LEVERAGING MULTILATERAL DEVELOPMENT BANKS' BALANCE SHEETS BETTER: AN EAST ASIAN PERSPECTIVE

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Executive Summary

1. World leaders are now looking at multilateral development banks (MDBs) to deliver much more financing to meet the growing needs of developing countries in tackling development and climate action goals. At the recent G20 summit in New Delhi, leaders called for improving the voice and representation of developing countries in MDB decision making and for boosting development financing.

2. Besides financing economic growth and sustainable development goals, addressing climate change impacts, food security issues and disruptions caused by COVID-19 and the Ukraine war have increased the urgency of the need for MDBs to offer more development financing.

3. To boost MDBs' lending capacity, several options are available. First, substantially ramp up guarantees and credit enhancements to mobilise private capital in significant amounts. Second, securitise MDBs' loan portfolios to free up capital currently tied up in closed projects to finance new loans.

4. Third, align sources of financing with project risks by financing different portions of the risk spectrum with different forms of capital and grants available from different MDBs and bilateral donors. Fourth, raise new forms of capital from markets by issuing hybrid capital, perpetual bonds and convertible bonds.

5. Fifth, issue non-voting shares to non-traditional equity providers and mobilise funds from sources such as philanthropies, impact investors and other private sector investors. Sixth, create off-balance sheet special purpose vehicles (SPVs) and structured funds that can be used to mobilise private sector resources.

6. Seventh, introduce construction finance as a new product line. Eighth, allow co-financing or parallel financing from commercial lenders. Ninth, explore the IMF's New Arrangements to Borrow as a model for mobilising resources from countries that are interested in providing such resources for development financing. Tenth, raise more capital from existing shareholders.

7. Eleventh, engage with credit rating agencies to reform current rating methodologies which have taken an extremely conservative view of MDB capital and capital management procedures. Finally, implement governance reforms. MDBs need to change their governance (shareholding and voice) structures to better reflect changed economic realities.

8. Options such as increasing guarantees or mobilising more co-financing from markets could be implemented by most MDBs in the short-term (one-year). Others such as securitising loan portfolios, raising new forms of capital and issuance of non-voting shares need more engagement with stakeholders and could be implemented in the medium to long term.

9. The current financing capacity of the MDBs needs to be significantly augmented as it falls short of needs by a large margin. MDBs also have a major role to play in helping developing countries mobilise private capital. Early implementation of the ideas discussed in this brief, can help MDBs, do both.