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Multilateral Development Banks

Published On: 20-10-2023

Why is in news? Why reforms have been proposed for World Bank, other Multilateral Development Banks; what they say

A G20 expert panel on **strengthening Multilateral Development Banks (MDBs)**, such as the World Bank and the Asian Development Bank, wants the institutions to **shift from financing individual projects to prioritising programmes with sectoral focus and long-term transformation plans**, as identified by national governments.

According to the expert group, MDBs should focus their operations – **financial as well as analytical** – on helping national governments create and operationalise their respective country platforms for the highest priority sustainable development goals (SDG) “as evidenced by the commitment of country leadership and degree of national investment.”

About Multilateral Development Banks:

Multilateral Development Banks are institutions whose members include multiple developed and developing countries, which have to **fulfil certain lending obligations to facilitate developmental objectives**.

They **provide financing and technical assistance** to countries and organisations undertaking projects across sectors including transport, energy, urban infrastructure, and waste management.

Usually, **developed countries in MDBs contribute to the lending pool** while developing countries primarily borrow from these institutions to fund development projects.

MDBs **originated in the aftermath of World War II** to rebuild war-ravaged nations and stabilize the global financial system.

While commercial banks seek to make profits on loans and other financial services, the goal of MDBs is to **issue grants and low-cost loans to improve the economic conditions of impoverished or developing nations**.

MDBs now operate throughout the world and control trillions of dollars in assets.

Why are experts advocating for reforms within MDBs?

The G20 expert group **cites the climate crisis** to argue that while stakeholders worldwide know what needs to be done to mitigate it they “lack mechanisms to make this happen on a global scale, especially in emerging markets and developing economies (EMDEs).”

According to the expert group, a reformed MDB ecosystem can equip stakeholders to better deal with global challenges in effective ways.

It has recommended that MDBs **operate more in sync with the developmental priorities** of individual nations.

Additionally, the expert group **called for bringing private sector engagement to the centre of MDB operations** by breaking away from the culture of limited operational interaction between their private and sovereign financing

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arms.

To **mitigate coordination failures**, the expert group has called for **greater involvement of national governments** to develop “a home-grown unified vision of goals, policies, investments and financing.”

These recommended reforms are to “**help address multiple coordination failures** among domestic and international stakeholders, public and private.”

The expert group also notes that the **existing perception and practices of MDBs** have adversely impacted their engagement with the private sector.

MDBs are **often seen as bureaucratic and risk averse**, which deters the private sector from being more involved in assisting with financing.

Given that MDBs **need to ramp up financing to \$390 billion by 2030**, the private sector can play a pivotal role in making that happen by reversing the current trend of “disappointingly low” private financial flows to EMDEs.

As per the group, the **private sector’s involvement depends on** “MDBs embracing partnerships with the private sector, taking on more risk – especially credit risk and policy risk – and then managing it properly.”

Need for Reforms in MDBs:

The current legal and institutional framework of many MDBs was designed in the post-war era to address reconstruction and development needs. This **framework may not adequately address contemporary challenges and aspirations**, especially those of the Global South.

The development landscape has shifted from a focus solely on economic growth to a broader **emphasis on inclusive and sustainable development**. MDBs need to realign their strategies and practices to promote social inclusivity, environmental sustainability, and resilience.

Developing countries face a diverse range of challenges, from poverty and inequality to climate change and conflict. MDBs need to reform to offer tailored and flexible solutions that can **address these complex and varied development needs**.

The WBG estimates that the average annual spending needed to address global challenges of climate change, conflict, and pandemics is \$2.4 trillion per year for developing countries between 2023 and 2030.

Many MDBs have governance structures that may not reflect the changing global balance of power and influence. Reforms are needed to **ensure better representation of the interests and voices of developing countries** in decision-making processes.

The digital revolution has transformed economies and societies. MDBs need to **incorporate technology and innovation into their strategies** to harness their potential for development, including digital financial services and e-governance.

Significance of MDBs:

MDBs provide funding for development projects that might not otherwise **attract sufficient investment** from the private sector or national budgets.

MDBs **foster partnerships** with governments, private sector entities, civil society organizations, and other stakeholders which encourages collective action.

MDBs contribute to **addressing global challenges** such as climate change, health crises, and infrastructure gaps.

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MDBs play a role in **attracting private sector investment** by providing guarantees, co-financing, and technical assistance that mitigate risks and create a conducive investment environment.

MDBs **assist member countries in building institutional capacity**, improving governance, and enhancing policy frameworks.

MDBs **promote sustainable development** by integrating environmental and social considerations into their projects and programs.

Challenges for Reforming MDBs:

MDBs have a **diverse membership of countries with varying priorities**, ideologies, and development needs. Reaching consensus on reform measures that satisfy all member states can be challenging.

Implementing reforms often **requires financial resources** for changes in policies, processes, and capacity-building.

Geopolitical factors, global economic conditions, and changes in international development discourse can influence the direction and pace of reforms.

Countries have their own national interests in mind, which might not always align with the broader development goals of MDBs. Balancing these interests with the collective mission of MDBs can be complex.

MDBs often face criticism for being **trapped in bureaucratic procedures**, which can slow down project implementation and decision-making.

MDBs face **challenges in mobilizing private sector investments** for development projects. They need to create an enabling environment that attracts private capital by addressing risks and providing financial incentives for private sector engagement.

Implications for India:

India, as a leader from the Global South, has an **essential role in advocating for necessary reforms** that reflect the perspectives and needs of developing countries.

G20 Platform: India's G20 presidency and the formation of the **Expert Group on Strengthening MDBs** aims to bring coherence to various efforts and initiatives to enhance the effectiveness of MDBs.

India is also a major borrower and beneficiary of MDBs, especially the World Bank Group and the Asian Development Bank.

India has **received loans and grants from these institutions** for various sectors such as infrastructure, health, education, agriculture, etc.

India is also a **contributor and shareholder** of MDBs.

India has provided capital and resources to these institutions to support their operations and lending capacity.

India has also participated in their governance and decision-making processes.

Multilateral Development Banks lending in India:

MDBs have played a crucial role in India's development journey by financing key infrastructure projects with longer gestation periods.

The **World Bank**, established in 1944, has **committed to lending worth \$97.6 billion in India**, including all active and closed projects. Of the total commitments, \$18.7 billion (19 per cent) have been committed to projects in the public administration sector, \$14.8 billion (15 per cent) to the agriculture, fishing and forestry sector, and \$10.6 billion (11 per cent) to the transport sector.

The **Manila-based Asian Development Bank**, formed in 1969, has cumulatively committed to assistance worth \$59.7 billion in India for project and technical assistance. Of the total assistance, \$20.2 billion (34 per cent) has been committed to the transport sector, \$15 billion (25 per cent) to the energy sector, and \$6.7 billion (10 per cent) to the urban infrastructure sector.

Of the \$2 billion it committed in 2022, \$1.8 billion was committed to sovereign projects, for which the loan amount is guaranteed by either the central, state, or local government(s) and just \$0.2 billion to non-sovereign projects.

The **Beijing-headquartered Asian Infrastructure Investment Bank (AIIB)**, which was formed in 2016, has approved financing worth \$9.9 billion in India. Of this, \$4.2 billion (42 per cent) has been approved for the transport sector, \$1.4 billion (14 per cent) for the energy sector, and \$1.25 billion (12.6 per cent) for economic resilience.

Of the total 42 projects for which AIIB has approved financing, 29 are sovereign projects and 13 are non-sovereign projects.

The **European Investment Bank**, established in 1958, has signed off on 22 projects in India with a cumulative value of Euro 4.5 billion. Of the total amount, Euro 2.45 billion were signed off for the transport sector and Euro 1.5 billion for the energy sector.

Way Forward:

MDBs need to expand their **mandate beyond traditional goals of poverty reduction and shared prosperity**. This expansion should encompass challenges like transboundary issues, climate change, and pandemics.

While broadening the mandate, it's essential not to compromise the funding available for traditional priorities such as poverty alleviation and inequality reduction, especially in Low-Income Countries (LICs).

MDBs need to create an environment that **attracts private capital by mitigating risks** associated with investment. Approaches such as blended finance and guarantees should be explored.

MDBs should **work in close coordination with each other** to avoid duplication of efforts and enhance efficiency in addressing global challenges.

The **overarching goal of reforming MDBs** is to enhance human welfare. This requires deeper integration with various stakeholders, including governments, private sector, civil society, and international organizations.