4.5
EDFI	-	3.5	8.6	6.4	3.6	5.0	5.2
ADB	9.0	3.9	5.5	7.8	4.1	2.9	2.0
AIIB	0.0	0.3	0.1	1.1	1.1	0.8	1.9
CAF	n/a	n/a	n/a	n/a	n/a	n/a	1.0
AdDF	1.9	2.3	0.4	1.9	14.0	0.7	0.4
<b>TOTAL</b>	<b>71.1</b>	<b>59.4</b>	<b>69.4</b>	<b>63.6</b>	<b>64.1</b>	<b>63.3</b>	<b>71.1</b>

Source: MDB Task Force on Mobilization (2017, 2018, 2019, 2020, 2021, 2023).

Note: EDFI= European Development Finance Institutions are not part of the analysed institutions in the report, but are considered in the MDB Task Force. Total private mobilization includes private direct and indirect mobilization.

There is significant room for improvement in the MDB's efforts at PCM. According to attempts to estimate the 'multiplier effect' of MDBs, in 2022, the IMF estimated that the multiplier effect of MDB's climate financing averaged to 1.2 in 2020 with the European Investment Bank (EIB) having the highest multiplier effect at close to 2 percent and the WBG at 0.6 percent. In Figure 2.3, using new data for 2022, we estimate that PCM for climate finance from MDBs has declined, now averaging 0.76 but with the EIB multipliers rising and the WBG's slightly on the decline from 2020 levels.

**Figure 2.3 MDBs' Climate Finance from Their Own Resources and Private Investors (Private Finance) in EMDEs, 2022**



Source: Authors' calculation based on European Investment Bank (2023).

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The figures presented in this section reveal that MDBs have significant room for more ambition relative to the financing needs that have been identified by MDBs themselves, experts and the scholarly literature. In 2023, the G20 Independent Expert Group (IEG) estimated that \$3 trillion annually would be needed by 2030 to achieve the SDGs and climate commitments for EMDEs excluding China. According to the IEG, the \$3 trillion in investment needs would incrementally increase until 2030 when it would account for roughly additionally 10 percent of GDP in investments, and largely financed by domestic resource mobilization (\$2 trillion, or about 6.6 percent of GDP) and just \$1 trillion (or 3 percent of GDP) would require external financing.

The G20 IEG (2023) estimates are the lower bound of estimates of financing needs for the SDGs and Paris targets that have been conducted. The IMF SDG costing tool (Carapella et. al 2023) also estimates \$3 trillion in global annual investment by 2030 to meet human capital needs (health and education) as well as basic infrastructure (water and sanitation, electricity, and roads). Songwe et. al (2022) account for a range from \$2 trillion to \$2.8 trillion, settling on \$2.4 trillion annually by 2030. The WBG (2023) estimates that SDG-related investments such human capital, sustainable infrastructure (including on the energy transition), adaptation and resilience could cost \$3.5 trillion annually by 2030. At the upper bound, the UN Conference on Trade and Development (2023) identifies an investment gap of \$4 trillion per year until 2030 for developing countries to address sustainable development needs, including investments in infrastructure, climate, health and education. These are the only comprehensive studies that assess both SDGs and climate financing needs, yet, other work that assesses climate finance or infrastructure finance comes to analogous conclusions on the order of magnitude of these subgroupings within the broader studies.

Aside from the literature with comprehensive estimates for meeting the SDGs and Paris targets, a number of sectoral analyses have been conducted that are of the same order of magnitude in the more comprehensive analyses. Another approach deployed to estimate financing needs for climate is by assessing EMDEs' self-reported needs by the Nationally Determined Contributions (NDCs). The UN Framework Convention on Climate Change (UNFCCC) (2021) estimates that the 78 EMDEs with quantifiable targets would need \$5.8 trillion to address its NDCs. The most recent study by Buchner et. al (2024) at the Climate Policy Initiative identifies global climate finance needs alone to be \$9 trillion by 2030.

A number of sectoral analyses by MDBs and others yielded similar results. Rozenberg and Fay (2019) in a study by the WBG analyze just the infrastructure investment needs across different scenarios, with a median projection of \$1.5 trillion annually but ranging from \$650 billion annually (2 percent of GDP), to \$2.7 trillion (8.2 percent of GDP). There are also regional studies by MDBs that estimate financing gaps. For instance, the Asian Development Bank (ADB) (2017) reports that infrastructure needs, including climate mitigation and adaptation, amount to \$1.7 trillion per year for 45 countries. According to the study, the infrastructure investment gap—the difference between investment needs and current investment levels—equals 2.4 percent of projected GDP for the five-year period from 2016-2020 when incorporating climate mitigation and adaptation costs. Without China, the gap for the remaining economies rises to a much higher 5 percent of their projected GDP. According to a study by the Inter-American Development Bank (IDB) (Bricchetti et. al 2021), Latin America's infrastructure financing requires at least 3.12 percent of the region's GDP each year until 2030, totaling \$2.2 trillion cumulatively. For Africa, some estimates put the level of investment at 12 percent of GDP by 2030 to meet climate change and seven of the SDGs. Lower estimates, for climate change alone, range from 2 percent to 7 percent of GDP, according to the AfDB and the Climate Policy Initiative, respectively (see Songwe et. al, 2022).

As our quantitative exercises in the next section point out, on their own, implementing the recommendations of the CAF Review alone will not suffice to meet the financial needs of every MDB or the system as a whole. Moreover, it is fundamental to incorporate a holistic and forward-looking assessment of risks to MDBs' portfolios and the absorptive capacity of borrowing member states. As additional lending is directed to underserved countries or sectors that are riskier yet essential for economic development, the overall portfolio risk of MDBs may increase as well. Consequently, CAF measures might not fully achieve the expected impact on additional lending. Therefore, new capital, combined with CAF implementation, would ensure the necessary increase in lending capacity. As rating agency S&P Global noted in 2023, "While MLIs [Multilateral Lending Institutions] have been optimizing their capital over the past few years, we have not seen this translate into significant new lending. This is in part because of the sector's low risk tolerance, but also due to somewhat higher risk of MLI balance sheets (with the aggregated weighted average rating on MLI balance sheets declining to 'BB' in 2022 from 'BB+' in 2015.)" (S&P Global, 2023). Our analysis shows that there have been 24 General Capital Increases (GCIs) since 2009, many of which were for risk management, though others were also to raise ambition to meet strategic objectives.

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### SECTION 3

## FRAMEWORK FOR ASSESSING THE CAPITAL NEEDS OF MDBS FOR EFFICIENCY AND SUSTAINABILITY

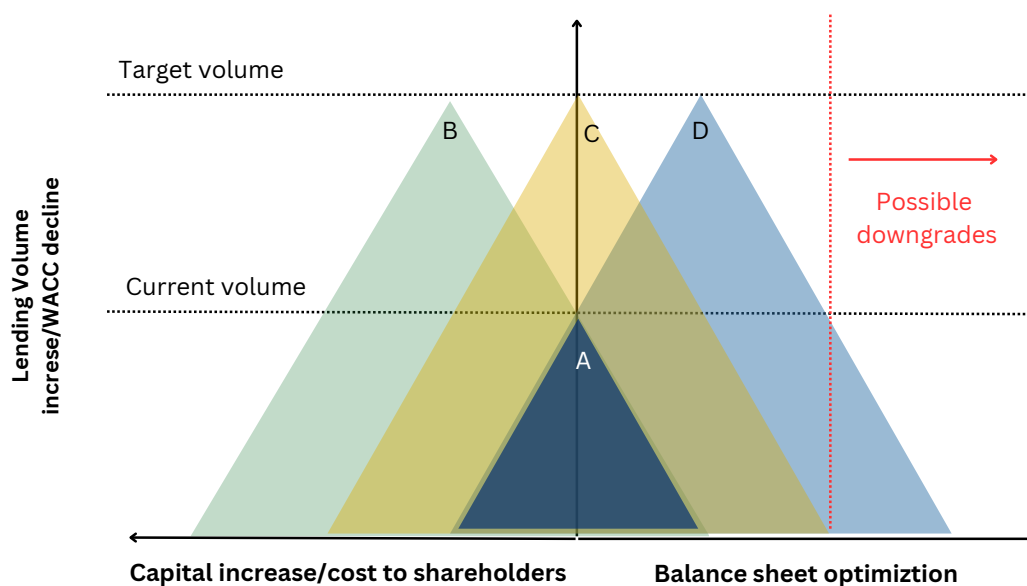
As MDBs assess the capital implications of meeting much higher financing targets, they will need to consider the potential risk to their own balance sheets, as well as borrower capacity to absorb a significant increase in long-term and affordable finance while maintaining debt sustainability.

Using these trade-offs as an overarching framework, we assess the capital needs of the MDB system based on CAF implementation reporting to the G20, publicly available financial information from the MDBs, interviews with MDB officials and lending needs from the literature. Based on this analysis, we determine that the current level of ambition with respect to implementing CAF recommendations and recent capital increases will be insufficient for the MDB system to play a central role in meeting the financing needs for the SDGs and Paris Agreement targets. MDBs have pledged to generate \$300 billion to \$400 billion over the next decade, but to meet the lower bound estimates of the system's lending needs by 2030, these important first steps would need to increase by at least a factor of three.

What is more, to reach EMDE investment needs, the current trajectory reflecting recent reporting on CAF implementation will require the largest level of new capital injection. Yet, raising ambition on CAF recommendations will necessitate relative less new capital injections into the system, as the MDBs work to move from billions to trillions of dollars of investment by 2030.

Although the MDBs can act as a system, each MDB has a portfolio with different levels of concentration and risk that influence how they face various trade-offs with respect to scaling investment. A simplified illustration of the trade-offs that the MDB system faces is exhibited in Figure 3.1, and is the core framework for our subsequent exercises.

**Figure 3.1. Framework for Assessing MDB Capital Needs**



Source: Author' own elaboration.



First, there is a tradeoff between MDB lending volume (plotted in the vertical central axis) and the EMDE's borrowing cost in international financial markets. In other words, if developing countries face high borrowing costs in international financial markets, MDBs may need to further increase their market share in development finance to reduce the weighted average cost of capital of their clients. If the weighted average of the cost of capital rises due to a rising market share of more costly lenders—especially during periods of higher market interest rates—new lending will jeopardize the absorptive capacity and debt sustainability of borrowing members. The debt sustainability problems of countries can be associated with credit downgrades, which in turn puts downward pressure on the credit ratings of the highly concentrated balance sheets of the MDBs. Moreover, MDB concessional arms have to compensate for the debt vulnerabilities of their clients. This is evident, for example, under IDA “traffic light” system, where debt distress risk ratings determine level of grants. IDA grants based on debt sustainability criteria grew from \$0.6 billion (8 percent of IDA-only commitments) to \$4.9 billion (36 percent of IDA-only commitments) between 2012-2021 (Zucker-Marques et al 2023). Finally, the high cost of capital and debt sustainability are some of the largest binding constraints to development, which, of course, is the core mission of the MDBs. The higher the cost of private capital, the more MDB financing at lower cost will be needed and will thus subsequently require more MDB capital. The lower the cost of private capital, the less MDB market share in borrowing country portfolios will need to balance the overall cost of capital with a country's ability to repay.

Beyond the lending volume of the system, a second trade-off relates to MDBs' need to maintain an equilibrium between balance sheet optimization and capital injections. In Figure 3.1, the current situation of the MDB system is represented with triangle A (dark blue). The top of the triangle represents the lending volume achieved, which is supported by a certain capital base (represented by the left-side axis) and a certain level of balance sheet optimization (BSO) (represented by the right-side horizontal axis). There are infinite combinations of capital increase and BSO that could lead to the same level of MDB lending. One option, represented by triangle D (light blue), is to maintain the same current capital base and fully rely on BSO and other CAF measures. However, such a strategy could lead to possible credit rating downgrades (represented by the red line). Another alternative is to maintain current levels of BSO and fully rely only on new capital injections to achieve the target lending volumes, which is represented by the triangle B (light green). However, this strategy can be expensive to shareholders and their taxpayers. Triangle C (light yellow) shows a more balanced approach where the new lending levels are achieved by a balanced combination of capital injection and BSO and CAF measures. This minimizes the costs to shareholders while preserving the credit ratings of MDBs.

As a function of each MDBs' own portfolio concentration and risk, each MDB is best suited to determine which level of equilibrium is best for their institution, while the G20 has the ‘bird's-eye-view’ to determine the extent to which such efforts sum to a system-wide equilibrium.

From the literature discussed in the previous section and as mandated by G20 leaders in 2023, to, “mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development,” we take as a starting point the need to mobilize \$1 trillion by 2030. Within the literature, the G20 IEG report (2023) and others converge at \$1 trillion by 2030, with G20 IEG presenting the most ambitious estimate of private capital formation at \$500 billion. The remaining \$500 billion would be split by concessional finance (\$180 billion) and non-concessional finance (\$320 billion), of which \$250 billion would be provided by MDBs. In 2019, the MDB system committed \$140 billion to EMDEs (excluding China), while in 2022, this amount reached \$159 billion, still falling behind projections of the G20 IEG report (2023) of the amount of lending needed by MDBs.

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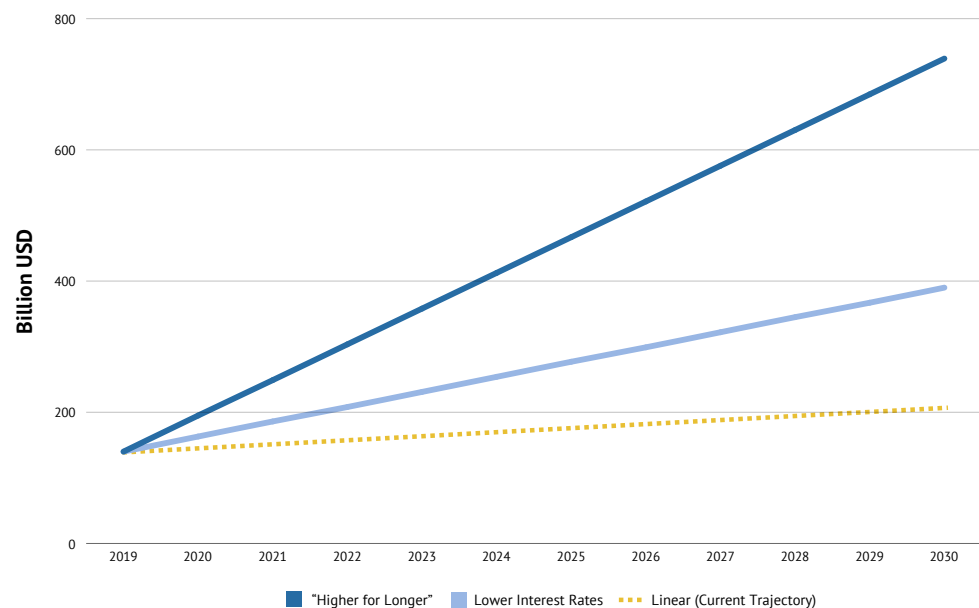
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To conduct a trade-off analysis analogous to Figure 3.1, the first step is to establish the lending volumes required by 2030. According to the G20 IEG—which is thus far the lower bound of all comprehensive estimates with the upper bound estimates for private capital mobilization—the MDB system will need to bridge a \$250 billion gap between 2019-2030. Given the 2019 lending volumes of \$140 billion (excluding China), the MDB system should aim to lend \$390 billion by 2030. Figure 3.2 illustrates the projected incremental increase in lending from 2019 levels toward the \$390 billion target using the IEG estimates as a baseline (Figure 3.2, heretofore “Lower Interest Rate”). Current lending volumes are lagging behind this trajectory. If the trends from 2019-2022 continue, the MDB system will reach only \$200 billion in commitments by 2030 (see Figure 3.2, “Current Trajectory”).

We also consider scenarios of a larger lending target, given the rising cost of capital for EMDEs. Not only are there much higher estimates in the literature, but even using the \$1 trillion from G20 IEG as a starting point, the levels of PCM may be more difficult to achieve, given the higher interest rate environment from now to 2030 – as interest rates are higher than in the pre-pandemic period. For instance, the United States Federal Reserve Funds increased from 0.25 percent in March 2022 to 5.5 percent in 2023, with indications that interest rates may remain higher for longer, at least in the United States (Torres, 2024). Under this new reality and considering the risk premium EMDEs pay to access private markets, relying on private lending to fill half (\$500 billion of \$1 trillion) of external financing needs for some countries could result in a cost of capital that could threaten the debt sustainability of member states and stunt progress on investment toward the SDGs and Paris commitments.

**Figure 3.2 MDB System Lending Needs to EMDE (Excluding China), by Scenarios Versus Current Trajectory, 2019-2030, USD Billions**



**Source:** Authors' elaboration based on MBDs' annual reports and G20 IEG report 2023.

MDBs may need to step up and provide additional finance beyond the assumed \$250 billion to compensate for high-cost finance and avoid the build-up of debt vulnerabilities in EMDEs. As a matter of comparison, CAF measures are expected to generate around \$40 billion per year in additional lending (considering the \$397 billion impact in 10 years, as announced by MDBs and summarized at table 2.1).

A vast literature has stressed the need for the weighted average of the cost of capital for all forms of external financing to be lower than the growth rate of borrowing countries (Blanchard, 2023; Songwe & Stern, 2022; Aquiar, Amador, Gopinath, 2009). Bearing that in mind, we compared the estimated weighted average cost of external financing under the “Lower Interest Rate” scenario and under a “Higher for Longer” scenario, where interest rates follow projections of the Federal Reserve Bank of the United States, alongside projections of the nominal global growth.<sup>3</sup> Subsequently, we adjusted the composition of concessional, non-concessional and private lending to align the cost of capital with nominal global growth.

Appendix A of this report shows in detail how we derive different lending levels of non-concessional MDB financing that may be needed in the event that interest rates remain higher for longer, and thus, the more ambitious levels of PCM are unobtainable for many countries. Based on estimates derived from projections from the US Federal Open Market Committee (FOMC 2024), we assumed an expected average interest rate of 4.7 percent from 2014-2030. Under this case, non-concessional lending would need to increase \$277 billion from a target of \$390 billion to \$667 billion—with a respective reduction of private lending from \$500 billion to \$223 billion—to align the average cost of capital to the repayment capacity of EMDEs measured as a proxy of global growth. To maintain the private sector lending at a \$500 billion target, MDBs would need to increase the concessional element of their lending, which would require donors to provide \$174 billion in funding for concessional lending (considering concessional terms similar to IDA, of 0.75 percent interest rate per year and long maturities). Given the need to increase lending volumes and decline lending costs, MDBs’ shareholders could increase the capital of the MDBs with a portion of the new capital targeted to increase lending volumes and another portion targeted to increase the concessional element of lending.

Under different lending projections (“Lower Interest Rate” and “Higher for Longer”), we perform an exercise to determine the magnitude of trade-offs between BSO, PCM and new capitalization needs of MDBs to increase lending volumes while maintaining each MDB’s credit rating, as per S&P Global’s capital adequacy assessments (S&P, 2023).

According to S&P Global (S&P Global, 2023), the Risk-Adjusted Capital (RAC) ratio is a key measure in their rating analysis, therefore, the exercise tests how much additional capital, if any, would be required to meet new lending needs and bring banks’ RAC<sup>1</sup> to a level that would maintain an MDB’s stand-alone credit profile (SACP) and the issuer credit rating unchanged, considering that all other factors such as enterprise risk and liquidity buffers remain constant. Our estimations build from earlier studies (Munir and Gallagher, 2020; Risk Control 2023a, 2023b) that calculate IBRD and IDA additional lending stemming from the flexibilization of statutory lending limits and the capital adequacy ratios provided by credit rating agencies.

In this report, we expand the scope of analysis and include 15 MDBs. For each one, we incorporated their plans to increase lending by deploying BSO, including hybrid capital, increasing commercial risk transfers, Exposure Exchange Agreements and increasing shareholder’s guarantees, following information provided by the MDBs, as per Table 2.1. We also incorporated further information supplied by MDBs, within the corresponding study on CAF recommendations submitted to the Brazilian G20 Presidency or during interviews (Humphrey, 2024). Furthermore, we estimated the equity size by assuming incremental increases of retained earnings, which was estimated using historical data of individual banks. Additionally, we consider different scenarios of reduction in RAC ratios as a proxy for additional leverage stemming from adjustments in MDB risk tolerance. The objective of the exercise is to estimate the extent to which new lending targets can be met by the combination of BSO and financial innovations (like hybrid capital or guarantee instruments) and, residually, how

<sup>3</sup> Using data from by the IMF World Economic Outlook (WEO) but adjusting it upwards to account for higher global growth rates stemming from additional investments in EMDEs (excluding China).

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much capital shareholders may have to supplement in order to maintain ratings and expand lending. All estimations were done prioritizing that MDBs maintain their current credit ratings.

One important consideration is the need for MDBs to offer more favorable loan terms in a time of historically high interest rates. To address this issue, we assessed the additional funding required to lower MDBs' loan rates (that, in our estimates, follows the FOMC's projections for the US interest rate) by one percentage point to prevent a negative impact on MDBs' balance sheets due to decreased interest rate revenues. That is, we estimated the amount of "price-base capitalization" or "interest rate subsidy" necessary to enable MDBs to provide loans at a more favorable interest rate level for developing countries. Our findings are presented in Table 3.1 and Table 3.2, and a detailed explanation of our methodology is available in Appendix B.

To assess the capital needs net of the deployment of new instruments and adjustments in leverage, we estimated the loan portfolio and the size of equity for each bank for the year 2030. The loan portfolio is projected to grow based on targeted commitment flows (as described earlier, \$390 billion under the "Lower Interest Rate" projection and \$667 under the "Higher for Longer" projection), adjusted for future repayments, which were estimated using each bank's historical data (10-year average, where available). Regarding the equity size, we assumed that it would change in line with changes in retained earnings, which were estimated using historical data for individual banks (10-year average, where available). Moreover, we adjusted the equity for banks with scheduled paid-in increases from 2024-2030, to reflect these expected contributions. The intention was to assess the capital needs net of the deployment of new instruments and adjustments in leverage.

Apart from incorporating different lending targets, which would vary depending on market interest rates and increase the necessity for MDBs to complement lending needs, we also considered changes in risk levels within MDB portfolios (see Appendix B for details). During interviews with MDBs, we were told they experienced increases in credit risk ranging from 8 percent to 54 percent during COVID-19-related lending surges. Considering this information but also accounting for MDBs' efforts to reduce portfolio risks (e.g., via exposure exchange agreements and lending increases to middle-income countries with higher credit ratings), we consider two possible trajectories: maintaining current risk levels or increasing MDB portfolio risk by 10 percent.

We then modeled different scenarios: 'Current Trajectory' (analogous to 'D' in Figure 3.1), 'Raising Ambition Paid-in Led' ('B' in Figure 3.1) and 'Raising Ambition Hybrid Capital Led' ('C' in Figure 3.1) based on the trade-off framework in Figure 3.1.

Under the 'Current Trajectory' scenario, shown in Table 3.1., we incorporate current plans to implement innovative instruments (following information provided by MDBs and summarized in Table 2.1) and we consider a modest increase in MDB risk appetite. This increase in risk appetite is reflected in a reduced RAC ratio. Under the 'Lower Interest Rate' scenario, MDBs would need new accumulated paid-in capital ranging from \$239 billion to \$305 billion, depending on the risk increase of their portfolio. Considering an interest rate subsidy between 2024-2030 to reduce the cost of borrowing by one percentage point, the total requirements would increase and will range from \$255 billion to \$321 billion in this scenario. Under a 'Higher for Longer' scenario, the capital injection needs would range from \$483 billion to \$572 billion.

**Table 3.1 New Capital Needs Under the Current Trajectory of CAF Implementation**

SCENARIOS						
Market Interest Rate	Risk Increase in MDB Lending Portfolio	Accumulated Increase in Paid-in Capital for the MDB System (USD Billion) [1]	Accumulated Interest Rate Subsidy for the MDB System (USD Billion) [2]	Total Capital Needed for the MDB System (USD Billion) [1+2]	Yearly Subscription of Paid-in Capital in the MDB System (7 Years, USD Billion)	Yearly Subscription as a Share of Government Revenue (Global, 2023 Estimates)
Lower Interest Rate	0%	239	16	255	36	0.11%
	10%	305		321	46	0.14%
Higher for Longer	0%	456	27	483	69	0.21%
	10%	545		572	82	0.25%

**Source:** Authors' calculations.

**Note:** Aggregate government revenue for all countries in 2023 is estimated based on World Economic Outlook April 2024. Government receipts include grants received and loan repayments, typically but not exclusively from central governments.

We also estimate the level of capital that may be needed in order to bend down the cost of capital for borrowers under these scenarios. To do so, we calculated the difference between the interest rate revenues that MDBs would receive with non-concessional lending at the projected Fed rate and compared it to the revenues they would receive if they were to lend at a lower average interest rate (one percentage point lower) than the projected Fed rate between 2024-2030. As shown in Table 3.1, this 'interest rate subsidy' of 1 percentage point amounts to \$16 billion in the current 'Lower Interest Rate' baseline scenario, while in a 'Higher for Longer' scenario, this number goes to \$27 billion (see Appendix for details on calculations).

A 'Raising Ambition' scenario, presented in Table 3.2., further reduces the RAC ratios to account for more risk appetite, while leaving a buffer from the threshold in order to avoid the chance of a credit downgrade. Beyond that, we consider the current plans for CAF implementation and higher levels of hybrid capital. Under a 'Raising Ambition Paid-in Led' scenario, we assume hybrid capital issuances will reach \$20 billion for the MDB system. The \$20 billion (or SDR 15 billion) is the volume of SDR rechanneling currently permitted by the IMF (IMF 2024), which is equivalent of 5 percent of MDBs' equity. Although not all MDBs in our analysis are SDR prescribed holders and, hence, are not allowed to issue SDR-denominated hybrid capital, we use the current limit as a benchmark for the system independently of the currency denomination of the instrument. In other words, those MDBs that are not prescribed holders would have to issue other types of hybrid capital. As Table 3.2. shows, the 'Raising Ambitious Paid-in Led' would require a capital injection of \$91 billion to \$304 billion.

**Table 3.2. New Capital Needs Under a “Raising Ambition” Scenario**

SCENARIOS			Accumulated Increase in Paid-in Capital for the MDB System (USD Billion) [1]	Accumulated Interest Rate Subsidy for the MDB System (USD Billion) [2]	Total Capital Needed for the MDB System (USD Billion) [1+2]	Yearly Subscription of Paid-in Capital in the MDB System (7 Years, USD Billion)	Yearly Subscription as a Share of Government Revenue (Global, 2023 Estimates)	Issuance of Hybrid Capital in the MDB System (USD Billion)
Model	Market Interest Rate	Risk Increase in MDB Lending Portfolio						
Hybrid Capital Led	Lower Interest Rate	0%	44	16	60	9	0.03%	91
		10%	68		84	12	0.04%	
	Higher for Longer	0%	173	27	199	28	0.09%	
		10%	225		251	36	0.11%	
Paid-in Led	Lower Interest Rate	0%	75	16	91	13	0.04%	20
		10%	111		127	18	0.05%	
	Higher for Longer	0%	220	27	247	35	0.11%	
		10%	277		304	43	0.13%	

Source: Authors' calculations.

**Note:** Government revenue (Global, 2023) is estimated based on World Economic Outlook April 2024. Government receipts include grants received and loan repayments, typically but not exclusively from central government. For hybrid capital: under the 'paid in led', we assume hybrid issuances will account to \$20 billion, which is the maximum SDR re-channel currently permitted by the IMF, which accounts for about 5 percent MDB's equity. For the 'hybrid capital led' scenario, we assumed that all MDBs will increase equity in the amount of 24 percent of their equity.

There are pro and cons of deploying hybrid capital. From the disadvantaged point of view, relying heavily on hybrid capital can increase MDBs' marginal cost of lending and impact the cost of capital for borrowers. Regarding the advantages, first, hybrid capital can be deployed more quickly and by a range of actors, including central banks, the private sector and MDB shareholders<sup>4</sup>. Second, it does not impact shareholders' budgets. Therefore, increasing hybrid capital volume can minimize the need for MDB capital injections. Hence, we also calculated a “Raising Ambition Hybrid Capital Led” scenario, where we considered MDBs issuing hybrid capital in the amount of 24 percent of their equity. This benchmark is based on the recommendation by the World Bank Development Committee (WBG 2023) for a \$12 billion hybrid issuance, comprising \$2 billion from private markets and \$10 billion from shareholders, which represent 24 percent of the WBG's equity (of around \$50 billion). If the same hybrid capital-to-equity ratio is applied to other MDBs, it would account for a total of \$91 billion (see Table 3.2) of hybrid capital issuances. Under this case, capital increase needs can reduce to a range of \$60 billion to a maximum of \$251 billion including interest rate subsidy for the period up to 2030.

It is important to consider that the capitalization of MDBs will not only allow them to achieve the target annual lending flows of \$390 billion under lower interest rate scenarios or \$667 billion under higher interest rate scenarios, but will also enable them to sustain and increase these levels of financing for years to come. In this sense, the capitalization of MDBs will generate the financial capacity to increase lending by multiples of the capital injection until 2030 and beyond.

The results of this trade-off exercise reveal that despite optimizing MDBs' capital adequacy and employing more innovative instruments (as per our third scenario “Raising Ambition Hybrid Capital Led”, \$91 billion in hybrid capital would be issued), shareholders would need to increase the paid-in capital in the MDB system (comprising 15 MDBs) by at least \$60 billion and up to \$304 billion (Table 3.2), depending upon the risk increase in the banks' portfolio, the absorptive capacity of borrowing members and interest rate levels. Under the current trajectory, the paid-in need of the MDB system

<sup>4</sup> For private sector purchase of hybrid capital see AfDB issuance (AfDB 2024): For official sector purchase of hybrid capital see WBG experience (WBG 2024). Apart from SDRs-based hybrid capital, purchase of hard-currency hybrid capital by central banks is also feasible with a fraction of reserves (Zucker-Marques and Gallagher, 2023).

would range from \$255 billion to \$572 billion (Table 3.1). This analysis shows that, even though capital efficiency increases combined with innovative solutions are fundamental to achieve lending needs, they do not substitute the need for additional capital in the system.

Historically, as our benchmarking exercise in the next section shows, the paid-in schedule takes, on average, seven years to complete. Under the 'Raising Ambition' scenario, the yearly paid-in contribution would range from \$9 billion to \$43 billion (Table 3.2). To put these numbers into perspective (see the last column), in 2023, government revenues of all countries sum to \$33.3 trillion (estimated for 2023, based on World Economic Outlook). Thus, the yearly subscription of paid-in capital would range from 0.03 percent to 0.13 percent of a government's annual revenue, which is a relatively small amount compared to the increased lending capacity of MDBs. While the capitalization of MDBs is not expensive for wealthier countries, it may be costlier for fiscally constrained low-income countries that are also MDB shareholders. Hence, some countries would need financial support from advanced economies or philanthropies to avoid their voting share being further diluted.

As indicated in our general framework, the trade-offs for shareholders are clear. The more BSO measures an MDB undertakes the less new capital will be needed—either hybrid or paid-in or hybrid or both—but there is a risk to the MDB's balance sheet. The less BSO that is undertaken by an MDB, the more capital will be needed to meet financing needs. Similarly, the more PCM that an MDB catalyzes, the less capital is needed, but there is a risk to the balance sheets of borrowing members.

This exercise is not meant to be a precise modeling effort of the exact level of BSO, PCM and new capital that is needed across the system, but rather as an illustrative exercise in understanding the trade-offs and orders of magnitude of financial capacity in order to meet the established financing levels in the literature and as identified by the G20. Individual MDBs will need to assess their relative ability to meet their share of the system's needs. There is an important role for the G20 to energize this effort and take stock of the extent to which individual MDB efforts can sum to meet the needs of the system as a whole.

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Buenos Aires, Argentina. Photo by Leonardo Miranda via Unsplash.





## SECTION 4

# LESSONS LEARNED FROM BENCHMARKING EXERCISE ON CAPITALIZATION POLICY AND PROCESSES AND RECENT CAPITALIZATIONS

With some notable exceptions, there is a general gap across the MDB system with respect to having regular, evidence-based reviews of the financing needs of MDBs to meet the strategic objectives of their shareholders as they relate to shared development and climate goals.

This section shares the results of a benchmarking exercise on capitalization policy and processes, along with an analysis of recent capitalizations across the MDB system.

There are three findings from this exercise. First, that there have been 24 General Capital Increases (GCIs) since the 2008-2013 global financial crisis (GFC) across the sample of MDBs we investigate, resulting in just over \$86.2 billion in new paid-in capital. Secondly, the vast majority of MDBs have similar statutory rules and governance over capital increase decisions. Third, across the system there is a general lack of regular evidence-based reviews of financing needs to meet the strategic objectives of their shareholders as they pertain to the SDGs and Paris commitments without jeopardizing the risk profiles of individual MDBs. By and large, there is a need for regular, evidence-based assessments of financing needs across the system that are linked to shareholder decision-making processes to increase capital when needed. The G20 can play a key role in energizing such an effort as well as tracking and monitoring the extent to which such assessments scale to meet the needs of the system as a whole.

## Significant Capital Increases Approved Across the System Since the Global Financial Crisis

There have been a significant number of capital increases approved across the MDB system to manage risk in MDB balance sheets and meet new strategic ambitions of shareholders. According to our research, since the GFC, there have been 24 approved GCIs, half of which occurred in the years following the GFC (2009-2013). The total amount of GCI approvals that occurred during 2009-2024 across all MDBs exceeded \$598 billion, with \$86.2 billion as paid-in capital. This means that only 14.4 percent of all GCIs approved since the GFC were made as paid-in capital and the rest were in the form of callable capital<sup>5</sup>. For the years just following the GFC (2009-2013), the total amount of GCIs approved exceeded \$381 billion—64 percent of the total amount of all GCIs since the GFC. Only 5 percent of the total amount of GCIs approved from 2009-2024 took place in 2020 or after. The aggregate results are shown in Table 4.1. There was not an analogous approval of capital increase to meet the SDGs and Paris targets in the 2015-2019 period, nor in the period since the COVID-19 crisis.

<sup>5</sup> If IFC and IDB Invest are excluded, as they have all their capitalizations as paid-in, the total amount of GCIs during 2009-2024 as paid-in capital is \$74.9 billion. This represents 12.8 percent of the total amount of capitalizations of the remaining MDBs.

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**Table 4.1 MDB Capitalization Approved Since the Global Financial Crisis**

Period	Number of GCIs	Amount of GCIs in USD Billion	Amount of GCIs as % of all GCIs since GFC	Paid-in portion of GCIs in USD Billion	Paid-in portion as % of all paid-in increases since GFC
2009-2013	12	381.8	63.8%	34.2	39.7%
2015-2019	6	185.8	31.1%	26.8	31.1%
2020-2024	6	30.4	5.1%	25.2	29.2%
<b>TOTAL</b>	<b>24</b>	<b>598.1</b>	<b>100.0%</b>	<b>86.2</b>	<b>14.4%</b>

**Source:** MDBs boards' resolutions, financial statements, annual reports and press releases.

**Note:** In 2014, there was no GCI, therefore, the second period goes from 2015-2019. Conversion rates to USD used as of the end of December 2023 (EUR = USD 1.1056, SDR = USD 1.34167, given that one ID (Islamic dinar) equals one SDR and one UA equals 1 SDR, only the conversion rates for SDR and Euro to USD were utilized). For IDB Invest and FONPLATA, their last capitalizations were approved in 2024, therefore, the subscription of the new shares are still in progress (expected to end in 2025-2026). For the FONPLATA 2024 GCI, the proportion between paid-in and callable capital is yet to be defined. The management's proposal is to maintain the current structure, with 45 percent paid-in capital. Hence, it was assumed that 45 percent of FONPLATA's GCI was paid-in capital.

In some respects, we are experiencing historic decades with respect to MDB capitalization, given that nearly all MDBs analyzed that existed during the GFC experienced capitalization, excluding MIGA. What is more, during the 2009-2024 period, two new MDBs were created: the AIIB and the New Development Bank (NDB) founded in 2015 and 2014, respectively.

Previously, simultaneous capital increases in MDBs had not occurred since the mid-1970s. On average, the post GFC capitalizations took place approximately 15 years after the previous capitalizations across MDBs. The Caribbean Development Bank's (CDB) capitalization occurred 19 years after its last GCI, while the IBRD's and IFC's were 21 years after their previous capital expansion. As shown in Table 4.2, the MDBs with GCIs approved between 2020-2024 were: IsDB (2020), CAF (2022), CEB (2022), EBRD (2023), FONPLATA (2024) and BID Invest (2024). After approval, the subscription period of the new shares generally takes several months and the payment of the paid-in portion of the subscribed shares can be made in several instalments, typically within a timeframe ranging from one year to a decade (this varies across MDBs, most cases fall between three to seven years). Hence, paid-in portion for many banks will be incorporated after 2024. The total amount approved between 2020-2024 GCIs as paid-in capital was \$25.2 billion and the total increase in the capital subscribed was \$30.4 billion (see table 4.1). As Table 4.2 shows, the proportion of paid-in capital of the GCIs varied across MDBs and time. Paid-in capital represented 14.4 percent of all GCIs from 2009-2024. However, considering the period during and after the COVID-19 pandemic (2020-2024), the banks that agreed on GCIs subscribed a larger percentage of their GCIs as paid-in. Indeed, during 2020-2024, there were six GCIs approved by six MDBs. For two of them, the capital was subscribed 100 percent as paid-in capital (including the 2022 CAF capitalization and the 2024 capitalization of IDB Invest, which does not have any callable capital), while for the other four, the paid-in portion ranged from 22.6 percent (CEB) to 42 percent (Fonplata). In comparison, during 2009-2012, there were 12 GCIs, which excluding IFC, CAF and EIB (since they had GCIs with 100 percent as paid-in capital), the paid-in portion of subscribed capital was generally lower, ranging from 2.4 percent to 30 percent.

**Table 4.2. Approved MDB Capital Increases Across the System, 2009-2024**

	Number of GCI's since GFC	Year of Last Capital Increase	Amount of GCI's since GFC in USD Billion	Amount of GCI's as % of all GCI's since GFC	Paid-in portion of GCI's in USD Billion	Paid-in portion as % of all paid-in portions since GFC	Paid-in portion as % of all the MDB's GCI's
African Development Bank (AfDB)	2	2019	171.0	28.6%	10.2	11.9%	6.0%
Asian Development Bank (ADB)	1	2009	95.2	15.9%	3.8	4.4%	4.0%
Caribbean Development Bank (CDB)	1	2010	1.0	0.2%	0.2	0.3%	21.7%
Development Bank of Latin America and the Caribbean (CAF)	3	2022	13.5	2.3%	13.5	15.7%	100.0%
Council of Europe Development Bank (CEB)	2	2022	7.1	1.2%	1.6	1.9%	22.6%
European Bank for Reconstruction and Development (EBRD)	2	2023	15.5	2.6%	5.5	6.4%	35.6%
European Investment Bank (EIB)	1	2012	11.1	1.8%	11.1	12.8%	100.0%
FONPLATA	3	2024	6.0	1.0%	2.5	2.9%	41.1%
International Bank for Reconstruction and Development (IBRD)	2	2018	146.3	24.5%	12.6	14.6%	8.6%
International Finance Corporation (IFC)	2	2018	5.7	1.0%	5.7	6.6%	100.0%
Multilateral Investment Guarantee Agency (MIGA)	0	1999	-	-	-	-	-
Inter-American Development Bank (IADB)	1	2012	70.0	11.7%	1.7	2.0%	2.4%
Inter-American Investment Corporation (IDB Invest)	2	2024	5.5	0.9%	5.5	6.4%	100.0%
Islamic Development Bank (IsDB)	2	2020	50.3	8.4%	12.3	14.2%	24.4%
<b>TOTAL</b>	<b>24</b>	<b>-</b>	<b>598.1</b>	<b>100.0%</b>	<b>86.2</b>	<b>100.0%</b>	<b>14.4%</b>

**Source:** MDBs boards' resolutions, financial statements, annual reports and press releases.

**Note:** GCI amounts are those approved by each MDB Board of Governors. After approval, the subscription period of the new shares generally takes several months and the payment of the paid-in portion of the subscribed shares can be made in several instalments, typically within a timeframe ranging from one year to a decade (this varies across MDBs, most cases fall between three to seven years). For instance, for IDB Invest and FONPLATA, their last capitalizations were approved in 2024, therefore, the subscription of the new shares are still in progress (expected to end in 2025-2026). IDB Invest and IFC have their GCI's as 100 percent paid-in -always-. NDB and AIIB were excluded from the table as they are recently founded institutions and have not undergone any GCI's yet. Conversion rates to USD used as of the end of December 2023 (EUR = USD 1.1056, SDR = USD 1.34167, given that one ID (Islamic dinar) equals one SDR and one UA equals 1 SDR, only the conversion rates for SDR and Euro to USD were utilized). For the FONPLATA 2024 GCI, the proportion between paid-in and callable capital is yet to be defined. The management's proposal is to maintain the current structure, with 45 percent paid-in capital. Hence, it was assumed that 45 percent of FONPLATA's GCI was paid-in capital.

This part of our benchmarking exercise suggests that while a GCI always signifies a fiscal effort from shareholders, there is flexibility as to how best to adapt these efforts to contextual preferences and requirements. In general, there is no specific legal requirement across MDBs on the percentage that must be paid-in vs callable of the GCI, rather this can be decided by the Board of Governors.

In the late 1980s and 1990s, there was a trend of diminishing proportions of paid-in capital in successive GCI's. Extrapolating that trend at that moment, it was possible to envisage future GCI's with no paid-in capital at all (especially for the IBRD, ADB and IADB) (Mistry, 1995). Since the GFC, however, this was not the case and we have seen increases in the paid-in portion of GCI's: For the older MDBs (founded between 1940-1966), which increased their percentage of callable capital over time as they built their financial foundations and track record, one would have expected this

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downward trend to uphold. However, this was not the case. Specifically, for the IBRD, IADB, AfDB and ADB, even when the percentage of paid-in capital of their most recent capitalizations was low, between 2.4 percent and 12.5 percent, no downward trend in the paid-in portion of these GCIs was observed. On the contrary, in two of these four cases, the paid-in portion of the GCIs increased. For the rest of the MDBs with a capital structure including callable and paid-in capital (CDB, CAF, IsDB, EBRD and FONPLATA)<sup>6</sup>, the paid-in portion of their last capitalizations was either higher than the previous one or a sustained 100 percent paid-in portion of the GCI. It should be noted that just two MDBs explain 53 percent of the total amount of all GCIs of the period (2009-2024): AfDB and IBRD (which account for 28.6 percent and 24.5 percent, respectively). However, when considering only the paid-in portion of the GCIs, the distribution across MDBs changes and CAF emerges as the MDB with the highest subscribed paid-in capital for the period, representing 16 percent of the total paid-in capital increase. It is followed by IBRD, which explains 15 percent, and EIB with 13 percent.

## MDBs Have Similar Statutory Rules and Governance over Capital Increase Decisions

In carrying out capital increases, we learned that MDBs have similar statutory rules and governance over capital increase decisions. Table 4.3 summarizes these findings.

According to our research, every GCI has to be approved by the Board of Governors and is a decision that cannot be delegated to the MDB's Executive Board of Directors. When the Board of Governors are making a decision, a qualified majority is required: from 66 percent to 85 percent of the total voting power of the Board of Governors for approval<sup>7</sup>. Only in the European Investment Bank is unanimity required. Additional conditions are required in some cases, such as specific levels of approval from founding or regional members. This is the case for IDB (at least 66 percent of regional members approval is required), NDB (approval of four of five founding members), CAF (80 percent of Series "A" shares, which are full members) and FONPLATA (four of five votes in favor from the founding members). In some instances, one member has (implicit or explicit<sup>8</sup>) veto power in terms of GCI decisions: IDB (US), AIIB (China), IsDB (Saudi Arabia) and IFC (US). In the others, there is no one member with formal veto power over capital increases. Across the MDBs, members have pre-emptive rights over new shares (whenever the capital of the bank is increased, all members have the right to obtain sufficient shares to maintain their relative position should they wish) and no member shall be obligated to subscribe to any part of such increased capital (there are a few cases of members not taking up all the shares allocated to them, in which case, shares are relocated to other members). Most MDBs established an indirect constraint on the GCI related to the regional/non-regional shareholding proportion. For instance, the IDB Articles of Agreement do not allow a subscription of capital that reduces the voting power of regional members below 50.005 percent, which would reduce the voting power of the US below 30 percent or Canada's voting power below 4 percent. This constraint is similar-in nature-for AIIB, AfDB, ADB, EBRD, NDB, CDB and FONPLATA<sup>9</sup>.

<sup>6</sup> MIGA was not included since its last capitalization was in 1999. In addition, NDB and AIIB were also not included since these are recently founded institutions and have not undergone any GCIs yet.

<sup>7</sup> In addition, a specific minimum percentage of members approvals is required. Among the 16 MDBs included in this report, eight had a dual condition: the approval of two-thirds of the total number of Governors alongside not less than three-fourths of the total voting power of members.

<sup>8</sup> This occurs when a member has enough voting power that a negative vote from them would prevent achieving the qualified majority required to approve a GCI.

<sup>9</sup> In the case of FONPLATA and NDB, the indirect constraint is related to founding vs non-founding members' share-holding proportion.

**Table 4.3. Benchmarking Exercise: Policies and Processes**

<p><b>Capital Structure</b></p>	<ul style="list-style-type: none"> <li>• Both paid-in and callable capital, with wide differences in the relative shares but callable capital generally dominant (6 MDBs with paid-in capital lower than 12% of subscribed capital, 6 with paid-in portion around 19-27%, one with 45% and the other 3 with values equal or proximate to 100% of paid-in capital).</li> <li>• Share of callable capital from highly-rated shareholders differs significantly across MDBs.</li> </ul>
<p><b>Statutory Provisions</b></p>	<ul style="list-style-type: none"> <li>• Decision of the Board of Governors (cannot be delegated to the Executive Board of Directors).</li> <li>• Qualified majority required &amp; veto power in some cases.</li> <li>• Members' rights over new shares: pre-emptive right (members retain the right to subscribe enough shares in General Capital Increase (GCI) to maintain its percentage of total shareholdings) and no member shall be obligated to subscribe to any part of such increased capital.</li> <li>• Indirect constraints on the GCI: the regional/non-regional share-holding proportion.</li> <li>• Other specifications over the subscription of new shares: payment schedule (e.g. the number of installments), currency of payment, proportion of paid-in and callable, value to be paid per share (e.g. par value).</li> </ul>
<p><b>Capital Needs Assessments</b></p>	<ul style="list-style-type: none"> <li>• The launch of the capitalization discussions had been ad-hoc and depended on external dynamics and occasional shareholder appetite.</li> <li>• No regular assessment (except for ADB, AIIB, NDB, EBRD, AfDB and concessional funds IDA and AfDF).</li> <li>• No agreed criteria across MDBs on how to assess capital needs.</li> </ul>
<p><b>Capital Increase Process</b></p>	<ul style="list-style-type: none"> <li>• No formal process.</li> <li>• No pre-established formula or model to determine the amount of the capital increase.</li> <li>• Limited explanation ex-post announcement as to where the figure came from.</li> </ul>
<p><b>Voting Power</b></p>	<p>In general, there are no major changes, but there are exceptions. These exceptions include cases where:</p> <ol style="list-style-type: none"> <li>1. A GCI is done together with a Selective Capital Increase (SCI) - as with IBRD;</li> <li>2. Members reject subscribing to all allocated new shares, significantly altering voting power distribution; and</li> <li>3. New members are added changing substantially the voting power distribution (although, in general, this is not the case).</li> </ol>

**Source:** Interviews and MDB webpages, MDBs Boards' resolutions, financial statements, annual reports and press releases.

### Lack of Regular Evidence-based Reviews of Financing Needs Across MDBs

Across the MDBs, there is a lack of common and structured set of policies and procedures for determining capital needs. We find that MDBs primarily have ad hoc policies and procedures to determine the level of capital needed for risk management and meeting current and expanding objectives. We also find that there is a lack of a system-wide perspective on MDB capital needs.

According to our research, just five MDBs (ADB, AIIB, NDB, AfDB and EBRD) and two concessional funds (IDA and AfDF) have an established calendar for regular capital assessment processes, which vary in frequency across the organizations. We find that MDBs that had these regular processes of capital assessment do not show a higher frequency of GCIs than those MDBs that do not have pre-established assessments. In general, Boards of Governors decide upon a GCI at the time and under ad hoc terms and conditions as they see fit. No formal processes are in place as to automatically trigger GCIs or are at least highlighted as an issue to be discussed by the Board.

Rather, according to our research, MDBs usually look at credit rating agency assessment limits on capital adequacy during these assessments. Relatedly, we find that once the Board agrees to support a GCI, there is no formal process to guide implementation, and it can take several years to complete. However, in general, it is the Board of Executive Directors together with Management (MDB staff) who elaborate the specific proposals of the GCI to be endorsed by the Board of Governors, which includes the specific amount of the GCI, the proportion of paid-in vs callable capital of the GCI, the

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number of instalments of paid-in portion, etc. To the best of our knowledge, there is not a formula or structured process that explains to the broader public how a concrete GCI figure is reached.

Furthermore, we find that GCIs have impacted voting power in certain MDBs, but that overall the changes in voting distributions were relatively small. This is often due to the non-subscription of new shares by some members and/or the addition of a new member in conjunction with the GCI. There were only a few cases of substantial changes, such as the IBRD (e.g., the 2018 GCI made in conjunction with a Selective Capital Increase (SCI)) and IFC (in its last GCI, US voting power was reduced by 3 percentage points, but its veto power was maintained).

There are some examples of organic processes that arose from recent capitalizations among MDBs that may have the elements of what could scale to more regular approaches to assessing MDB capital needs. Table 4.4 exhibits five examples, from International Development Associate (IDA), European Bank for Reconstruction and Development (EBRD), African Development Fund (ADF), the African Development Bank (AfDB) and the Inter-American Investment Corporation (IDB-Invest, the private sector arm of the Inter-American Development Bank Group).

**Table 4.4. Illustrative Examples of Capital Needs Assessments**

MDB/Fund	Needs Assessment Process	Key Considerations
International Development Association (IDA)	IDA demand volume estimated based on national and regional priorities which anchor the financing scenarios.	Overall volumes of earlier replenishments, contributions from development partners, and target levels of concessional lending  Coordination within the World Bank Group and contributions from other development banks and partners
European Bank for Reconstruction and Development (EBRD)	Projected capital capacity and annual business volume reviewed by shareholders against their objectives. Determination made on whether a capital increase is required or not.	Overall objectives include transition impact, market development, and sound banking
African Development Fund (ADF)	Management identifies project pipeline based on country strategies and replenishment round priorities. Three financing scenarios are identified with the full financing of the pipeline forming the high scenario.	Regional development needs and where ADF has a comparative advantage
Inter-American Investment Corporation (IDB Invest)	Need assessment takes into account the level of demand, absorptive capacity, and instruments, alongside capital adequacy, PCM and overarching impact.	Capital needs informed by the need to reinforce strong credit ratings, counter-cyclical buffers, more private sector activity and addressing concentration risk.
African Development Bank (AfDB)	Forward-looking financing requirements are calculated through an iterative process: (1) different scenarios of country's investment needs, based on country partnership frameworks, and member and regional priorities; (2) management and board discussions on strategic priorities for the new round.	Capital Review every 10 years. Capital needs reflect borrower expectations and the ability to absorb higher levels of financing over time as capacity is enhanced. The affordability of the capital increase to shareholders is considered and last capital increase is used as the baseline for quantifying future capital needs

Source: Author' elaboration.

Each of these five banks underwent capital needs reviews, some of them on a regular bases (IDA, EBRD, ADF and AfDB) and others in an ad hoc manner (IDB Invest). All of them may have elements of more structured reviews tailored to each MDB's particular structure and circumstance.

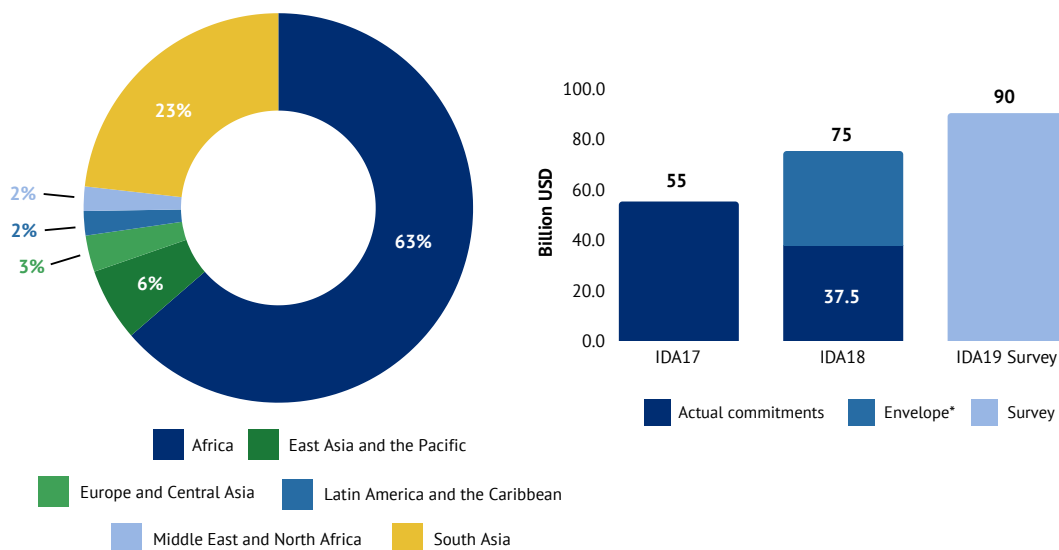
There are a handful of common characteristics across the processes that developed in each of these cases. First, there was a discussion within the particular MDB board about the potential need to increase financing in order to meet the strategic objectives within the MDB. In three cases, the ADF, IDA and AfDB undertook evidence-based estimates of demand volumes based on country

diagnostics, national and regional priorities, and any specific priorities of share. In those cases, the projected demand volume anchored a series of financing scenarios informed by previous replenishment rounds and shareholder input to translate the identified demand projections into financing scenarios. In terms of assessing system-wide possibilities, in its demand assessment, IDA also examines how coordination within the WBG (with IFC and MIGA) will help address demand and collaboration opportunities with development partners including other MDBs. As indicated in the previous section, most MDBs do not have statutory requirements for capital needs assessments. EBRD reviews its capital needs every five years, though its rolling business plan allows for mid-course calibrations. Concessional funds like IDA and ADB have three-year replenishment cycles. It should also be said that not all examinations of capital needs have led to capital increases.

The EBRD’s first four regular reviews assessed client demand. In 2014, EBRD decided to change its review process to focus on an assessment of the capital capacity of the bank. In the capital needs review, the strategic and capital framework set the high level objectives (EBRD, 2023). The capital capacity analysis (including annual business volume) is then reviewed by shareholders to assess whether it is in line with shareholder objectives. This analysis helps to answer whether a capital increase is required or not. The primary binding constraint to lending was the statutory capital limit. While the statutory capital limit was removed, the prevailing practice continues to be an assessment of lending capacity. The EBRD examines its existing capital base and projections on earning and profitability as the core elements in its assessment of capital capacity. The capital review is done every five years for a five-year horizon. EBRD has a three-year business plan which also provides an opportunity to make adjustments as required. Of the EBRD’s four capital reviews, only two have led to capital increases. Its last capital increase was necessitated by unforeseen external circumstances (Russia’s invasion of Ukraine in 2022).

To estimate the demand for its resources, IDA considers priorities that countries have communicated through their country partnership frameworks with the World Bank and regional priorities. For the 19th replenishment round for IDA (IDA19), IDA identified client demand geared towards reaching twin goals, the SDGs and regional development goals. Its demand assessment process also considered potential synergies among World Bank arms such as IDA, IFC and MIGA, and collaboration opportunities with other development partners. Figure 4.1 depicts IDA volume by region. It is important to emphasize that IDA assessed client demand, which is distinct from the investment needed to achieve national or global goals.

**Figure 4.1. Evidence-based Assessment of IDA19 Capital Demand**



Source: WBG, 2019.

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Anchored in the demand volume, IDA computed three financing scenarios (WBG-IDA 2019). In the base scenario, the volume was kept constant to the IDA18 volumes in real terms. In the high scenario, there was an increase in the IDA18 volume in both per-capita and real terms, with IDA's core resources increasing by 18 percent. In the low scenario, the volume was a decrease from IDA18 in nominal terms, with IDA core resources decreasing by 1 percent.

The target IDA19 replenishment size was shaped by three factors: overall volumes of replenishment, contributions from development partners and target levels of concessional lending. Furthermore, IDA19 replenishment was based on three key tenets: maintaining the primacy of IDA core resources, improving responsiveness and efficiencies across IDA core allocations and windows, and calibrating the level of non-concessional to the scaling up window eligibility (WBG-IDA, 2019).

For the ADF (ADF-16), the ADF Deputies report describes the following process (African Development Fund, 2023). Management identified a pipeline estimated at UA 11.2 billion (approximately \$15 billion) comprising of 301 operations and selected these operations based on their linkages with country strategies, as well as alignment with ADF-16 priorities. The overriding considerations for the operations were development needs of clients and operations in areas where ADF has a comparative advantage. Based on the identified pipeline, management constructed financing scenarios. The resources assumed to be available for ADF-16 include: donors' subscriptions, concessional donor loans, ADF internal resources (advance commitment capacity) and carry over from previous replenishment and AfDB net-income transfers. The Deputies note identified three scenarios. The full financing of the pipeline was identified as the high scenario. There was agreement on the medium scenario which was sufficient to support 187 operations with UA 6,941. This medium scenario was a 27 percent increase compared to ADF-15.

The AfDB conducts a capital needs review every 10 years. Although this review is not mandated in the Bank's Articles of Agreement, it is rooted in the understanding reached by the Bank's board and its management to assess their sustainable level of lending. Forward-looking financing requirements are calculated through an iterative process: (1) different scenarios of country's investment needs, based on country partnership frameworks, and member and regional priorities and (2) management and board discussions on strategic priorities for the new round. Moreover, AfDB uses its last capital increase as the baseline for subsequent capital increase pledges and considers the affordability of the capital increase to shareholders. AfDB carried out an off-cycle capital increase in 2009 to support its members during the GFC and in 2024, underwent a GCI of 100 percent callable capital. It is important to note that relying on a client's previous demand for funding is likely to underestimate the lending volume needs from MDBs. Borrowers' demands for MDB financing also reflect their expectations about the level of financing that will be available. Furthermore, a country's absorptive capacity for MDB lending is not static and may expand as their economy grows.

As noted, IDB Invest shareholders approved a capital increase of \$3.5 billion in early 2024. Senior management sought to raise ambition, triggering an organic capital needs review. First, the IDB conducted an analysis to determine the level of demand and the various instruments that might be needed to meet that demand, whether that be debt, equity, guarantees, foreign exchange risk management and grants. IDB Invest then underwent an analysis to determine the extent to which the new ambition could be met by expanding its own balance sheet through BSO, hybrid capital and guarantees, and beyond. Following those exercises, IDB Invest determined there was a need for more capital to meet financing needs and manage the new risks from subsequent capital adequacy measures.



## SECTION 5

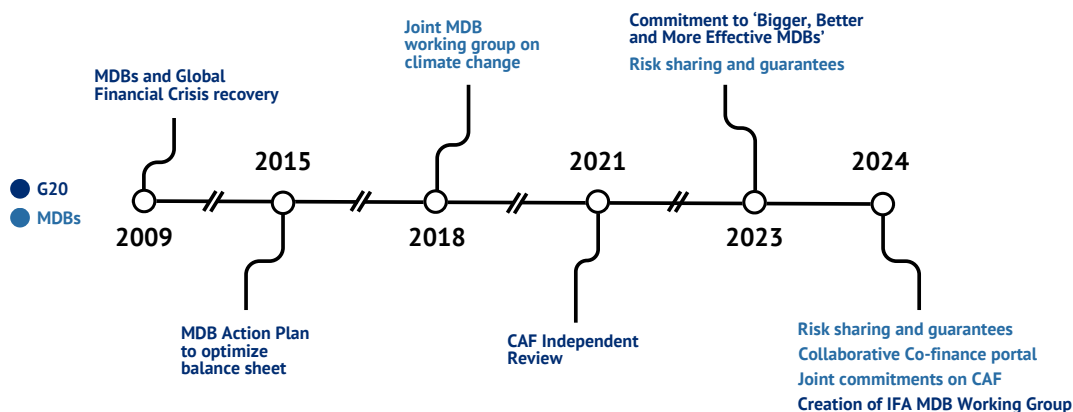
# NEXT STEPS FOR THE EVOLVING G20-MDB RELATIONSHIP TO WORK AS A 'BIGGER' SYSTEM: TOWARD REGULAR CAPITAL NEEDS REVIEWS

The G20 and the MDBs have been mutually supporting each other to rise to global challenges since the G20 was elevated to a leader's forum in response to the GFC. Fifteen years later, both the G20 and the MDBs have begun to work together as a system to address global challenges by making MDBs bigger, better and more efficient. This significant history is the foundation for the G20 to energize MDBs to make a long run and sustained effort to mobilize investment in EMDEs to put their economies on low-carbon, socially inclusive and resilient growth trajectories that will not only prevent and mitigate future shocks, but put the world economy on a path to sustainable prosperity. There is no time to waste, but capital cannot be wasted either. The next step in the G20's and MDBs' work is to transform and strengthen MDBs to raise ambition on implementing the recommendations of the CAF Review and implement evidence-based reviews of financing needs across the system to meet the SDGs and Paris commitments and to conduct reviews on a regular basis.

### Momentum to Build on: G20 and MDBs working together to scale the system

Dating back to 2009, the G20 did not only recognize, but actively highlighted and stressed the important role of MDBs in responding to the GFC and since. G20 Leaders Communiqués have committed to ensuring that MDBs have “sufficient resources to continue playing their role in overcoming the crisis” (2008, Washington Summit) and make available additional resources to finance counter-cyclical spending and bank recapitalization in EMDEs (2009, London Summit), with an emphasis on “accelerating and expanding lending” (2009, Pittsburgh Summit). Since its inception at the Leader's level, the G20 has been vocal both on the importance of MDBs for crisis response and development, as well as explicitly calling for recapitalization.

**Figure 5.1 G20 and MDBs: Building Blocks Toward a Systemic Approach**



Source: Authors' elaboration.

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The G20 Leaders Communiqués did not mention MDBs from 2011-2015, but attention toward MDBs has been reinvigorated. In 2015, the G20 began to encourage MDBs to consider BSO measures (2015, Antalya Summit; 2016, Hangzhou Summit; 2017, Hamburg Summit; 2020, Riyadh Ministerial), for increased infrastructure investment (2016, Hangzhou Summit; 2017, Hamburg Summit), and also began to emphasize the catalytic role of MDBs in PCM (2016, Hangzhou Summit; 2017, Hamburg Summit), and (political) risk insurance (2019, Osaka Summit; 2020, Riyadh Ministerial). It is during this period that the G20 cemented its commitment to the central role that MDBs need to play in the global economy, and when the MDBs began to organize themselves as well.

With the onset of the COVID-19 pandemic, the G20's MDB agenda shifted again, with much focus on the need to make "collective efforts" by "providing net-positive flows" (to Debt Service Suspension Initiative (DSSI)<sup>10</sup> eligible countries) (2020, Riyadh Summit), and a re-emphasis on "the crucial role of the Multilateral Development Banks' (MDBs) long-term support towards achieving the SDGs" (G20 2021, Rome Summit). The earlier work on BSO measures was complemented with the Independent Review of Capital Adequacy Frameworks, and the G20 asserted its openness "to explore viable options for countries to voluntarily channel SDRs through MDBs" (G20 2022a, Bali Summit).

It is worth repeating the commitments at New Delhi whereby the G20 wrote that, "the 21<sup>st</sup> century also requires an international development finance system that is fit for purpose, including for the scale of need and depth of the shocks facing developing countries, in particular the poorest and most vulnerable. We are working to deliver better, bigger and more effective MDBs by enhancing operating models, improving responsiveness and accessibility, and substantially increasing financing capacity to maximize development impact. Stronger MDBs will be important to our efforts to mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development (G20 2023)."

The Brazilian Presidency of the G20 has continued this momentum through the creation of the 'IFA MDB' sub-group of the International Financial Architecture Working Group (IFAWG) and committing to bring forth an implementation roadmap for the Delhi commitments. To this end, MDB leaders contributed the following to IFA-MDB in January 2024 with respect to CAF measures: "Comparison of MDB capital adequacy and related policy frameworks. MDBs are developing a common template for capital adequacy and related policy metrics to facilitate comparison across MDBs and share information in a systematic way. MDBs will finalize the MDB ratios comparison during Q2 2024, covering capital, liquidity, and other relevant metrics in a comparable format."

<sup>10</sup> DSSI eligible countries are the ones that qualify for the G20 Debt Service Suspension Initiative, launched in 2020 during the COVID-19 pandemic.

## Lessons from Working Together on Climate Change

MDBs' joint work on climate finance is an example of MDBs working as a system to address global challenges. Since at least 2012, MDBs have worked together to bring greater clarity on their financing, harmonize metrics and collaborate on programming and delivery related to climate finance. In 2022, MDBs supplied \$60.9 billion in climate finance to low- and middle-income countries (EIB, 2022). MDBs began to jointly report their climate finance in 2012.<sup>11</sup> In 2015, during the 2015 UN Climate Change Conference in Paris, the MDBs committed to increase their climate finance and in 2019, they quantified this commitment in the form of a collective target of mobilizing \$60 billion in climate finance by 2025 (African Development Bank et al. 2015).

MDBs have also made a joint commitment to shift the composition of their financing to support the objectives of the Paris Agreement. In 2017, the MDBs together with the members of the International Development Club (IDFC) issued a joint statement committing to fully align their activities with the Paris Agreement's objectives. In 2018, MDBs articulated a dedicated approach by identifying six areas for Paris alignment: mitigation, adaptation, transition finance, policy development support, reporting, and internal operations (AfDB, 2018).

**Table 5.1. MDBs Acting as a System on Climate Finance: Major Milestones and Policy Developments**

2012	Joint Report on MDB Climate Finance	The first joint MDB report on climate finance (adaptation (6) and mitigation (7)).
2015	Common Principles for Mitigation Finance Tracking	MDBs and IDFC agreed upon a set of common principles for tracking mitigation finance. (8)
2015	Mainstreaming Climate Action within Financial Institutions	Five Voluntary Principles for Mainstreaming Climate Action within Financial Institutions, adopted by MDBs and members of the IDFC. (9)
2017	Joint IDFC-MDB Statement	Joint commitment with IDFC to align financial flows with the objectives of the Paris Agreement, including tracking and reporting
2018	The MDBs alignment approach to the objectives of the Paris Agreement	The approach identifies six areas as building blocks for alignment: mitigation, adaptation, transition finance, policy development support, reporting, and international operations. (5)
2019	High-Level MDB Statement at UNSG Climate Summit	The MDBs committed to increase climate finance to \$65 billion by 2025, private finance mobilization to \$40 billion by 2025 and development a common framework for Paris alignment and common principles for intermediated financing. (3)
2021	MDB Just Transition High-Level Principles	The MDBs agreed on five principles that capture their common understanding of how just transition can be integrated into MDB policies and activities. (10)
2023	COP28 MDBs Joint Statement	MDBs announced collaboration on: tracking and reporting climate outcomes; scaling up analytics for integration of climate and development; a joint MDB long-term strategy (LTS) program to coordinate efforts to support long-term, low emissions development strategies. (11)
2024	Viewpoint: MDBs Working as a System for Impact and Scale	MDBs agreed to: develop a common approach to measure results on adaptation and mitigation; increase co-financing of public sector projects; and collaborate on joint impact evaluations, harmonization. (12)

Source: Authors' compilation and synthesis.

<sup>11</sup> Based on the most recent joint MDBs report on climate finance, the MDBs jointly reporting include: African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Council of Europe Development Bank, European Bank of Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, New Development Bank and the World Bank Group.

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Table 5.1 exhibits a number of important kinds of collaboration that can be built upon, anchored in individual MDBs but working as a system with joint commitments and common methodologies for tracking and reporting. While the MDBs have jointly reported climate finance and announced shared goals, these collective commitments are anchored in individual commitments by MDBs. These commitments respect the unique mandates and internal processes of each institution. For example, while the MDBs collectively committed to aligning their financing with the objectives of the Paris Agreement, MDBs set their own timelines and processes by when they would achieve full alignment. The World Bank committed to Paris alignment by 2023, with IFC and MIGA achieving full alignment of their operations by 2025.

In this context, the MDBs have committed to meet collective targets for climate finance. In 2015, at the UN climate summit in Paris, MDBs committed to increase climate finance to support the outcome of the Paris meeting (AFDB, 2015). Four years later, the MDBs gave teeth to this commitment by announcing a climate finance target of \$65 billion by 2025, increase of 50 percent over existing levels (AFDB, 2019). MDBs agreed to mobilize an additional \$40 billion from private sources and develop a transparency framework on the impact of MDB activities.

To track and monitor these commitments, the MDBs negotiated a common set of methodologies and joint reporting guidelines. Indeed, MDBs have been jointly reporting their climate finance commitments since 2012 (European Bank for Reconstruction and Development 2022). In 2018, the MDBs articulated a common approach to align their finance with the objectives of the Paris Agreement (Article 2.1.c of the Paris Agreement), which builds on the joint commitment with IDFC in 2017 on Paris alignment (IDFC-MDBs, 2018). The MDBs now have joint methodological principles on tracking and reporting on direct investment lending operations, intermediated financing, general corporate purpose financing and policy-based lending operations

## Next Steps: Identifying and Filling Gaps for a Bigger System

This report has demonstrated that the global community is falling behind and running out of time on development and climate goals, with the costs of inaction increasing as the days go by. MDBs have a unique role to play in raising the ambition of the global system to meet the SDGs and Paris commitments given their mission, governance structures, and powerful business model. The G20 and the MDBs have a strong foundation of working in parallel and together from which to build more ambition, as demonstrated by the CAF Review, joint work on climate finance and beyond.

This report confirms the need for the G20 to energize individual MDBs to raise ambition on CAF Review recommendations and perform regular evidence-based capital needs to identify where further ambition may be needed to meet the strategic objectives of their shareholders as they relate to the SDGs and Paris commitments. Upon assessment of these reviews, the G20 should take subsequent action to ensure that the system is operating at scale by 2030. The latest science has underscored the need for urgent action, as have the social and economic costs of inaction, especially in addressing climate change. The investment mobilization required will have to reflect the same sense of urgency.

Beginning with a series of reviews calibrated to 2030, MDBs will therefore need to periodically examine whether they are meeting shareholder objectives and borrower country needs. Given the length of time to conduct such reviews and integrate any new capitalization that will be necessary as a result of such reviews, ambitious increases in implementing the CAF Review can act as an important bridge. The G20 has a key role to play in tracking and monitoring progress moving forward. As key engines of investment mobilization, MDBs will need to explore the full suite of measures that they can adopt to support shareholder objectives and multilaterally agreed goals. MDBs will have to carefully tailor the appropriate mix of BSO, PCM and the corresponding level of capital based on their own unique features and governance. High market interest rates and weak borrower demand due to growing debt distress will require MDBs to supply low-cost, long-term finance supported by new injections of capital. The MDBs have already been working together to set targets, standards and guidelines on climate finance and regularly report on their activities. These existing collaborative efforts demonstrate how the MDBs can take this common approach to the system-wide level for greater coordination and coherence.

The Brazilian Presidency to the G20 strives to advance capital needs reviews in the roadmap (G20 2024b). Evidence-based capital needs reviews can help each MDB align their objectives with the 2030 goals through careful analysis of all the ways they can scale their activity and catalyze private capital and domestic resource mobilization.

Given the G20's common goal to "mobilize financing from all sources for a quantum jump from billions to trillions of dollars for development" toward the SDGs and climate commitments for 2030, the G20 will need to play a coordinating role in monitoring efforts across all MDBs to ensure these objectives are met at a systemic level. To effectively energize the MDBs to act as a system, the following actions should be considered by the G20:

- 1. Further raise ambition to create more lending headroom.** MDBs have made important strides toward increasing their lending headroom, pledging to generate \$300 billion to

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\$400 billion over the next decade, but more ambition is necessary. To meet the lower bound estimates of the system's lending needs by 2030, these important first steps of increasing lending headroom from \$300 billion to \$400 billion would need to increase by at least a factor of three.

- **More is possible, and prudent:** Consistent with the literature, calculations for this report reveal that further ambition is possible in terms of BSO and hybrid capital that could boost MDB lending capacity. Our calculations show that further ambition will allow MDBs to maintain robust credit ratings and will also reduce the amount of new capital needed across the system.
  - **New opportunities:** Recent approval by the IMF for the use of re-channeled SDRs to MDBs provides new avenues for hybrid capital. Moreover, other hybrid instruments such as those recently deployed by the AfDB and the WBG offer new ideas, as do those in the literature.
  - **CAF as a bridge:** Given the need to achieve much by 2030, more ambitious CAF measures can serve as a bridge to further resource mobilization across the system. As capital needs reviews and potentially subsequent capitalizations may take up to seven years to materialize thereafter, it is important for the G20 to energize MDBs to raise their ambition in creating more lending headroom through the implementation of the CAF Review recommendations and through innovative risk-transfer and hybrid capital instruments.
- 2. Identify where further ambition may be needed.** By enabling MDBs to establish a series of MDB-led capital needs reviews calibrated to the SDGs and Paris commitments and conducted regularly every three to five years, MDB bank operations can be aligned with shareholder objectives and global goals. The core elements of such reviews could be:
- **Be both scientific and evidence-based** with common metrics across MDBs, taking into account finance needs to meet strategic objectives and development goals, while also considering risk management and the need to maintain strong credit ratings;
  - **To consider a broad suite of financial measures** that can be conducted within and across MDBs, including loan pricing, CAF measures and BSO, hybrid capital, and PCM in addition to shareholder capital—as well as reforms to improve outcomes (make MDBs 'better') and more efficient;
  - **To consider how collaboration with other MDBs** can help achieve certain capital needs across the system through guarantees, liquidity pools and the like; and
  - **To consider the absorptive capacity and debt sustainability of borrowing members,** lending volumes and pricing should be calibrated to ensure that the weighted average of the cost of capital across all forms of external financing is below the projected growth rates of EMDEs to 2030.
  - **And to leverage the role of the G20** as body that can take a systemic perspective on MDBs to monitor and enable capital reviews. This is particularly relevant given that most MDB shareholders are present in the G20 platform. At the same time, it is important that reviews are carried out and tailored by individual MDBs themselves, recognizing that each MDB is unique but also part of a broader system in an evolving world.
- 3. Coordinate efforts to fill gaps in the MDB system.** The G20 can be a platform for setting principles and tracking progress over time to assess the extent to which the individual MDB lending needs sum to a systemic level of financial capacity to put the system on

track ahead of 2030 and be regularly conducted thereafter-- while avoiding impinging on the work of MDB boards and guided by robust frameworks that promote coherence to strategic objectives, operational effectiveness and resource efficiency. Common metrics and reporting could consist of:

- **Common but tailored methods and metrics** for estimating lending and financing needs of members and regions of MDB jurisdiction for strategic objectives of shareholders and to achieve SDGs and Paris commitments based on science and the existing literature;
- **Metrics to measure the absorptive capacity** and debt sustainability of membership and necessary instrumentation that may be necessary (grants, loans, equity, etc.).
- **Analysis of the new levels of portfolio risk** that may arise from surges in lending, entering into new sectors and taking into account the debt sustainability of members;
- **Analysis of the ability of the MDB to meet new lending needs** through ambitious implementation of the CAF Review recommendations and PCM, as well as efficiency measures, including the potential for joint MDB efforts as a system, such as through co-financing, guarantees or liquidity pools, for MDBs to leverage balance sheets across the system to meet lending needs;
- **The level of increased capital, where necessary**, should be considered after discounting the lending headroom generated by the implementation of CAF measures.

The G20 will need to develop a common methodology and reporting template for MDBs to report on progress and for the G20 to assess the extent to which the collective assessments scale to meet the needs of the system as a whole. Common elements and metrics should be developed and agreed upon under the Brazilian Presidency, followed by a reporting template carried out over the next year—focusing on needs to 2030. One way to organize this would be through a technical secretariat similar to the Sustainable Finance Working Group’s secretariat, to work alongside the IFA MDB subgroup or through a panel of experts. In either case, an entity could be charged with gathering the reporting templates, processing and evaluating them, and synthesizing them into a regular document to be discussed in the IFA MDB subgroup by G20 members. Based on this document and G20 objectives, the IFA MDB subgroup could recommend specific actions to be considered by MDBs in order to achieve the G20 Leaders’ mandate and the SDG and Paris commitments. Furthermore, the G20 could subsequently inform G20 Finance Ministers (whom also serve as MDB Governors) on the advances made by the system as a whole in meeting global financing needs to achieve the SDGs and climate goals.

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São Paulo, Brazil. Photo by Roman Lezhnin via Unsplash.





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Port of Spain, Trinidad and Tobago. Photo by Kenrick Baksh via Unsplash.



## TECHNICAL APPENDICES

### Estimating MDB Lending Trajectories Under Various Interest Rate Scenarios

According to the G20 Independent Expert Group (2023) estimations, EMDE (excluding China) need \$3 trillion additional finance by 2030 to achieve the Sustainable Development Goals (SDGs) and the Paris Agreement by 2030. Out of this \$3 trillion, \$2 trillion should be mobilized domestically by EMDE (excluding China) while additionally \$1 trillion should be sourced from external resources. These external funds were assumed to be distributed between concessional, non-concessional, and private-sector finance. Table A.1 provides a detailed breakdown of these resources among different income groups.

**Table A.1. External Resource Mobilization by Income Group**

	Low-Income		Lower-Middle Income		Upper-Middle Income	
	USD Billion	Share	USD Billion	Share	USD Billion	Share
Private	15	10%	335	56%	150	60%
Non-concessional	45	30%	190	32%	85	34%
Concessional	90	60%	75	13%	15	6%
<b>TOTAL</b>	<b>150</b>		<b>600</b>		<b>250</b>	

Source: G20 Independent Expert Group (2023)

A general rule of thumb for debt sustainability analysis is to compare the rate of growth of the acquired debt with the rate of growth of the repayment capacity (Blanchard, 2023), which translates into comparing the real interest rate with the real economic growth rate. When interest rates exceed growth rates ( $r > g$ , or when the difference is positive), a scenario of debt overhang may arise, and the government would incur a higher fiscal burden (Aquiar, Amador, Gopinath 2009). For many Emerging Markets and Developing Economies (EMDEs) that rely on external debt in foreign currency and with non-residents, risks may exacerbate. These economies become more vulnerable to short-term shocks, leading to elevated borrowing costs and heightened insolvency or default risks (Aquiar, Amador, Gopinath 2009; Lorenzoni and Werning 2019). This technical appendix describes our estimation for the  $r > g$  rule and our rebalancing exercise that drives the external cost of finance – the weighted average cost of capital (WACC) – closer to the growth rate of repayment capacity

To assess the weighted average cost of capital (WACC) of EMDE (excluding China) external finance under a investment push scenario, we estimated an average interest rate for each type of fund (private, non-concessional, and concessional) under different interest rate scenarios based on the Federal Funds Rate (FFR) projections. As of May 2024, the Federal Funds Rate (FFR) is at 5,3%, with expectations pointing to a reduction in the coming years, although these expectations vary. Therefore, to project the FFR in our baseline estimations, we averaged the Federal Open Market Committee’s (FOMC, 2024) median projections, resulting in an average rate of 3,1% for the 2024-2030 period. Meanwhile, the scenarios for high and low-interest rate environments consider the high and low-end range of FOMC’s projections expected at 4,4% and 2,7%, respectively<sup>12</sup>.

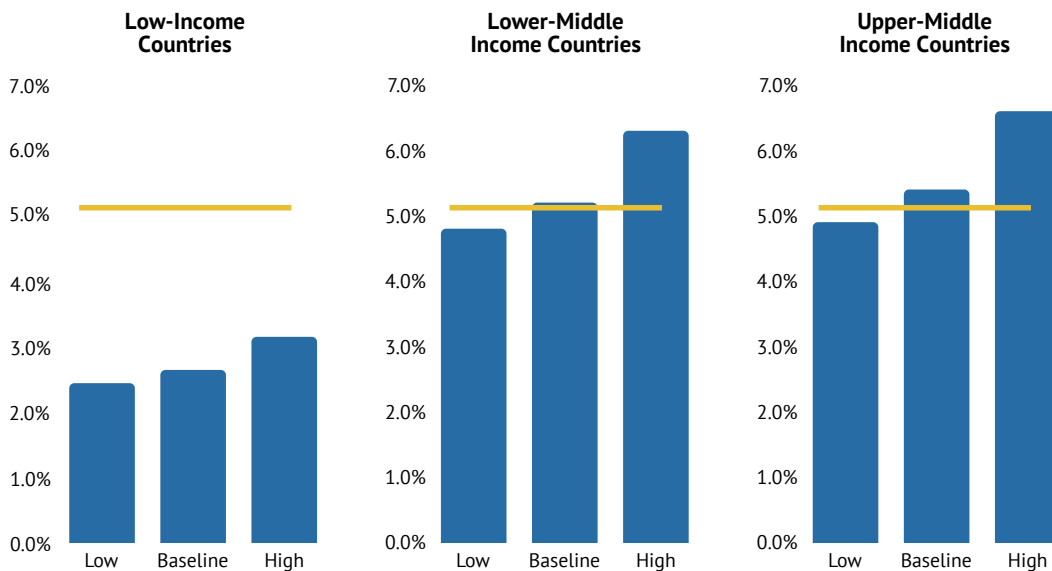
<sup>12</sup> The projections can be found in FOMC’ 2024 March report.



For the private-sector funding, we assumed the average interest rate to result from the FFR plus the country's group risk premium. Using the FFR as the most adequate benchmark is justified because this rate is usually the reference for the cost of risk-free assets, which are the parameters for investment decisions regarding different maturities and assets. Often, investors compare interest rates of assets of similar maturities, but currently, short-term bond yields are higher than longer ones (curve inversion) (Barbuscia 2024). While the FFR estimations follow the procedures used for non-concessional funding, the risk premium is proxied by the Emerging Market Bond Index (EMBI) spreads for available countries grouped according to their income classification<sup>13</sup>. This spread is a market index calculated by JP Morgan and accounts for premiums paid by developing economies over US Treasuries of the same maturity. In all three scenarios, we used the historical average of 2015-2019 (the pre-pandemic level) as the benchmark.

Non-concessional financing, which includes the cost of bilateral and multilateral flows, was assumed to follow the federal funds rates. We are, therefore, abstracting from any premium, markup, or fee over the FFR often charged by non-concessional lenders (including MDBs). Hence, our calculation results in a conservative estimate of the cost of non-concessional funding for developing economies. For concessional finance, we set the interest rate at 0.75 percent, which reflects the lowest cost of borrowing and follows the World Bank's SDR fixed interest rate in all three scenarios<sup>14</sup>. The resulting average cost of external finance is presented in Figure A.1.

**Figure A.1. Weighted Cost of Capital (external financing) under different base interest rate scenarios by income group**



**Source:** Authors elaboration based on FOMC's projections, JP EMBI spreads and World Bank's fixed rate data. World Growth projections based on IMF World Economic Outlook (2023) adjusted upwards to account for the impact of new investments on economic growth.

**Note:** Under the low-interest rate scenario, fed funds are assumed to be 2.7 percent p.a., under the baseline, 3.1 percent p.a., and under the high-interest rate scenario 4.4 percent. The relative importance of concessional, non-concessional, and private finance by each income group follows the G20 Independent Expert Group (2023).

<sup>13</sup> Ethiopia, Mozambique, and Zambia were the three low-income countries with available data. For lower-middle-income countries, the average spreads were from Côte d'Ivoire, Egypt, El Salvador, Ghana, Honduras, India, Indonesia, Kenya, Lebanon, Morocco, Nigeria, Pakistan, Philippines, Senegal, Tunisia, Ukraine, and Vietnam. Upper-middle-income countries include Argentina, Armenia, Azerbaijan, Belarus, Belize, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Gabon, Georgia, Guatemala, Iraq, Jamaica, Jordan, Kazakhstan, Malaysia, Mexico, Namibia, Paraguay, Peru, Serbia, South Africa, and Turkey.

<sup>14</sup> This is the lowest rate available on the World Bank and International Development Association (IDA) information page.

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We compared the estimated WACC in all three scenarios with projections of the nominal global growth by the IMF World Economic Outlook (WEO) adjusted upwards to account for the impact of the investment push in EMDE (excluding China) on global growth (April 2024). We assumed that the IEG (2023) recommended investments would have a fiscal multiplier of 1.2 (following the “green spending multiplier” from Batini et al 2021). With this assumption in mind, we adjusted IMF WEO global growth from original 4.7% to 5%, resulting in a slower repayment capacity growth rate than the nominal average cost of capital for Middle-Income Countries under the baseline and high interest rate scenarios (Figure A.1). This slower repayment capacity is found despite our conservative assumptions regarding the cost of external finance, which considered the lowest available interest rate for concessional lending and did not include premiums and fees in non-concessional lending.

In fact, the most suitable indicator for assessing foreign currency-denominated debt repayment capacity is the combination of nominal exports and remittances, representing the “free-of-cost” foreign currency revenue (UNCTAD, 2022). Yet, due to the challenges of finding good estimates for these variables, which include many commodity prices, we used nominal world growth rate estimations as a proxy. This is justified because remittances depend on migrant workers’ revenues, which are expected to correlate with external economic growth. Additionally, in many developing economies, exports are usually concentrated in low-price elasticity products, making them more dependent on external demand growth (UNCTAD, 2002).

To equalize the difference between the external finance WACC and global growth rates, we constructed two rebalancing exercises. The first reduces the share of private-sector lending, which has the highest cost of capital while increasing non-concessional finance and maintaining the share of concessional finance fixed. Considering that the share of private capital remains fixed, the second rebalancing exercise estimates the increase in concessional lending needed to reduce the average cost of capital.

Our exercise shows that, in our “lower interest rate” scenario, where the U.S. interest rate is expected to average 2.7 percent no volume rebalancing exercise would be needed. In other words, the funding distribution among concessional, non-concessional and private as suggested by the G20 Independent Expert Group (2023) (as per table A.1) would generate a WACC that is below the expected growth trajectory of EMDE.

However, under a “Higher for Longer” scenario, with U.S. interest rate expected to be around 4.4 percent, we estimate that non-concessional lending would need to increase by \$277 billion in flows by 2030 from the initial IEG estimation, as presented in Table A.2. This represents an increase of \$180 billion lower-middle and \$97 billion to upper-middle income countries. In our exercise, we assume that the need for more affordable lending will be met entirely by MDBs, with bilateral official lending from official creditors increasing at the levels recommended by IEG (2023). We acknowledge that according to data from World Bank International Debt Statistics (2024) lending from official bilateral creditors have been on the decline and thus we are likely underestimating the level of overall financing needed by MDBs.

**Table A.2. Increase in non-concessional lending while reducing private sector share**

<b>REBALANCING PROPOSAL 1</b> WACC closer to $g^*$ reducing private sector participation		
<b>Lower-Middle Income</b>		
	<b>Lower Interest Rates</b>	<b>Higher for Longer</b>
<b>Private (USD Billion)</b>	335	115
Difference	0	-180
<b>Non-concessional (USD Billion)</b>	190	370
Difference	0	180
<b>Concessional (USD Billion)</b>	75	75
<b>TOTAL</b>	<b>600</b>	<b>600</b>
<b>Upper-Middle Income</b>		
	<b>Lower Interest Rates</b>	<b>Higher for Longer</b>
<b>Private (USD Billion)</b>	150	53
Difference	0	-97
<b>Non-concessional (USD Billion)</b>	85	182
Difference	0	97
<b>Concessional (USD Billion)</b>	15	15
<b>TOTAL</b>	<b>250</b>	<b>250</b>
<b>Non-concessional increase needed (USD Billion)</b>	<b>Low Rate Scenario</b>	<b>High Rate Scenario</b>
	0	277

Source: Authors' elaboration

Additionally, we consider that the amount of finance given by MDBs could be made at a lower interest rate. In this case, extra capitalization might be required to compensate for this difference in interest rates. Starting with IEG estimations - according to which by 2030, the MDB system should aim to lend \$390 billion - an interest rate of 4.4 percent scenario would result in a revenue of \$60 billion between 2024-2030. Yet, if MDB lending rates were reduced by one percentage point (1pp, or 3.4 percent), interest revenues would amount to \$53 billion in this period. Therefore, the difference between the lower lending interest rate by MDBs and the market interest rate would result in a “price-based capitalization” or an “interest rate subsidy” of \$16 billion between 2024-2030. However, if we consider our previous exercise, where the lending target increases by \$277 billion in a higher for longer interest rate scenario, this new subsidy needed would increase to \$27 billion during the same period. These results are summarized in Table A.3.

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**Table A.3. Additional Flows Needed to Reduce Lending Rates**

Additional flows needed to reduce lending rates to 1 percent lower than market rates				
BASELINE				
	Projected Yearly Commitment Flows from the MDB System	Projected Interest Rate Paid to MDBs Under Baseline Scenario	Projected Interest Rate Paid to MDBs Under Lending Below FED Rate Scenario	Interest Rate Subsidy of 1pp
2024	56	2	2	1
2025	111	5	4	1
2026	167	7	6	2
2027	223	10	8	2
2028	279	12	10	3
2029	334	15	11	3
2030	390	17	13	4
<b>TOTAL INTEREST RECEIVED</b>		<b>69</b>	<b>53</b>	<b>16</b>
INCREASED LENDING TO REDUCE WACC				
	Projected Yearly Commitment Flows from the MDB System	Projected Interest Rate Paid to MDBs Under Baseline Scenario	Projected Interest Rate Paid to MDBs Under Lending Below FED Rate Scenario	Interest Rate Subsidy of 1pp
2024	95	4	3	1
2025	191	8	7	2
2026	286	13	10	3
2027	381	17	13	4
2028	477	21	16	5
2029	572	25	20	6
2030	667	29	23	7
<b>TOTAL INTEREST RECEIVED</b>		<b>118</b>	<b>91</b>	<b>27</b>

Source: Authors' elaboration

In other words, we calculated the difference between the interest rate revenues that MDBs would receive with non-concessional lending at the projected FED rate and compared it to the revenues they would receive if they were to lend at a lower average interest rate (1 percentage point lower) than the projected FED rate between 2024 and 2030. Based on IEG's target flows and our projections on the increase of flows needed to reduce WACC (390 billion on IEG vs. 667 billion), the 'interest rate subsidy of 1pp' is 16 billion in the current 'Lower Rate' baseline scenario, while in a 'Higher for Longer' interest rate scenario this number increases to 27 billion.

Regarding the second exercise that estimates an increase of concessional finance while maintaining private and non-concessional finance fixed, the result is depicted in Table A.4. It shows that concessional financing needs may increase to \$174 billion under a high-for-longer interest rate scenario. Under this case, lower-middle income countries would need additional \$110 billion and upper middle-income countries, \$64 billion

**Table A.4. Increase in concessional lending while reducing non-concessional lending share**

<b>REBALANCING PROPOSAL 2</b> WACC closer to $g^*$ increasing concessional finance		
<b>Lower-Middle Income</b>		
	Lower Interest Rates	Higher for Longer
<b>Private (USD Billion)</b>	335	335
<b>Non-concessional (USD Billion)</b>	190	80
Difference	0	-110
<b>Concessional (USD Billion)</b>	75	185
Difference	0	110
<b>TOTAL</b>	<b>600</b>	<b>600</b>
<b>Upper-Middle Income</b>		
	Lower Interest Rates	Higher for Longer
<b>Private (USD Billion)</b>	150	150
<b>Non-concessional (USD Billion)</b>	85	21
Difference	0	-64
<b>Concessional (USD Billion)</b>	15	79
Difference	0	64
<b>TOTAL</b>	<b>150</b>	<b>150</b>
<b>Concessional increase needed (USD Billion)</b>	<b>Low Rate Scenario</b>	<b>High Rate Scenario</b>
	0	174

Source: Authors' elaboration

## Estimating the Capital Needs of the MDB System

This exercise examines how much additional capital -if any-- would be required to meet new lending needs and bring banks' Risk-Adjusted Capital (RAC) to a level that would maintain an MDB's stand-alone credit profile (SACP), considering all other factors such as enterprise risk and liquidity buffers remain constant. According to Standard Poors (S&P, 2023) the RAC ratio is a key measure in their rating analysis.<sup>15</sup> Before assessing the capital requirement needs for each MDBs following S&P methodology, it was necessary to estimate the size of the balance sheets of the banks by 2030. For this, we assumed that each MDB's individual lending targets for 2030 would align with their market

<sup>15</sup> We recognize that MDBs may aim to meet criteria from the "Big Three" credit rating agencies- Standard and Poor's (S&P), Fitch, and Moody's - which take distinct approaches. However, we choose to follow the S&P methodology not only because it is the largest CRA in the market, but because it has most binding on MDB operations while Moody's and Fitch are not as problematic for MDBs (Humphrey, 2017 and 2018). Therefore, using S&P's methodology sets a high standard for preserving MDBs' credit ratings.

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share in 2019, based on commitments reported in each bank's annual report or financial statement, whichever provided the necessary information. We assumed that each bank would increase lending volumes incrementally from current levels until 2030.

From the lending targets (annual flows), we estimated the size of the loan portfolio (stock) of each bank by assuming that between 2024 and 2030 this stock would increase according to projected commitment flows (described in section A) net of future repayments, which were estimated based on historical information of individual banks (10 years average when available). Moreover, we estimated the size of equity by assuming incremental increase of that retained earnings, which was estimated using historical data of individual banks (10 years average when available). While equity accumulation generally benefits from higher interest rates that raises the cost of capital for borrowers,. We thus assume an average given the need to use some of the accumulation in higher interest rate years to reduce the cost of capital for borrowers. For some banks, information on repayments or retained earnings was not available in annual reports. In these cases, we replicated ratios of the most similar bank – considering size and geographical operation. Additionally, we included the paid-in capital that these banks plan to incorporate between 2024 and 2030 for banks that approved subscribed capital before 2023 and plan to receive between 2024 and 2030.<sup>3</sup> Finally, we discounted from the loan portfolio of our projections the estimated lending volumes generated by innovative instruments as stated during interviews with MDB staff and summarized at table 2.1 of this report (Humphrey, 2024). The intention was to assess the capital needs net of the deployment of new instruments. Moreover, to account for increase of risk appetite and capital efficiency, we estimated scenarios with different Risk Adjusted Capital (RAC) following other reports and academic studies (Gallagher and Munir 2020, Risk Control 2023a, 2023b)

The Risk The Risk Adjusted Capital (RAC) ratio measures the degree to which Multilateral Lending Institution (MLI) capital covers the losses that could arise from credit, market and operational risks and compares MLIs capital to its risk-weighted assets. The exercise adopted the following assumptions regarding risks:

- 1. To estimate credit risk related RWA in 2030, we assume that MDBs** may need to take on higher risks as they expand their lending operations. So, we considered three possible projections: we project that the ratio of Credit Risk-related RWAs to Purpose-related Exposure (PRE) would maintain the current levels or increase by 10 percent. The assumption under the 10 percent risk increase scenario is justified by the need for MDBs to significantly boost lending to sectors that are considered riskier (e.g., infrastructure) and to countries with lower credit ratings to boost development prospects. Moreover, increasing lending to the private sector rather than sovereigns could also increase the RWA of MDBs. It is important to consider that potential downgrades of MDBs's clients do not jeopardize the ability of MDBs to provide voluminous financing to EMDE. Recently S&P report have shown that high risk portfolios of MDBs offset their capital optimization efforts, hence not translation in increasing lending (S&P, 2023b). Based on these assumptions and discussions with MDBs who reported credit risk increases ranging from 8 percent to 54 percent during COVID-era lending surges but also considering MDBs efforts to minimize risks – e.g. via Exposure exchange agreements.
- 2. To estimate market risk related RWA in 2030, we assume that** the ratio of market risk-related RWA to credit risk-related RWAs will remain unchanged from its 2023 level. This assumption leads us to project estimate of market risk related RWA in 2030.
- 3. To estimate operational risk related RWAs in 2030, we assume that** the ratio of operational risk-related RWA to credit risk-related RWAs will remain unchanged from its 2023 level. This assumption leads us to project estimate of operational risk related RWA in 2030.

Therefore, the total RWAs in 2030 are estimated as sum of 1) Credit risk related RWA, 2) Market risk related RWA and 3) Operational Risk RWA. For MDBs and for commercial banks, credit risk is the main contributor towards overall risk, hence we decided to adjust the credit risk related to RWAs as mentioned in the point 1 above, while maintaining the market risk and operation risk related to RWAs unchanged.

Following S&P's methodology, we estimate Multilateral Lending Institutions MLI adjustments <sup>16</sup>in 2030 by assuming that the ratio of MLI adjustment to Total RWA before MLI adjustment will remain unchanged from its 2023 level. This assumption leads us to project estimate of MLI adjustments in 2030.

Next, we subtract MLI adjustment from the total RWA in 2030 to arrive at the RWA after MLI adjustment.

Finally, to estimate Risk Adjusted Capital Ratio (RAC) in 2030, total adjusted capital in 2030 is divided by RWA after MLI adjustment.

Followed by that, we we identified the minimum RAC levels each MDB could maintain while preserving their current credit rating. We then calculated a lower and upper quartiles, in relation to the minimum RAC level that does not lead to credit downgrade. As an illustrative example, Imagine bank A has a RAC ratio of 20% and could reduce RAC ratio until 10% without downgrades. The upper bound accounting to moderate increase risk appetite would be 17.5%, while the lower bound accounting to higher levels of risk appetite would be 12.5%.

We then estimate the additional capital required under the three scenarios:

- 1. Current trajectory:** We estimate how much additional capital is necessary for banks to maintain capital adequacy (RAC ratios) at the upper bound. This scenario also incorporates MDBs we current plans to implement innovative instruments (following information provided by MDBs and summarized at table 2.1)
- 2. Raising ambition paid-in led.** We estimate the capital increase needed to bring the RAC ratio to the lower bound, with higher levels of risk appetite. Beyond current CAF plans, the 'raising ambition paid-in led' scenario anticipates \$20 billion in hybrid capital issuances for the MDB system. This amount, equivalent to SDR 15 billion and 5% of MDBs' equity, is permitted by the IMF (2024). Although not all MDBs can issue SDR-denominated hybrid capital, this limit serves as a system-wide benchmark regardless of currency denomination
- 3. Raising ambition hybrid capital led.** We estimate the capital increase needed to bring the RAC ratio to the lower bound, with higher levels of risk appetite. Beyond current CAF plans, the 'raising ambition hybrid capital led' considered MDBs would issue hybrid capital in the amount of 24% of their equity (based on information from the WB evolution roadmap as a benchmark), which would account for \$91 billion

**Note:** For all scenarios, we assume that the assessment of a) funding and liquidity and b) enterprise risk profile remains unchanged from its 2023 level. If the outcome is a split cell (please refer to table A.6 below), we assume that S&P has a positive long-term view on enterprise risk profile and financial risk profile and on MLIs credit standing (please see extract from the S&P methodology below) and chooses the higher of the two ratings. We also assume that the assessment of other factors affecting ratings (please see Figure A.5 and Figure A.8 below) is neutral.

<sup>16</sup> According to Standard Poors (S&P, 2023) "Such adjustments mostly include PCT and preferential treatment, the high risk exposure cap and single-name sovereign concentration".

## Executive Summary

### 1. Falling Behind and Running Out of Time on Development Finance

### 2. The Role of MDBs to Scale Financing for Shared Development and Climate Goals

### 3. Framework for Assessing the Capital Needs of MDBs for Efficiency and Sustainability

### 4. Lessons Learned From Benchmarking Exercise on Capitalization Policy and Processes and Recent Capitalizations

### 5. Next Steps for the Evolving G20-MDB Relationship to Work as a 'Bigger' System: Toward Regular Capital Needs Reviews

## References

## Technical Appendices

**Figure A.5. S&P Determining an Indicative Stand-Alone Credit Profile and Issuer Credit Rating for a Multilateral Lending Institution**

--Enterprise Risk Profile--	--Financial Risk Profile--						
	Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Extremely strong	aaa	aaa/aa+	aa+/aa	aa/aa-	a+/a	a-/bbb+	bbb/bbb-
Very strong	aaa/aa+	aa+/aa	aa/aa-	a+/a	a/a-	bbb+/bbb	bb+/bb
Strong	aa+/aa	aa/aa-	a+/a	a/a-	bbb+/bbb	bbb/bbb-	bb/bb-
Adequate	aa/aa-	a+/a	a/a-	bbb+/bbb	bbb/bbb-	bb+/bb	b+/b
Moderate	a+/a	a/a-	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Weak	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb/bb-	b+/b	b-
Very weak	bbb+/bbb	bbb/bbb-	bb+/bb	bb/bb-	b+/b	b-	b-

Assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings is based on "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', and 'CC' Ratings," published Oct. 1, 2012.

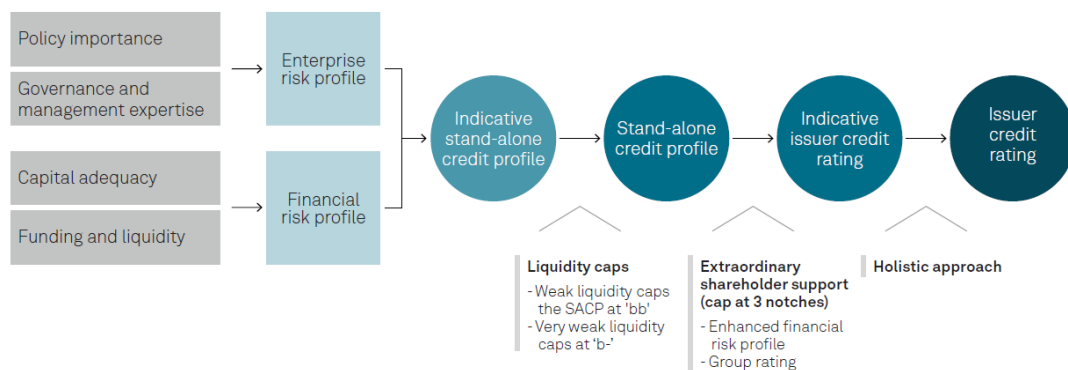
Source: Replicated from S&P (2023)

**Figure A.6. S&P Rating Process for Multilateral Development Banks**

7. If the outcome of table 2 is a split cell, we determine which indicative SACP to choose based on:
- Our longer-term view of some of the factors that support the ERP and FRP over a three- to five-year rating horizon; and
  - Our view of the MLI's credit standing, relative to that of its peers (that is, other MLIs that share similar types of exposures and have a similar risk profile).

Source: Replicated from S&P (2023)

**Figure A.7. S&P Analytical Framework for Multiple Lending Institutions**



Source: Replicated from S&P (2023)



**Figure A.8. S&P Risk Position and Capital Adequacy Assessment**

Adjusted RAC (including trend)	Initial capital adequacy assessment	Adjustments		Risk position assessment	Final capital adequacy assessment
		Positive	Negative		
Above 23%	Extremely strong	Loan performance, loss experience and risk management (from +1 to -1)	Risks the RAC does not capture or overstates (from +1 to -6)	Very positive (+2)	Extremely strong
Above 15%	Very strong			Positive (+1)	Very strong
Above 10% and up to 15%	Strong			Neutral (-)	Strong
Above 7% and up to 10%	Adequate			Negative (-1)	Adequate
Above 5% and up to 7%	Moderate			Very negative (-2)	Moderate
Above 3% and up to 5%	Weak			Extremely negative (from -3 to -6)	Weak
Lower than 3%	Very weak				Very weak

Source: Replicated from S&P (2023)

## Benchmarking Exercise on Capitalization Policy and Processes and Recent Capitalizations

This part of the report focuses on capitalizations of Multilateral Development Banks (MDBs) that took place after the Global Financial Crisis (GFC). The analysis of General Capital Increases (GCIs) during this timeframe is segmented into three sub-periods: i) the immediate aftermath of the GFC (2009-2013), ii) a period without global external shocks (2014-2019), and iii) the period encompassing the COVID-19 pandemic and its aftermath (2020-2024).

The MDBs included in the benchmarking assessment:

- African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Development Bank of Latin America and the Caribbean (CAF), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Islamic Development Bank (IsDB), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), Interamerican Development Bank (IDB or IADB), Inter-American Investment Corporation (IDB Invest), New Development Bank (NDB), Council of Europe Development Bank (CEB) and Fund for the Development of the River Plate Basin (FONPLATA).
- While all part of the World Bank Group, we consider IBRD, IFC and MIGA to be separate MDBs, the same we do with the IADB and the IDB invest.

An initial clarification is necessary: the African Development Fund and IDA undergo replenishments, which are not considered as GCIs in this analysis. Hence, we then excluded these institutions from this document.

In addition, the NDB and the AIIB were established more recently: in 2014 and 2015, respectively. Therefore, both banks underwent initials capitalizations and those were not considered as GCIs because they were part of the banks' establishment process. Due to their recent establishment, neither bank has registered any capital increases thus far.

Lastly, the IFC and IDB Invest, do not have a callable portion in their capital structures. However, according to IDB Invest articles of agreement (section 2.d of article 2), the IDB Invest can potentially authorize the issuance of callable capital, but this was never done in practice.

The information systematized and analyzed is drawn from official MDB documentation, including financial statements, annual reports, press releases, as well as reports from the major credit rating agencies.

