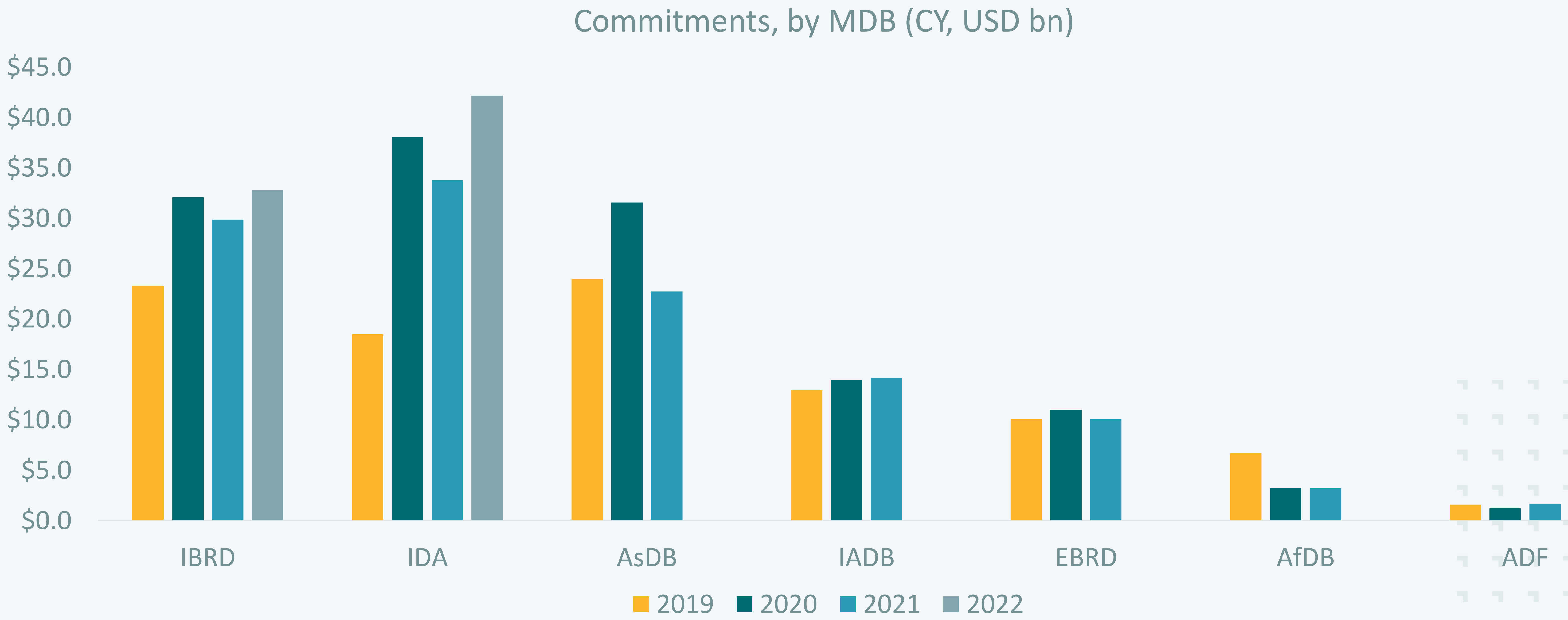
Multilateral development banks: How to improve the provision of global public goods

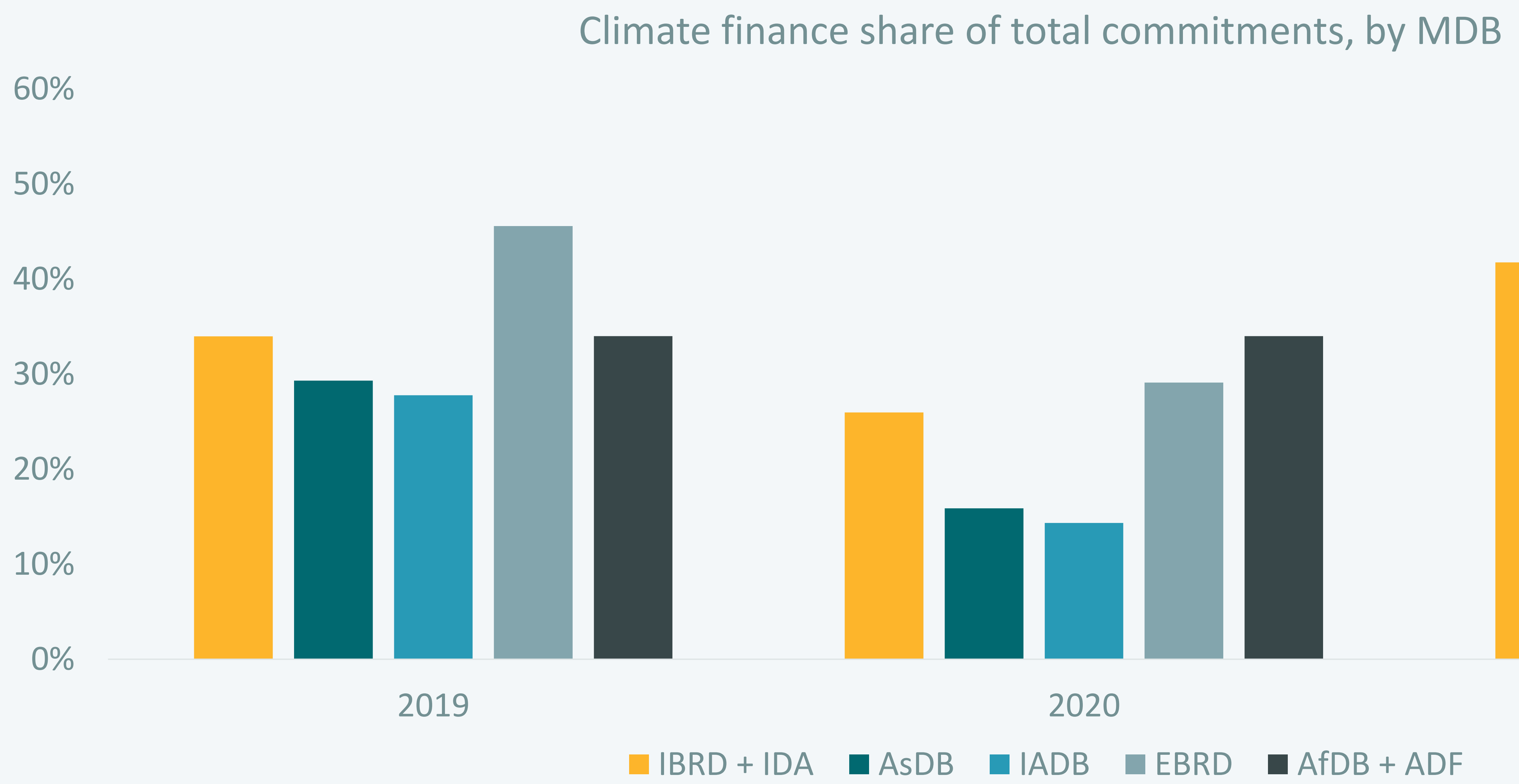
Clemence Landers | March 22, 2023 | CGDev.org

MDBs are a major source of global development and climate finance



Source: Annual reports

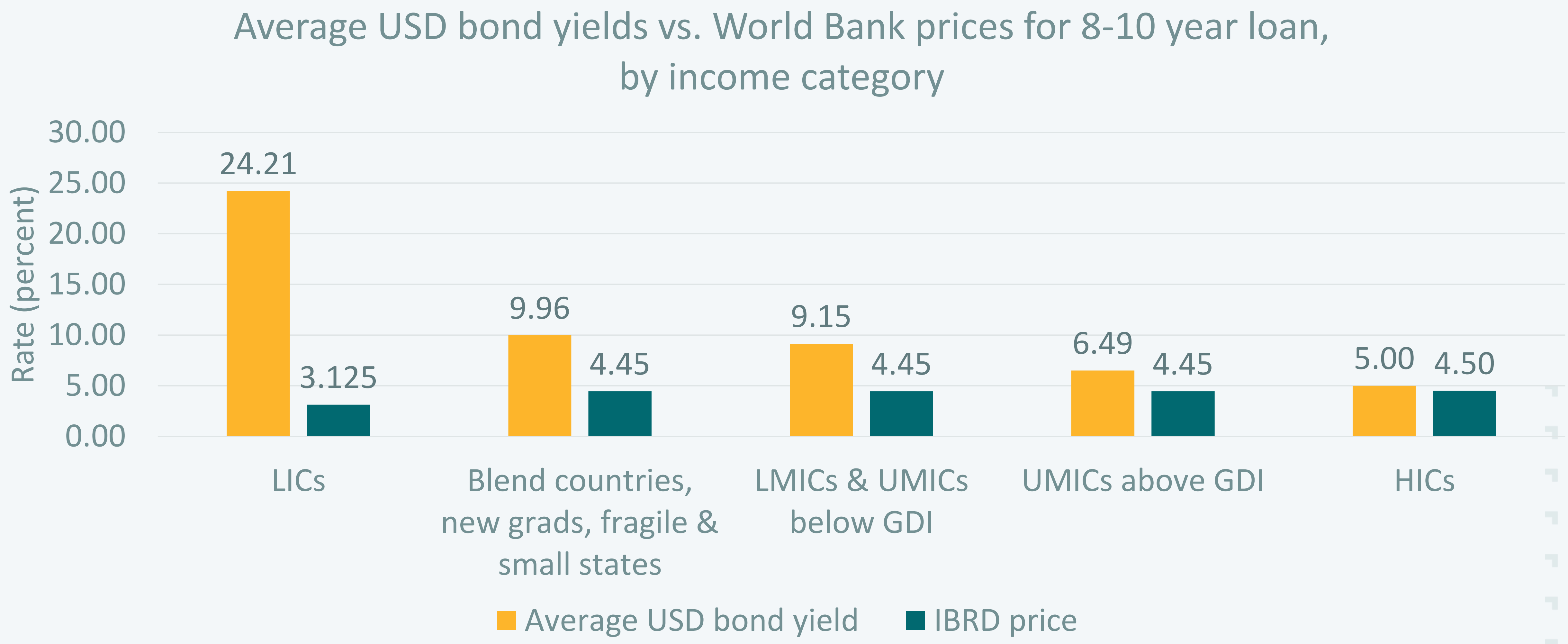
Between 20 and 50 percent of commitments are climate-related, with EBRD leading the pack



Source: Annual reports, press releasees

MDB loans are below market rate for all categories of borrowing countries

- MDBs provide grants, as well as loans, equity, and guarantees on favorable terms



Source: World Bank website, Bloomberg

GPG projects and standard MDB projects have different economic characteristics

- Global public goods projects tend to not generate a financial cashflow
- Global and national economic interests are not always aligned
- Externalities are not directly captured by the country making the investment

The MDBs' country-based models is poorly equipped to deal with global challenges

- Vaccines:
  - CoVax was designed as a global effort, and supported by multiple MDBs
  - However, it failed to deliver equitable vaccination due to delayed financing, national self-interest, and governance and communication issues, among other challenges
- Forced Migration and displacement:
  - Migration can provide opportunity with shared economic benefits for sending and receiving countries
  - However, MDB system has failed to respond at scale (notable exception of the IDA refugee window)
- Climate
  - Biodiversity and conservation
  - Coal plant decommissioning

As a result, most GPG financing has been off MDB balance sheets

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- Climate financial intermediary funds (FIFs) have received more than $50 billion in cumulative grant funds from donors for climate
- Since its founding in 2002, the Global Fund to Fight AIDS, Tuberculosis and Malaria has disbursed over $55 billion for investments related to global health challenges, including Covid-19
- The more recently established Pandemic Fund has raised $1.6 billion for pandemic prevention (though it has received over $5.5 billion in bids already)
- Though significant in magnitude, there are significant challenges at the systemic level and differing performance across FIFs

The World Bank's Window for Host Communities and Refugees (WHR) is a significant exception

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- Founded in 2016, with $2.4 billion in funding within IDA20
- Offers volume and term incentives that encourage countries to borrow for refugees while also investing in host communities, reconciling tension between GPG and development finance
- By being 'on' balance sheet as part of IDA20, the WHR leverages every $1 of donor contributions into $4 of World Bank lending

The key question for MDBs is how to create concessionality to get MICs to invest in GPGs

- New grant window (like WHR)
  - Risk: competition with IDA for donor support
- Using MDB profits
  - Risk: reduced revenue and future lending capacity (since profits no longer grow equity)
- More private capital mobilization
  - Risk: Unclear how to generate a revenue stream for investments without an economic rate of return
- Other non-financial incentives
  - Speed and volumes?

Questions