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# Multilateral Development Banks: key for a global green recovery

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## Introduction

Multilateral Development Banks (MDBs), as convenors of public finance and catalysts of private investment, are well-positioned to facilitate a green, resilient and equitable global recovery. However, they show signs of being financially constrained in their response to the COVID-19 crisis.<sup>i</sup> G7 shareholders should pursue a multi-part agenda to ensure that MDBs have sufficient resources for this task, whilst driving climate reforms, enabling MDBs to address the triple challenge of debt sustainability, economic recovery, and climate transition.

## Background

MDBs are key pillars of the global response to the current economic crisis, supporting both immediate relief and lasting recovery. They will play a crucial role in ensuring that all low- and middle-income countries can achieve an equitable and green recovery. In addition to being significant players in the public finance ecosystem, MDBs also can play a transformational role within the financial system, acting as knowledge hubs, standard setters, and delivering long-term value for countries.

Against this backdrop, there is a shift in global climate ambition. The United States has re-entered climate diplomacy, the EU

is developing 'green deal diplomacy' and green recovery plans, whilst Asian countries are also committing to net-zero. Combined, these factors create a new environment for MDB ambition.

## Priority Actions for G7

The G7 are majority shareholders of the main MDBs. We recommend the G7:

- Agree **a high-level G7 vision for the MDBs as transformational climate banks** fostering green and just recovery, and to deliver this, agree **a shared agenda for recapitalization, replenishment, and climate-related reform** (see 4-point policy agenda below).
- **The G7 Communiqués from Leaders and Finance Ministers and Central Bank Governors (FMCBG)** should include this common vision and agenda, and commit to coordinate in **MDB Boards of Governors/Directors**.
- **Work with progressive countries in the G20 to advance this common position**, to take it forward in the International Financial Architecture Working Group, whilst seeking to include language supporting this position in the G20 Leaders and FMCBG Communiqués.

## Policy Solutions

Delivering a G7 vision for MDBs as transformational climate banks, fostering green and equitable recovery, will require reform and new resources. Governments should pursue a 4-point agenda here:

- 1. Signal readiness to recapitalize and/or replenish MDBs** subject to the production of green recovery action plans and while taking steps to optimize existing balance sheets. **Meanwhile, governments should also increase their commitments to multilateral climate funds** to facilitate concessional finance for countries facing debt challenges.
- 2. Request quantified investment plans from MDBs on support for global green recovery,** with resilience and clean investment targets for each key sector, e.g. energy, industry, transport, cities.
- 3. Coordinate at high level to ensure every MDB this year publicly announces a timeline to phase out fossil fuel investment.** MDBs should follow the lead of the EIB, which has ruled out future fossil fuel investments.
- 4. Ensure that MDBs set credible timeframes for aligning with the**

**Paris Agreement across all operations.** Shareholders should call for full Paris Alignment by end of 2022, 50% of annual lending to be climate-themed, with enhanced Technical Assistance and support of NDC investment plans.

## Overcoming political Barriers

The multilateral governance of MDBs requires that shareholder countries cooperate and find consensus. For any MDB reform process, it will be vital that low- and middle-income countries are included and have the opportunity to help shape a transformational role for these institutions in green recovery and the climate transition. Donor countries will need to offer support in terms of concessional finance facilities and other economic incentives to achieve buy-in from developing countries needing to ensure short-term economic recovery.

## Conclusion

Whether the international community can effect an equitable global green recovery and a timely climate transition will depend upon the role that the MDBs are empowered to play. As the majority shareholders, the G7 countries and allies in the G20 must work together to ensure that MDBs fulfil their full potential.

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<sup>i</sup> See: [cgdev.org/blog/beyond-numbers-why-world-needs-more-ambitious-mdb-response-covid-19](https://cgdev.org/blog/beyond-numbers-why-world-needs-more-ambitious-mdb-response-covid-19)