

Event summary

Symposium: Multilateral development banks in the 21st century

On 18 May 2023, ODI, the London School of Economics (LSE) Department of International Development and the Grantham Research Institute on Climate Change and the Environment at LSE hosted [a symposium](#) to present and discuss new research and proposals to inform the strategies, governance, operational models and instruments of multilateral development banks (MDBs).

Here is a summary of the discussion, the main proposals and the areas for future research, articulated alongside the three main sessions.

Session 1: Governance of MDBs: what options for reform?

The current governance mechanisms of MDBs are not designed to maximise the effectiveness of these institutions, especially at the interface between the responsibilities of shareholder governments and management. In most legacy MDBs, the Board of Directors do not appear to have a primary strategic focus; indeed, resident Boards spend much of their time on day-to-day management. To address this challenge, various proposals were discussed, including aligning the Board of Directors of MDBs to modern [corporate governance practices](#). The feasibility of some of these proposals across MDBs remains to be explored – ranging from job descriptions for Executive Directors and non-resident Boards representative of shareholders to replacing them with independent Board members. But there are also examples of tried-and-tested proposals (such as adding independent experts in the European Investment Bank's case), while a number of MDBs already have non-resident Boards. Broader changes to the governance structure may instead be feasible only as part of a larger

reform package and may require changes in shareholding representation.

Shareholding distribution and voting rules at the major MDBs have evolved, but not enough. Emerging powers have started shifting their resources toward platforms where they can hold more control, like trust funds. Meanwhile, non-borrowing shareholders, with large influence, are pushed to balance the demands of their different domestic constituencies with the interests of MDBs as independent institutions, which instead operate within the constituencies of borrowing countries. As a result, MDB staff are also frequently caught between the contending interests of shareholders. However, this tension is considered less evident among regional and non-borrower-led MDBs, where shareholders are likely to hold more coherent views. In this context, the experience of borrower-led MDBs should be better understood.

Session 2: MDBs and climate change: what changes to the mandate, operational models and instruments?

The scale of the global climate financing gap requires a rethinking of MDBs' vision and mission. To date, most MDBs have been committed to national public goods, like poverty reduction. Extending this commitment to global public goods, like climate mitigation, entails a significant shift in focus. Key sources of tension emerge. The country-based operational model may no longer be fit for purpose; the governance of MDBs may need to include global climate representatives, not just national representatives; the client base of MDBs may need to expand to high-income countries, which are often the largest emitters. One of the challenges for MDBs such as the World Bank will be managing an increasingly global remit alongside their existing priorities.

An essential step to broadening MDB mandates toward global challenges like climate mitigation is securing the commitment of shareholders and top management. Clearer targets must be linked to both financing and impact. Moreover, to address global concerns with national solutions, MDBs must better understand the priorities of client countries that do not always view the climate crisis among their priorities. In practice, this means MDBs should work with countries to help design and map the benefits of climate-smart development strategies.

MDBs should leverage all financing instruments available to them while deploying concessional resources strategically in areas where they are needed most, like climate adaptation in low-income countries. By fostering public-private partnerships, creating risk-sharing instruments and providing implementation support, MDBs can stimulate investment and innovation toward high-impact climate projects. To achieve this at scale, MDBs must work collaboratively as a system, building and expanding beyond their joint work on defining climate finance and the Paris alignment.

Even though staff across the MDB system may be aligned and ready to prioritise projects addressing the consequences of the climate crisis, borrowers might not have a similar vision. Reforms might be endorsed by borrowers and non-borrowers alike. In the run-up to June's Summit for a New Global Financing Pact held in Paris, the conclusion of the panel appeared to be quite inspirational: there is no shortage of technical proposals; the main obstacles are instead political.

Session 3: How can MDBs better respond to borrowers' needs?

Scaling up investment in sustainable development requires lenders to be willing to lend more and borrowers to take up this expanded offer. Low-cost, and particularly concessional, finance remains a priority for client countries. However, there are many other 'softer' features of the MDB lending model that contribute to borrower frustrations. The high transaction costs of MDB lending are the result of policy conditionalities, rigid rules and lengthy negotiations. MDBs should develop more flexible, responsive and accountable operational models.

Beyond this 'hassle' factor, MDB lending and technical advice is often considered ill-aligned to the priorities of client countries. Improved data collection is a first step to better understanding the needs of borrowers. MDBs should also move beyond the fragmented project-by-project approach. Instead, they should think more boldly as they design new programmes and should re-embrace big ideas, like infrastructure lending, that matter to borrowing countries. Moreover, the interaction between politics and economics remains a blind spot. For example, the way in which demand for MDB borrowing is affected by electoral cycles remains ill-understood. According to the panel, the onus lies on all stakeholders – especially on MDBs, researchers and academics – to better understand its implications.

Researchers and academics were pushed to question whether their work is increasingly tailored to the preferences of editors at top journals, as opposed to those who provide the evidence base to inform policy-makers' decisions.

Finally, panellists recommended that MDBs prioritise financing mechanisms that alleviate the impact of the debt crisis and support debt sustainability, like concessional flows and local currency lending.