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Chapter 12

Multilateral Development Banks: Contributions and Challenges

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Abstract

This chapter examines the contributions of Multilateral Development Banks (MDBs) and also discusses the challenges confronting them. Some nations have established MDBs to support international development initiatives through long-term loans and grants. MDBs have a large membership that includes both developed (donor) and developing (receiver) countries (the borrowers). The MDBs obtain funding from a variety of sources, including the global capital market, contributions and special donations from members, proceeds from the issue of bonds and partnerships, etc., which aid in their ability to fund their activities. MDB operations can be essentially divided into two categories: financial activities, and knowledge products. Also, MDBs are a significant source of data collection and analysis, which results in the improvement of policy and the generation of ideas for efficient policy planning and execution. This enables MDBs to address broader agendas including regional and global challenges because of the scale of the institutions and the scope of their responsibilities. Their contributions, therefore, include providing a steady source of funding, aiding middle-income nations, meeting a range of development needs, and providing a variety of complementary comparative advantages. However, the severity and regularity of numerous crises have also created major difficulties for MDBs, including resource competition, an increase in ad hoc funding decisions, funding vulnerabilities, the proliferation of MDB alternatives, and the geographical distribution of power. Therefore, to harmonize national and global demands MDBs can reform financing patterns, explore novel financial and policy incentives, assess multilateral funding decisions, improve data collection, and better prioritize multilateral activities.

12.1 Introduction

The multilateral development banks (MDBs) emerged as one of the greatest success stories of the post-World War II era for the international community. For more than five decades, they combined financial strength and technical experience to assist their borrowing members' investments in post-conflict reconstruction, growth acceleration, and poverty reduction. The multilateral system's ongoing expansion in terms of scope, purpose, and financing volume stands as a testament to its enduring relevance and general acceptance of MDBs as effective sources of development finance. However, the geo-economics geography of this century has changed tremendously, as have the aspirations and requirements of the emerging globe. Developing countries presently contribute to half of the global economy, and by 2030, they are expected to account for more than half of all global consumption. (Cohen, 2006). Today, almost all developing nations manage public investment primarily using local resources, and some of the poorest nations may independently borrow overseas. Similarly, the rise and globalization of professional knowledge in development practice have damaged the MDBs' once near-monopoly on advisory services. MDBs have been

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repeatedly criticized for allegedly lacking openness, accountability, and efficacy. Part of this mistrust may originate from the multilateral system's rising feeling of complexity and ambiguity, which is often regarded as a chaotic aggregation of institutions with competing and often overlapping, objectives.

The 2030 Agenda re-energized the desire for multilateral ways to support global development goals. The approval of the Addis Ababa Action Agenda (AAAA) gave multilateral players a crucial role and an extended mandate as development stakeholders recognized the necessity of utilizing the multilateral system's capabilities to support the Sustainable Development Goals (Gulrajani, 2016; Rudolph, 2017). The COVID-19 problem has turned the spotlight back on the MDB's development framework, highlighting the high level of reliance among countries. There is broad agreement that the MDBs must play a critical role in tackling the health, economic, and humanitarian crises in developing countries. MDBs have made enormous contributions to the initial reaction to the disaster. However, the crisis has exposed some limits in the multilateral development system, emphasizing the importance of MDBs continuing to adapt to the size of new global challenges.

This chapter examines the contributions of multilateral development banks and also discusses the challenges confronting them. The rest of the chapter is structured as following. Section 12.2 discusses the overview and types of multilateral development banks. Section 12.3 highlights the funding and operations. The financing role of multilateral development banks is explored in section 12.4, and section 12.5 elaborates the contribution and challenges. The way forward is presented in section 12.6, and the concluding remarks in section 12.7.

12.2 Overview of Multilateral Development Banks

MDBs have been created by several countries to promote development efforts through long-term loans and grants. They mostly give low- or no-interest loans, as well as grants, to fund projects that encourage development. In more detail, MDBs provide the following types of financing:

1. Long-term loans – these loans often have a lifespan of up to 20 years and interest rates are determined by market rates. MDBs often obtain cash from global capital markets and then lend them to governments in developing nations.
2. Very-long-term loans — also known as credits, these loans often have a maturity of 30 to 40 years with interest rates that are lower than market rates. Such loans are financed through direct donations from donor countries' governments.
3. Grant funding - some MDBs also offer grants for technical support, advisory services, and project development.

MDBs have large memberships, which include both developed (donor) and developing (recipient) countries (the borrowers). The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Bank Group (IDB, IADB), the Development Bank of Latin America (CAF), the Asian Development Bank (ADB), the African Development Bank (AfDB), the Islamic Development Bank (IsDB), the Asian Infrastructure Investment Bank (AIIB), and the International Fund for Agricultural Development (IFAD) are just a few examples.

Sub-regional MDBs are also available, with solely borrowing countries as members. MDBs typically use the global capital markets to raise funds at cheaper prices and lend to their members. The Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB), the Black Sea Trade and Development Bank (BSTDB), the Development Bank of Southern Africa (DBSA), the West African Development Bank (BOAD), the East African Development Bank (EADB), the Eurasian Development Bank (EDB), the Economic Cooperation Organisation Trade and Development Bank (ETDB), and the New Development Bank (NDB) (formerly BRICS Development Bank) are some examples.

MDBs are comparable to MFIs, with the exception that MFIs have a smaller membership and focus on financing certain activities. The International Fund for Agricultural Development (IFAD), the International Investment Bank (IIB), the International Finance Facility for Immunization (IFFI), the European Commission (EC), the OPEC Fund for International Development (OFID), the Nordic Investment Bank (NIB), and the Arab Bank for Economic Development in Africa (BADEA) are just a few examples.

12.2.1 Regional Development Banks

RDBs are regional development banks that focus on financing development activities in specific geographical areas. They are also classified as MDBs and MFIs, however they only operate in certain parts of the world. The regional countries and other large donor countries are the majority shareholders in these entities. In terms of organisation, functions, and operations, RDBs are 'clones' of the World Bank, but they tend to have a narrower focus. The Inter-American Development Bank (IDB), African Development Bank (AfDB), Asian Development Bank (ADB), and European Bank for Reconstruction and Development (EBRD) are the primary regional development banks (EBRD).

The Inter-American Development Bank for Latin America was the first of the four major RDBs to be founded, in 1959. The African Development Bank was established in 1964, followed by the Asian Development Bank in 1966, and the European Bank for Reconstruction and Development in 1991.

As previously stated, the RDBs have comparable structures and roles to the World Bank, although they differ in some ways. For example, both the RDBs and the World Bank have 'hard' and ‘soft' lending capabilities, with the hard lending terms being quite comparable across the board and the soft loans being paid directly by donors. As previously stated, the IDA provides soft lending from the World Bank. IDB, AfDB, and ADB, for example, run soft loan programmes through the Fund for Special Operations (FSO), African Development Fund (ADF), and Asian Development Fund (AsDF). Hard lending consists of loans with market-based terms, whereas soft lending consists of grants and concessional loans with longer repayment periods and lower interest rates. The majority of loans have a term of 25 to 40 years. Both the World Bank and the RDBs are managed by Boards of Governors, which are composed of one governor and one alternate governor from each member country. The Boards of Governors, which are the institutions' highest authority, appoint and assign the majority of their responsibilities to the Boards of Directors, who oversee the entities' overall direction.

Donor countries prefer to route funding through the World Bank rather than through regional development banks, which is a key problem for the latter. This also means that borrowing countries value their relationship with the World Bank more than their individual RDBs. We now provide an overview of the main RDBs in Table 12.1.

Table 12.1: Overview of RDBs

Regional Development Banks	Area	Year Founded	Headquarters	Main goal
Inter-American Development Bank (IDB)	Latin American, Caribbean	1959	Washington, DC, (USA)	Promoting poverty reduction, social equity, environmentally sustainable economic growth
African Development Bank (AfDB)	Africa	1964	Abidjan (Cote D'Ivoire)	Spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction
Asian Development Bank (ADB)	Asia and Pacific region	1966	Manila (Philippines)	Fostering economic growth and cooperation in the region
European Bank for Reconstruction and Development (EBRD)	Central and Eastern Europe and Central Asia	1991	London, United Kingdom	Promoting transition to market-oriented economies in the Central and Eastern Europe and Central Asia countries.

Source: Abor *et al.* (2020)

12.2.2 Inter-American Development Bank

The headquarters of the Inter-American Development Bank (IDB), which was founded in 1959, are in Washington, DC. It is the first RDB to be founded, and it is the main source of multilateral development financing for Latin America and the Caribbean's socioeconomic development, institutional development initiatives, trade, and regional integration programmes. The IDB is owned by 48 countries, including 26 Latin American and Caribbean countries, 16 European countries, the United States, Canada, Israel, China, Japan, and South Korea. The 26 Latin American and Caribbean governments are borrowing members who receive loans from the IDB on a regular basis, whereas the rest are non-borrowing members.

The notion of establishing a development finance institution (DFI) for Latin America was first advocated at the First American Conference in 1890, during the early efforts to construct an inter-American system. The IDB was established as a result of an idea submitted by Juscelino Kubitshek, then-President of Brazil. On April 8, 1959, the IDB was formally established, with the Organization of American States drafting the Articles of Agreement.

The IDB's core objectives are poverty reduction and social fairness, as well as environmentally sustainable economic growth. It concentrates on the following priority areas in order to achieve these objectives:

- Promote competitiveness by supporting policies and programmes that improve a country's ability to develop in the global market.
- Modernise the government through increasing the efficiency and transparency of governmental institutions.
- Invest in social programmes that can enhance opportunities for the underprivileged and promote regional economic integration by building relationships between countries in order to develop larger markets for their commodities

It also aids regional initiatives by providing information and knowledge to improve policy debate as well as sponsoring technical collaboration to strengthen regional integration. It provides technical advice to governments on issues of trade and regional integration, as well as public outreach programmes and activities aimed at encouraging such integration. Concessional loans are provided by the IDB through its Fund for Special Operations.

12.2.3 African Development Bank

The African Development Bank (AfDB), also known as the Banque Africaine de Development (BAD), was established in 1964 in Abidjan, Cote d'Ivoire (but in 2003, the headquarters temporarily moved to Tunis, Tunisia because of the Ivorian war and then returned in September 2014). Its stockholders include 81 member countries (shareholders), with 54 African countries and 27 non-African countries. The African Development Fund and the Nigeria Trust Fund are two more entities under the African Development Bank Group.

Following the colonial period in Africa, a growing desire for greater unification across the continent led to the drafting of two draught charters for the Organization of African Unity (formed in 1963 and later superseded by the African Union) and a Regional Development Bank (RDB). In 1963, an agreement was drafted to establish the AfDB, which was signed on September 10th, 1964. The African Development Bank was initially created in 1966 under the aegis of the Economic Commission for Africa. Despite the fact that the Bank was founded by African countries, non-African countries have been able to join since 1982.

The AfDB Group's overall goal is to promote long-term economic and social growth in its regional member countries (RMCs), thereby helping to alleviate poverty. The AfDB Group is concentrating on mobilizing resources and allocating them to RMC investments. It also offers policy guidance and technical assistance to RMCs in their development initiatives. Its main responsibilities include:

- Making loans and equity investments for RMCs' economic and social development
- Providing technical help for RMCs' development initiatives and programmes
- Promoting public and private capital investment for development
- Assisting RMCs in organising their development policies

The AfDB is also expected to pay particular attention to national and multinational projects that are required to promote and facilitate regional integration.

Subscription capital, reserves, borrowed funds, and accumulated net income are the organization’s primary sources of funding. Its shareholding is designed so that RMCs own two-thirds of the entire capital, while non-regional members own one-third. AfDB also has a triple-A credit rating, which allows it to borrow on favorable terms from international capital markets. It provides funding to

African governments as well as commercial corporations that invest in RMCs. The African Development Bank makes non-concessional loans at market rates. It also provides development money on concessional conditions to its low-income member countries through the African Development Fund that do not qualify for non-concessional loans. Funds for concessionary loans are typically obtained from the 27 non-regional members, which come in the form of grant contributions.

12.2.4 Asian Development Bank

The Asian Development Bank (ADB) was established in 1966 and is headquartered in Manila, the Philippines' capital. Originally founded with 31 members, the ADB presently has 67 member countries, with 48 from Asia and the Pacific and 19 from other parts of the world.

At the start of the 1960s, the notion of forming the ABD was put forward. The plan was to create an Asian-focused financial institution that would focus on boosting regional economic growth and collaboration. A resolution was enacted in 1963 to provide clear instructions for the establishment of the Bank United. This was accomplished at the United Nations Economic Commission for Asia and the Far East's first Ministerial Conference on Asian Economic Cooperation. On December 19th, 1966, the Bank was established. During the 1960s, the ADB provided support mostly in the fields of food production and rural development to a predominantly agricultural region.

Through inclusive growth, environmentally sustainable growth, and regional integration, the Asian Development Bank focuses on supporting social and economic development throughout Asia and the Pacific. Through equity investments, loans, guarantees, grants, technical support, and policy discourse, it aims to assist its member countries, particularly developing countries, in reducing poverty and improving quality of life for inhabitants. Infrastructure (energy, ICT, transportation, water, and urban development), environment, regional cooperation and integration, financial sector development, education, health, agricultural and natural resource management, and public sector management are among its main areas of focus.

Bond offerings, recycled loan repayments, and donations from member countries are among its key sources of funding. A significant percentage of the cumulative lending it gives is from its ordinary capital. The African Development Fund is used to provide concessional credit to its underdeveloped member countries. It also maintains a variety of trust funds and helps recipient countries route grants from bilateral donor partners.

12.2.5 European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is the most recent of the five major RDBs, having been founded in 1991 and having its headquarters in London. The EBRD was created with the goal of assisting countries in Central and Eastern Europe and Central Asia in their transition to market economies. In total, 71 countries and two intergovernmental agencies, the European Union and the European Investment Bank, are its shareholders.

The EBRD was established during the disintegration of the Soviet Union and the fall of communism in Central and Eastern Europe, when these nations required assistance in developing a new private sector in a democratic environment. The Bank was established when the shareholders reached an agreement on its charter, size, and power distribution.

The EBRD is also a triple-A credit rated institution, allowing it to borrow at favourable market rates from international financial markets. EBRB invests mostly in private firms in partnership with commercial entities, despite having public sector shareholders. Through its investments, it is devoted to developing democracies and market economies in various Central European and Central Asian countries. Through its support programmes, the EBRD provides loans and equity financing, trade finance, project finance, leasing facilities, guarantees, and professional development. The EBRD is also committed to fostering environmentally sound and sustainable growth by assisting publicly owned enterprises in their privatization efforts.

12.3 Funding and Operations

12.3.1 Funding

The MDBs receive funding from different sources which help them to finance their operations. First, MDBs raise funds from the international capital market and lend it to developing countries or recipients of MDBs funds. These MDBs uses financial instruments such as bonds, swaps and other financial derivatives to raise funds from the international capital market. For example, ADB used currency and interest rate swaps simultaneously with an issue of bonds to raise funds from the international capital market.[1] As at 31 December, 2021, ADB had borrowed in 42 currencies with an outstanding amount of about US$ 134.1 billion.[1] MDBs can without much of a stretch get funds from the international capital market since they are supported by the guarantees of their member governments (Nelson, 2010). Guarantees are obtained through ownership shares registered as a result of membership in each bank by the countries. This backing help MDBs to obtain funds at a lower cost and makes it possible for the MDBs to lend out at a lower cost. Therefore, this source of finance is self-financing and even generate net income.

Additionally, contributions and special donations from members are sources of funds to these MDBs. For example, African Development Fund and Inter-American Development Bank Special Fund are provided by members. The contributions and special donations can be in the form of subscribed capital (shares or paid in capital) and (or) replenishment. When the resources base of the MDBs get depleted due to high lending to the poor countries, the donor countries meet periodically to replenish such resources (i.e., replenishment). Scheduled meeting mostly occurs between the range of 3-5 years. Most regional MDBs are engaged in this regular replenishment with exception of EBRD. AfDB and IDA concluded their replenishment negotiation in 2017 whereas AsDB concluded the negotiation in 2016 (Engen & Prizzon, 2018). Both AsDB and IADB have merged their concessional arm with their ordinary capital resources as of 2017. However, IADB has not had any replenishment since 2102 (Engen & Prizzon, 2018).

Other financial resources include proceeds from the issue of bonds and partnerships. Most multilateral institutions partners with other entity to raise funds to execute projects. For instance, World Bank receives proceed or obtain financial resources from partners with countries, other multilateral institutions, commercial banks, export credit agencies and private sectors investors.

[1] https://www.adb.org/work-with-us/investors/adb-debt-products#:~:text=ADB%20undertakes%20most%20of%20its,through%20its%20private%20placement%20transactions.

12.3.2 Operations

The operation of MDBs can grouped into two such as financing activities and knowledge products. MDBs' financing activities allow them to provide significant financial development assistance in the form of loans, grants, or concessionary terms with very favorable terms, some of which have no interest or have long tenure with significantly low service fees or charges. These concessionary terms may be inaccessible to some developing countries, particularly the least developed, because they lack the depth and capacity to raise capital from the capital market. Such commitments provide recipient countries with much-needed funding sources for critical investments that would otherwise be difficult to obtain in the capital market. Debt financing is provided by MDBs such as AfDB, ADB, and others (Craviolatti, 2018). In 2019, Ethiopia and Pakistan were the top IDA recipients of concessional financial assistance, while Afghanistan and Tajikistan were the top AsDF recipients in 2018.

Furthermore, MDBs have been an important source of data generation and analysis, which leads to policy improvement and idea generation for effective policy planning and implementation. This can lead to increased global trade and even aid in the resolution of member-state conflicts. For example, the World Bank maintains a number of data bank websites, including World Development Indicators, World Governance Indicators, African Development Indicators, and others, which contain information on a wide range of economic and social issues. Other MDBs, such as AfDB and ADB, have similar data banks and knowledge products where data such as inclusive growth construct and other variables can be obtained. MDBs have been analyzing data for policymakers in countries and themselves, as well as funding studies. Some empirical studies, for example, (Anyanwu, 2004; World Bank, 2010; Groff, 2022) are for the World Bank, AfDB and ADB.

12.4 Financing Role of Multilateral Development Banks

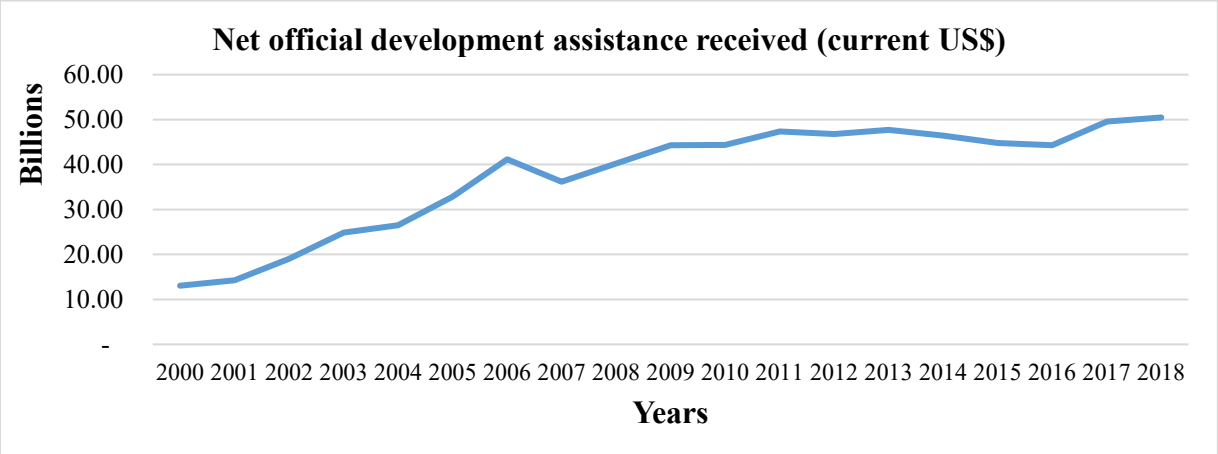
MDBs function under the tenets of international laws in order to aid development activities through long-term credits and grants so as to foster social and economic development. Unlike other private institutions, MDBs benefit from a financed capital-based admittance to different subsidies, and they are centered on developmental targets rather than shareholder returns. As a result, they generally provide loans at low to no interest rates, and they occasionally provide concessional assistance and grants to support energy, education, infrastructure, SMEs growth and other ventures that advance development.

The majority of stockholders are governments, however other multinational or private businesses are occasionally included; According to their purpose, multilateral banks are broadly classified into two types. The first is the Inter-American Development Banks, which consists of the biggest and the popular institutions that make grants and loans and frequently separate between borrowing members, non-borrowing members, poorer and wealthier member. The Caribbean Development Bank is the second kind of MDBs established by the governments of low-income countries that may then borrow collectively to get better rates. African Development Bank) (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), International Financial Corporation (IFC), and Islamic Development Bank (ISDB) are all examples of multilateral banks. Does MDBs give assistance base on conditions? Middle-income nations, low-

income countries, and some private sector groups in developing countries can sometimes benefit from market-based funding or non-concessional aid, mainly in the form of loans. MDBs, on the other hand, also provide loans and grants at below-market interest rates or Concessional Assistance to governments in low-income nations.

MDBs can address both regional and global challenges like disaster assistance, educational reform, and even climate change finance because of the scale of the institutions and the scope of their responsibilities, MDBs may pursue far broader agendas. Many nations have primarily benefitted from the help of MDBs. For example, ODA flow to all African nations, expanded from about US$16 billion in 1980 to US$40.3 billion out of 2006 and declining to US$30.6 billion in 2007. In 2009, ODA from members from the OECD, and the Development Assistance Committee (DAC) expanding in real terms to US$119.6 billion, which addressed 0.31% of DAC members consolidated gross national income. As shown in figure 3, foreign aid has been increasing right from 2000 to 2018. From 2000 to 2006, foreign aid to SSA increased whereas it decreased from 2006 to 2008. Thereafter, the aid to SSA increased from US$ 41.20 billion to US$ 50.48 billion.

Figure 25.3: Trend in Foreign Aid (2000-2018) for SSA



Source: World Development Indicator, 2022

Following World War II, most European nations were devastated by the war's consequences and found themselves in very vulnerable and fragile situations. It is widely acknowledged that DFIOs such as MDBs contributed significantly to the economic growth of the majority of European nations. Continental Europe's rapid industrialization in the nineteenth century was linked to the creation of massive financial organizations (Cameron, 1953). MDBs are also involve in the Provision of financial assistance for developmental projects. MDBs give major financial development support as awards or concessionary conditions, some of which have no interest or extended tenure with low service levies or charges. These concessionary terms might be distant to a few emerging countries, especially the most un-created once, since they come up short on profundity and ability to raise cash from the capital market. Such arrangement offers beneficiary countries with much-required finance sources for crucial initiatives that would otherwise be difficult to obtain in the capital market. DFIO ratings are favored at a certain level, based on loan use (most of which triple the credit rating of A).

RDBs also play important roles in infrastructure financing and capital mobilization. They are primarily involved in funding infrastructure and catalyzing finances for both the private sector and public using traditional and new approaches in order to assist public sector growth. Some RDBs, such as the AfDB, have increased the amount that goes into infrastructure projects throughout the years, as well as the proportion that goes to regional project finance. Risk management and blended financing packages. The vast majority of these banks have also shifted to employing blended financing packages and risk management tools to attract private capital, expand capacity in RMCs, and broker complicated transactions (African Development Report, 2011). Aside from loans for infrastructure development projects, there is also an introduction of quasi-equity instruments and subordinated loans to increase total return on investment and/or to improve credit structures to acceptable risk levels (African Development Report, 2011). RDBs have also been more active in issuing guarantees and participating in currency exchange markets. RDBs also encourage capacity building in RMCs in order to construct resilient and sustainable institutions and regulatory bodies capable of developing even the most complicated projects.

12.5 Contributions and Challenges

Despite rising tensions in the international marketplace, financial contributions to the multilateral development system are increasing. Overall funding to multilateral organizations attained an all-time high of USD 71.9 billion in 2018. This reflects 3% real terms gain over 2017 and a 32.4% increase from 2011 to 2018. However, this expansion is being driven mostly by an increase in allocated contributions, raising concerns about the rising "lateralization" and diminishing quality of multilateral finance. The major multilateral development banks (MDBs) increased their overall lending amounts throughout 2020. Total loan from the largest MDBs reached $131 billion in 2020, up from $90 billion in 2019, according to project approval statistics. In terms of overall volume, this is higher than the loans made in the aftermath of the financial crisis in 2009. Although overall loan volumes grew, the overall year-on-year lending increased far more sharply in percentage terms in the aftermath of the global financial crisis. The main contributions are discussed below.

i. ***Stable source of finance***: Multilateral outflows have progressively climbed since 2011, primarily due to non-concessional loans from MDBs. Multilateral outflows surpass inflows from DAC and non-DAC countries reporting to the system because some organizations, particularly MDBs, have access to capital markets financing. Infrastructure continues to be the largest recipient followed by the productive sectors which have had rapid growth in recent years, particularly in banking and financial services, agriculture, and industry.

ii. ***Increasing contribution of non-DAC members:*** Despite the fact that DAC nations continue to be the largest stockholders and donors of the multilateral development system, other official providers and non-state players are becoming increasingly prominent. Non-DAC members' portion of overall multilateral contributions to the UN system surged from 22% in 2008 to 29% in 2017. This tendency, which reflects changes in the global economy, is especially evident in some industries, including the health industry, where philanthropic foundations and other private entities make up a sizable portion of the international funding.

iii. ***Support to middle-income countries***: Middle-income nations have reaped the most benefits from recent increases in multilateral outflows. The increase in non-concessional

flows reflects a greater emphasis on middle-income nations, particularly upper middle-income countries. On the other hand, multilateral lending appears to be less focused than in the past on least developed countries and other low-income countries, despite the fact that several recipient nations have been reclassified in recent years.

iv. ***Adding value to variety of development needs***: DAC members have high hopes for legacy MDBs in addressing global and socioeconomic difficulties. They believe that new MDBs, such as the Asian Infrastructure Investment Bank and the New Development Bank, would assist reduce the infrastructure investment gap, and that the UN will play a stronger role in maintaining peace and security and delivering humanitarian aid.

v. ***MDBs offer diverse and complementary comparative advantages***: The multilateral development system's disintegration has not diminished its scale benefits over bilateral aid. MDBs are more specialized than bilateral development partners and make better use of government channels. In addition, these organizations allocate a bigger proportion of their resources to fragile environments than bilateral partners.

However, the severity and frequency of numerous compounding and cascading crises, ranging from climate change to pandemics to conflict, have an impact on countries' ability to pursue development priorities and prepare for future shocks. As a result, governments are experiencing significant setbacks in their long-term poverty alleviation efforts and broader growth trajectories. Because of its worldwide reach and financial muscle, the MDB system, together with the IMF, has historically been vital for supporting crisis resilience and post-crisis reconstruction in most of the developing world. But the following challenges will require the MDBs to evolve to remain pertinent.

i. ***Competition for resources***: There is more competition for resources among established multilateral organizations like the World Bank Group and the United Nations (UN). The United Nations and the World Bank Group continue to be the two cornerstones of the multilateral development system, accounting for more than three-quarters of all funds allocated to multilateral organizations. The establishment of new MDBs and the rise of vertical funds, on the other hand, are gradually reconfiguring the multilateral financing landscape (Helble, et.al., 2018).

ii. ***Increased ad hoc funding decisions:*** The diminishing ratio of core contributions to the multilateral development system demonstrates the gradual abandonment of consensus-based strategies by multilateral donors in favour of financing decisions made on ad hoc basis to address particular development issues. This trend reflects, in large part, the principal shareholders' increasingly diverse opinions and lack of common vision. Finally, there is a concern that this tendency will result in a shift of decision-making and accountability from MDB governing boards to a smaller group of multilateral donors who can influence agendas (Barder, et.al., 2019).

iii. ***Funding vulnerability***: Some MDBs are extremely vulnerable to funding. This is especially true for several UN organizations dedicated to humanitarian assistance, owing to their relatively concentrated donor bases and a significant share of allocated funds. The United States' recent withdrawal from the World Health Organization (WHO) in response

to allegations of the organization's close ties with China exemplifies how a high reliance on a few large donors and low funding quality can undermine MBDs independence and the sustainability of their programmes. These problems necessitate increasing attention from DAC nations to guarantee that budgetary contributions are based on collective interests and include adequate flexibility. This would assure program viability and allow organisations to retain impartiality.

iv. ***The proliferation of alternatives to MDBs***: There is a clear growth of alternatives to MDBs in terms of both financial and technical expertise. Many have remarked that private global capital flows outnumber official flows, and the gap between official flows and what is required to meet the SDGs will never be covered with public development funds. This realisation is causing a fundamental shift in how MDB performance is evaluated. Whereas MDBs were originally rated by the volume of finance they offered and disbursed, they are now increasingly judged by the amount of finance they catalyse from other sources including the private sector and domestic resources.

v. ***Geographical distribution of power***: The success of China, India, and other emerging economies in reducing poverty means that poverty in the twenty-first century will be concentrated in nations with the most demanding conditions and the poorest capabilities in sustaining progress. By 2030, an estimated 40 to 60 per cent of the world's impoverished will be living in fragile regions (Chandy, et.al., 2013). As a result, for MDBs poverty reduction performance will increasingly be measured in areas where effectiveness is most difficult to attain.

12.6 The Way Forward

There is a substantial and urgent need to increase funding for climate and development efforts. The MDB system must be at the forefront of this investment effort. However, it must act differently and emphasize large-scale investments in global challenges that cross national borders, such as climate mitigation and post-pandemic adaptation. The greater emphasis on harmonizing national and global demands will manifest differently among MDB borrowers and MDBs themselves. Many countries will require assistance to invest more in risk mitigation, resilience building, and project preparation. And some will require technical assistance and grants to develop a low-carbon transition strategy and create an investment-friendly climate. Some of the recommendations are discussed below.

i. ***Reforming financing patterns***: MDBs should agree on a timetable for implementing the G20 Capital Adequacy Review recommendations, including increased use of shareholder guarantees. As a result, MDBs will be able to increase their lending without risking the stability of their long-term finances. Shareholders must be actively involved in the creation, approval, and monitoring of the implementation strategy, which will rely on the technical expertise of expert groups. MDBs should also incorporate guarantees aimed at attracting new funding for climate-related loans and expanding the reach and effect of their climate projects. MDBs should leverage private capital mobilisation and support the reform of the fragmented financial intermediary framework.

ii. ***Explore novel financial and policy incentives:*** MDBs should incentivize and encourage countries to employ MDB funding in projects that address global concerns. Differentiated lending terms, flexible guarantee programmes, enhanced financial instruments, and so forth are examples.

iii. ***Assess multilateral funding decisions:*** MDBs should carefully weigh the trade-offs and options to the various funding mechanisms at their disposal and use a mix of core and earmarked funds in compliance with promises made as part of the international reform agenda and good practise principles. This is because the performance and governance of the multilateral development system are significantly impacted by the quality of funding.

iv. ***Improve data collection:*** It is more crucial than ever to make sure that multilateral money provided by non-DAC nations and other stakeholders, such as private players, is accurately recorded in the existing ODA data collection methods, like the OECD Creditor Reporting System and the upcoming TOSSD (total official support for sustainable development) framework. This is true both in terms of absolute and relative growth. Failure to do so will result in a growing gap in the vision and understanding of the multilateral development system among multilateral players.

v. ***Better prioritisation of multilateral activities:*** In an environment of constrained resources, as is likely to arise in the aftermath of the COVID-19 pandemic, effective prioritisation of multilateral operations will be critical to ensuring the best possible use of the scarce resources available. A thorough examination of how multilateral development financing complements bilateral ODA and other sources of development funding should serve as the foundation for efforts to evaluate and enhance the selectivity of this funding.

12.7 Concluding Remarks

MDBs are an important aspect of the global financial architecture and play a crucial role in development financing. In this chapter, we examined the contributions of MDBs and discussed the challenges confronting them. Some nations have established MDBs to support international devel-opment initiatives through long-term loans and grants. MDBs have a large membership that includes both developed and developing coun-tries. MDBs obtain funding from a variety of sources, including the global capital market, contributions and special donations from members, proceeds from the issue of bonds and partnerships, etc., which help in their ability to fund their activities. MDBs' main operations include providing financing and creating knowledge products, serving also as a significant source of data collection and analysis, which results in the improvement of policy and the generation of ideas for efficient policy planning and execution. This enables MDBs to address broader agenda including regional and global challenges because of the scale of the institutions and the scope of their responsibilities.

The contributions of MDBs include providing a steady source of funding, aiding middle-income nations, meeting a range of development needs, and providing a variety of complementary comparative advantages. However, the severity and regularity of numerous crises have also created major difficulties for MDBs, including resource competition, an increase in ad hoc funding decisions, funding vulnerabilities, the proliferation of MDB alternatives, and the geographical distribution of power. Therefore, to harmonise national and global demands, MDBs can reform financing patterns, explore novel financial and policy

incentives, assess multilat-eral funding decisions, improve data collection, and better prioritise multilateral activities.

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