



Report

Streamlining MDB environmental, social and procurement safeguards while maintaining high standards

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Abstract

Multilateral development banks (MDBs) utilise environmental and social safeguard frameworks (ESFs) and procurement policies to ensure high operation quality and reduce unintended negative impacts. While the goals of ESF and procurement policies are widely supported, their application can increase costs, implementation times and bureaucratic requirements. The use of MDB policies instead of borrower country policies and systems also raises questions about sovereignty and country ownership. With active shareholder support, MDBs should accelerate efforts to harmonise and simplify these policies and move towards greater use of recipient country systems by building local capacity, without diluting high MDB standards. The G20 can play a useful role in providing greater impetus to reform and in driving coordination at the system level, although all policy decisions must be taken by the appropriate governance arrangements of each MDB.

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Acronyms

AfDB	African Development Bank
ADB	Asian Development Bank
AFD	French Development Agency
AIIB	Asian Infrastructure Investment Bank
CEB	Council of Europe Development Bank
E&S	environmental and social
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESF	environmental and social safeguard framework
ESMS	Environmental and Social Management System
FI	financial intermediary
G20	Group of 20
HEIS	Hands-on Extended Implementation Support
HoP	Head of Procurement
IDB	Inter-American Development Bank
IFA	International Financial Architecture
IFC	International Finance Corporation
IMF	International Monetary Fund
KfW	German Development Bank
MDB	multilateral development bank
MFI WGESS	Multilateral Financial Institutions Working Group on Environmental and Social Standards
MRA	mutual recognition agreement
NDB	New Development Bank
PRIF	Pacific Region Infrastructure Facility
RBF	results-based financing
WB/WBG	World Bank / World Bank Group
WBASP	World Bank Australia Safeguards Partnership

1 Introduction

1.1 Motivation

Streamlining operation approval and implementation while maintaining high quality standards is central to the multilateral development bank (MDB) reform agenda. MDB environmental and social safeguard frameworks (ESFs) and procurement standards are critical components of operation approval and implementation. As the G20 Independent Experts' Group report noted, 'Several MDBs could halve the time to market by taking a risk-adjusted lens to the application of financial, social and environmental safeguards' (G20 Independent Experts Group, 2023: 31).

ESFs and procurement standards help ensure that MDB resources are deployed to maximise development effectiveness, minimise unintended negative impacts and ensure transparency and efficiency. Independent studies have shown that standards and related assessments have been highly effective in achieving these aims (Georgoulas and Arrasate, 2016; MOPAN, 2023a; 2023b). Technical assistance related to ESF and procurement has strengthened capacity among government officials and private sector actors in client countries (ADB Independent Evaluation Department, 2020). More broadly, MDBs have played a leading role in developing internationally recognised environmental, social and procurement standards that have informed the approaches taken by other development agencies and private sector actors.

The challenge is how to balance the need for high MDB standards with legitimate calls from client countries to reduce administrative burdens, accelerate project implementation and recognise their right to design policies and practices based on their social, political and economic contexts. Experience has shown that this balance is not always easy to strike, leading to unintended negative consequences for recipients:

- Compliance with MDB requirements can lead to substantial additional costs and time for public and private sector clients.¹
- The diversity of standards across MDBs, and periodic changes to them, causes complexity and confusion and is a bureaucratic burden.

¹ See for example survey results of MDB client countries in Prizzon et al. (2022) and Prizzon et al. (2016).

- Assessments are often conducted on a project-by-project basis and tend to have lengthy review and clearance processes.
- The use of ESF and procurement standards by MDBs raises issues related to sovereignty and country ownership.

This report reviews the current state of play, identifies key concerns, and proposes options to accelerate and deepen reform. The goal is to work towards ESF and procurement standards and implementation processes that are more results-based, coherent and aligned across MDBs, which will reduce administrative burdens, costs and time, to clients as well as MDB staff. An optimal outcome would be ESF and procurement processes that ensure high standards while incentivising the strengthening of country systems and frameworks over the medium term. This report emphasises the role of the G20 in providing system-wide impetus for reform across the major MDBs, while fully respecting the primacy of each MDB's shareholder boards in deciding their own policy framework.

1.2 Methodology for this report

This report benefited from extensive discussions with MDB and external experts on safeguards and procurement, a review of academic and grey literature, existing analyses in G20-commissioned reports on procurement and details from the Viewpoint Note (Heads of MDBs, 2024).

A series of consultations were organised to receive inputs and test initial proposals with MDB shareholders, members of the G20 or invited countries, as well as international organisations at a meeting of the G20 International Financial Architecture (IFA) Working Group on MDBs on 8 May, their written feedback to a preliminary version of the report, and a more targeted meeting with MDB ESF and procurement staff on 16 May and with government officials from selected members of the Group of 24 on 17 May. The report has been further revised to reflect feedback received during and after the G20 IFA Working Group meeting on 12 June.

2 Overview of the ESF and procurement landscape across MDBs

MDB ESF and procurement standards have been a frequent source of debate in the international development community. High-level forums on aid and development effectiveness – beginning in Rome (2003) and continuing through Paris (2005), Accra (2008) and Busan (2011) – have called for greater harmonisation of environmental, social and procurement policies and for scaled-up use of country systems. As the Busan Declaration notes, ‘The use and strengthening of developing countries’ systems remains central to our efforts to build effective institutions’ (Busan Partnership for Effective Development Co-operation, 2011: 5). The fact that these issues remain a contentious topic for MDB operational effectiveness is testament to the multiple stakeholders deeply engaged in these complex and challenging issues.

The ESFs of most MDBs have either undergone recent revisions or are currently under review (see Table 1). These changes have been informed by MDB independent evaluators² as well as learning from other MDBs. The process of reform has been intensive: for example, the World Bank safeguards revision involved three consultation and review phases over several years with inputs from over 8,000 stakeholders in 63 countries (World Bank, 2020: 1). Comparisons illustrate an increasing convergence across ESFs, although differences remain in both policy frameworks and implementation processes.

² See for example ADB Independent Evaluation (2020); AfDB Independent Evaluation (2019); IDB Office of Evaluation and Oversight (2018); and World Bank Independent Evaluation Group (2010).

Table 1 Safeguard policies at selected MDBs

	ADB	AIIB	AfDB	IFC	EIB	EBRD	WB	IDB
Policy	Safeguard Policy Statement	Environmental and Social Framework	Integrated Safeguard System	Performance Standards on Environmental and Social Sustainability	Environmental and Social Standards	Environmental and Social Policy	Environmental and Social Framework	Environmental and Social Policy Framework
Year of approval	2009 (currently under review)	2022	2013 (updated in 2023)	2012 (currently under review)	2022	2019 (review to be published Q3 2024)	2016	2021
Coverage of lending modalities and instruments³	All	All (selective coverage for RBF and capital market operations ⁴)	All	All	All	All	Investment projects only ⁵	All (selective coverage of policy-based lending)
Safeguard compliance process timeline⁶	Front-loaded	Continuous ⁷	Front-loaded	Continuous	Continuous	Continuous	Continuous	Continuous
Classification on scale	A/B/C/FI	A/B/C/FI	1/2/3/4 (for FIs)	A/B/C/FI	A/B/C/FI	A/B/C/FI	H, S, M, L	A/B/C for impacts, H/S/M/L for risks
Safeguard requirements for FIs	ESMS	ESMS + prior approval of higher-risk activities	ESMS + FI risk classification	ESMS + FI risk classification	ESMS + environmental and social standard on FI ⁸	ESMS + FI performance requirement ⁹	ESMS + environmental and social standard on FI ¹⁰	ESMS + prior approval of higher risk activities
Disclosure requirements for Category A /I/H	120 days for Environment category A only	60 days	60 days for private sector projects; 120 days for public sector projects	60 days	Not specified in policy	60 days for private sector projects; 120 days for public sector projects	Disclosure required prior to appraisal but timeframe not specified	Not specified in policy

Source: Authors' elaboration based on MDB safeguard policies and guidelines

Note: The eight MDBs covered in Table 1 were chosen for their wide-ranging shareholder base and their size, collectively representing 96% of total assets across all MDBs within the G20 purview. ESMS = Environmental and Social

3 Safeguards are applied for technical assistance projects by AIIB, IFC and WB; partially by ADB and IDB; and not at all by EBRD.

4 Capital market operations refer to transactions in publicly traded securities such as listed bonds and shares or transactions in securities that are not publicly traded but remain subject to restrictions on trading in those securities on the basis of material non-public information.

5 The WB ESF applies only to investment projects, while Development Policy Financing and Program for Results financing embed E&S considerations in the respective operational policies (OP/BP8.60 and OP/BP9.00).

6 Front-loaded timelines entail carrying out safeguard assessments and procedures before project approval before board consideration. This shortened timeframe may reduce the likelihood that more complex project proposals, with potentially greater benefit reach, are taken into consideration.

7 AIIB frontloads various aspects of the compliance process but also allows a phased approach to compliance.

8 See Standard 11 – Intermediated Finance (EIB, 2022).

9 See Performance Requirement/PR9 (EBRD 2019).

10 See ESS9 Financial Intermediaries (World Bank 2017).

Management System, FI = financial intermediary, RBF = results-based financing. Under classification scale, H = High Risk, S = Substantial Risk, M = Moderate Risk, L = Low Risk.

Mutual recognition of ESF standards and assessments in co-financing has advanced substantially, although recognition of accountability mechanisms¹¹ has been slower. This is particularly the case for private sector projects and is explained in part by syndication practices as well as the high-level, broadly shared Equator Principles. AIIB has championed a harmonised policy framework for procurement and environmental and social policy through its co-financing with ADB, WBG and EBRD. This also includes a ‘single independent accountability mechanism to review compliance under a co-financed project’ (Heads of MDBs, 2024: 11). MDBs and other development partners have met twice yearly since 2001 in an ESF working group¹² to exchange experiences. This is a critical forum to continue efforts at the system level, although as discussed below it should be reshaped to more effectively drive harmonisation and mutual recognition across MDBs.

MDBs have made uneven progress towards the use of country systems. AIIB has worked to implement country systems (Vazquez and Chin, 2019), while AfDB has pursued their use in line with the Busan agreements (MOPAN, 2023). ADB’s efforts have been less successful, with only one approval of national safeguards (in India) in 10 years (ADB Independent Evaluation Department, 2020). Similarly, pilots at the World Bank and IDB have struggled to scale, although recent renewed initiatives at capacity-building and country system assessment show promise (see Section 3.3 for details). The New Development Bank (NDB) has prioritised use of country systems in ESF and procurement as a ‘defining feature’ of its operating model (NDB, 2022: 22), and a planned review of its experiences could offer lessons for other MDBs.

MDB procurement standards have shown faster progress toward harmonisation and the use of country systems, as described in the Viewpoint Note (Heads of MDBs, 2024). Following the Paris Declaration on Aid Effectiveness, MDBs began moving towards mutual recognition of procurement standards in 2015. Mutual recognition is increasingly embedded in MDBs’ operational and procurement policies (ibid.: 9),¹³ and harmonisation continues in tender documents and the use of e-government platforms. Some MDBs have concluded bilateral mutual recognition arrangements (one recent example is between IFAD and the World Bank) and several MDBs (CEB, EBRD, EIB and the World Bank) recently concluded an agreement in Ukraine (see **Error! Reference source**

11 Accountability mechanisms are independent complaints mechanisms for people/communities who believe that they have been, or are likely to be, harmed by an MDB-funded project.

12 The Multilateral Financial Institutions Working Group on Environmental and Social Standards (MFI WGESS). The exact date of establishment of the MFI WGESS is unclear but most sources date back to the 1980s–1990s.

13 See AfDB 2017 Procurement Policy section 10.4 (AfDB, 2017); IsDB Alternative Procurement Arrangements (IsDB, 2020).

not found. in 0). A number of MDBs are undertaking technical assistance in their regions of operation to strengthen national procurement systems with a view to increasing the use of country systems (see Box 2 in Section 3.3).

3 A pragmatic approach to reforming ESF and procurement requirements while maintaining high standards

MDB shareholders can play a key role by injecting urgency into ongoing ESF and procurement reform efforts. The improvements described in the previous section are commendable but insufficient. Further reforms are needed to adequately balance the risks posed by environmental, social and procurement concerns with the risks of excessive administrative burdens, which can limit MDBs' operational effectiveness. Higher-level groupings like the Heads of MDBs network and the G20 IFA Working Group can be useful in helping to coordinate and align reform efforts across the MDB system, although all reforms must be driven by each MDB's governance structures.

This report takes existing ESF and procurement policies as its point of departure. Major policy overhauls are complex processes that take several years. As such, the focus here is on pragmatic, meaningful improvements within the existing policy framework that can be accomplished in the near term, rather than on major new policy directions. That said, the recommendations in this report can generate useful thinking for future MDB policy revisions. MDBs can build on lessons learned from ESF and procurement harmonisation, mutual recognition, risk assessment and scaling up use of country systems to inform the design of leaner, outcome-oriented and principles-based policies, in line with the high-level objectives articulated by shareholders (see Recommendation 1).

Background discussions with MDB staff and borrower and non-borrower shareholders for this report make clear that current policies can be substantially improved, particularly by taking a system-wide perspective with greater coordination across MDBs. The report focuses on three reform areas:

- 1 Move towards greater harmonisation and mutual recognition of ESF and procurement standards across MDBs.
- 2 Refine and strengthen risk-based approaches to ESF and procurement policy application.
- 3 Increase the use of country systems.

Strategic principles that may help accelerate and deepen reforms include:

1. **Focus reform efforts on implementation** to achieve material gains in reducing costs, time and the bureaucratic burden for clients in the near term, while building confidence and collecting experiences to inform policy changes over the medium term.
2. **Seek pragmatic improvements** by harmonising differences in requirements and standards across MDBs that are the result of lack of coordination and inertia, as opposed to deeper differences in operating contexts and core shareholder priorities.
3. **Build on existing MDB initiatives and collaboration efforts**, many of which show considerable potential to achieve results if they receive greater shareholder support, rather than launching major new initiatives.

Above all, shareholders should recognise their central role in enabling reforms to progress. MDB staff tend to be risk-averse, unwilling in many cases to take the initiative because they are well aware of shareholder sensitivity to ESF and procurement issues. For example, MDB policies already permit the use of country systems in certain cases, but MDB staff are reluctant to make use of this flexibility. That will only change at scale with unambiguous signals that shareholders seek change and will fully support MDB staff.

3.1 Move towards greater harmonisation and mutual recognition of ESF and procurement standards across MDBs

The diversity of ESF and procurement standards is a burden to MDB clients, as borrowers are required to keep track of different sets of detailed rules and procedures despite broadly similar standards and goals across the major MDBs. The intention of this set of recommendations is to encourage as much movement as possible toward harmonisation and mutual recognition, while recognising that some aspects will remain unique to individual MDBs based on the operating context and shareholder preferences.

Recommendation 1: MDB shareholders should set high-level results-focused harmonisation objectives for existing MDB coordination mechanisms, and request that MDBs jointly report on progress to the G20 IFA Working Group.

Context: Despite broad agreement among shareholders on the value of harmonisation, progress has lagged in part due to a lack of clarity and incentives for MDB management and project staff, who remain in many cases risk-averse and conservative. The cross-MDB Multilateral Financial Institutions Working Group on Environmental and Social Standards (MFI WGESS) is a valuable mechanism for sharing experience and best practice while promoting collaboration, but it lacks a results-oriented mandate. The MFI WGESS has also not been as effectively leveraged as possible to advance harmonisation and greater use of country systems. Without coordinated signalling from MDB shareholder boards on these issues, tangible progress will be difficult. The Heads of Procurement (HoP) network across MDBs has been more effective in shifting policies and implementation practices, in part thanks to the less multi-faceted nature of procurement issues compared to ESFs.¹⁴ Nonetheless, it could also benefit from a clear mandate and high-level results-focused objectives.

Proposed solution: The G20 IFA Working Group, supported by a technical expert group on ESF and procurement, could define high-level objectives for policy and process harmonisation and progress towards mutual recognition and reliance on country systems.¹⁵ Based on these high-level objectives, the G20 could encourage MDB boards to mandate MFI WGESS to develop concrete progress targets and timelines for harmonisation and the use of country systems.¹⁶ A similar effort could be made with the MDB HoP network. These would be most effective when aligned with more detailed targets, key performance indicators and accountability frameworks established by the shareholders of individual MDBs. To monitor progress, the G20 could request regular progress reports from the MFI WGESS and HoP networks to the IFA Working Group. These reports would inform board deliberations on potential policy and procedure reforms at individual MDBs.¹⁷

Recommendation 2: MDBs should systematically map policy and implementation differences to support

¹⁴ For example, while the MFI WGESS sub-working groups are focused on more high-level strategic areas, the sub-working groups within the HoP network tend to focus on technical areas such as procurement in heavy industries and carbon emissions.

¹⁵ See also Recommendation #1 in Prizzon, A., Schneidewind, S., and Bains, M. (2024) Coordination and cooperation between multilateral development banks: motivation, progress and priority actions for MDBs working as a system. London: ODI.

¹⁶ Objectives regarding ESF country systems should be tied to the MFI WGESS Sub Working Group 1 (Common Approach to Assessing/Strengthening Country E&S Systems).

¹⁷ Information collection should be coordinated by the MFI WGESS and HoP network.

continued harmonisation of ESF and procurement standards.

Context: ESF policies mostly follow a similar structure, with a stand-alone institutional commitment/policy statement on environmental and social sustainability, and four to 11 separate standards setting out the requirements that apply to borrowers (see Table 2). Procurement policies are even more closely aligned. Despite this broad conceptual harmonisation, numerous differences remain in policy coverage and implementation processes in both ESF and procurement. For example, MDBs vary on whether their frameworks apply to different types of operations (sovereign versus non-sovereign, project versus policy-based lending, or technical assistance – see Table 1). Many of these differences are the result of how individual MDB policies have evolved, rather than any fundamental difference in shareholder aims. Although these differences are often relatively minor, their cumulative effect can add considerably to clients’ administrative burdens. Other differences may respond to substantive variation in MDB mandates and operating contexts and may therefore need to remain, subject to shareholder preferences.

Table 2 Overview of safeguard coverage at selected MDBs

	ADB	AiIB	AfDB	IFC	EIB	EBRD	WB	IDB
	2009	2022	2013	2012	2022	2019	2016	2021
Assessment and management of environmental and social risks and impacts	+	+	+	+	+	+	+	+
Labour and working conditions	-	NSS ¹⁸	+	+	+	+	+	+
Resource efficiency and pollution prevention	-	NSS	+	+	+	+	+	+
Community health, safety and security	-	NSS	+	+	+	+	+	+
Land acquisition and involuntary resettlement	+	+	+	+	+	+	+	+
Biodiversity conservation and sustainable management of living natural resources	-	NSS	+	+	+	+	+	+
Indigenous peoples	+	+	-	+	+	+	+	+
Cultural heritage	-	NSS	-	+	+	+	+	+
Stakeholder engagement and information disclosure	Embedded	NSS	Embedded	Embedded	+	+	+	+
Gender equality	-	NSS	-	-	+	-	+	+

¹⁸ NSS = no standalone standard. Even though AiIB does not have standalone standards for these environmental and social aspects, the ESF (2022) covers all these issues.

Financial intermediaries	Special provisions	NSS	-	Special provisions	+	+	+	Special provisions
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Source: Authors' elaboration

Note: '+' = standard is included; '-' = standard is not included. Embedded means contained within the safeguards policy framework.

Proposed solution: MDBs should work together to develop a joint note systematically identifying the key differences between their ESF and procurement policies, including differences in guidelines, requirements, implementation processes and mutual recognition practices. The note should highlight where policies and implementation guidelines are not harmonised across MDBs and either provide a rationale for these differences and why harmonisation may not be possible, or indicate steps needed to move towards harmonisation. This work could be undertaken under the auspices of the MFI WGESS and HoP networks. Such a mapping would be a practical, useful input to greater harmonisation and mutual policy recognition across MDBs, as well as setting the basis for subsequent policy revisions as part of each MDB's policy cycle.

Recommendation 3: MDBs should prioritise harmonising implementation documents and guidelines, including moving to identical language and requirements whenever possible.

Context: Currently, ESF guidelines – which can be over 300 pages long – do not need board approval, limiting the ability of shareholders to evaluate the extent of necessary documentation, requirements and harmonisation across MDBs. Front-loading safeguard assessments and due diligence documentation before project approval requires a high number of environmental and social (E&S) specialists, heavy client workload during project preparation and an excessive focus on documentation (World Bank, 2024), and contributes to implementation delays (MOPAN, 2023a: 11). It also reduces the likelihood that more complex project proposals with potentially transformative developmental benefits are taken into consideration, due to a desire, both by borrowers and MDB staff, to avoid burdensome ESF and procurement approvals (ADB Independent Evaluation Department, 2020; AfDB Independent Evaluation, 2019).

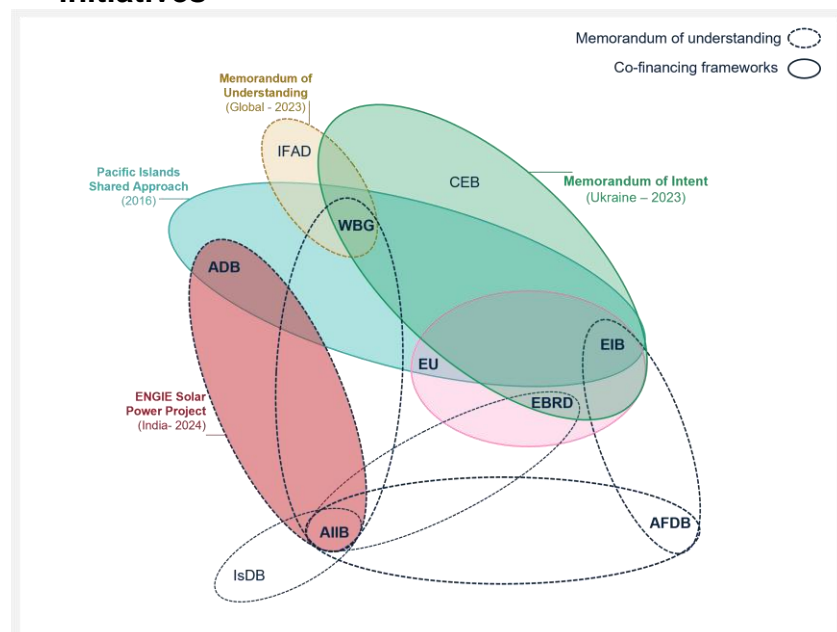
Proposed solution: The mapping exercise proposed in Recommendation 2 could form the basis for identifying divergences across ESF and procurement processes that are not necessary to meet shareholder-defined objectives, and that can be harmonised as much as possible, or even in certain cases made identical. These efforts can streamline requirements and guidelines, reduce confusion, distil good practice and simplify understanding to ease administrative burdens, for clients and MDB staff alike. Progress achieved through these efforts to streamline and harmonise implementation processes should be reported to the G20 IFA

Working Group on a regular basis, in line with reporting mechanisms outlined in Recommendation 1.

Recommendation 4: Shareholder boards should direct MDBs to make concerted efforts towards mutual recognition of ESF and procurement policies and processes, as a pragmatic step to streamline client requirements and move towards harmonisation.

Context: All MDBs include language in their ESF and procurement policies permitting mutual recognition of each other’s policies and implementation requirements. However – as consultations conducted for this report noted – in practice this has occurred in only a few cases, in part due to mixed signals from shareholders and staff risk aversion.¹⁹ One initiative that could serve as a model going forward is the Pacific Island Countries Shared Approach, in which several MDBs and bilateral donors designed a framework to allow smaller nations with limited capacity to comply with multiple ESF requirements with a single process and set of documentation (PRIF, 2021). Individual co-financed projects, for example between ADB, EBRD, IsDB, the World Bank and AIIB, have also successfully employed mutual recognition – a summary of MDB mutual recognition agreements (MRAs) is provided in **Error! Reference source not found.**. At the institutional level, in 2023 IFAD and the World Bank concluded an umbrella agreement to mutually recognise procurement standards. EIB has a similar arrangement on ESF with the German Development Bank (KfW) and the French Development Agency (AFD – *ibid.*; see **Error! Reference source not found.**).

Figure 1 Partial mapping of MDBs’ MRAs and harmonisation initiatives



¹⁹ This conclusion is based on discussions with staff from various MDBs interviewed for this report.

Source: Authors' elaboration

Note: See Appendix 1 for an overview of the agreements shown above. Neither this figure nor the Appendix list provide exhaustive references of all agreements and harmonisation initiatives, especially as not all information is in the public domain.

Proposed solution: MDB boards can direct staff to increase efforts to conclude MRAs. The initial focus could be on individual co-financed projects, with MDB-to-MDB agreements as a medium-term goal. During board approval processes of co-financed projects, boards could require an explanation when mutual recognition agreements are not in place. Redoubling efforts towards mutual recognition is a pragmatic approach to reducing the burden on clients, particularly for large infrastructure projects, which are often co-financed. It would focus MDB staff and board attention on challenges relating to accountability mechanisms and policy and process differences, which is a useful basis to move towards greater harmonisation and, eventually, the use of country systems. Mutual recognition could be agreed systematically in the context of country platforms and follow the example of the Pacific island countries' Shared Approach (Box 1).

Box 1 Pacific island countries' Shared Approach for E&S risks and impacts

Objective: To address capacity constraints to a Pacific infrastructure initiative, a group of development lenders²⁰ and recipient countries established the Pacific Island Countries Shared Approach to converge on the management of environmental and social risks and impacts for all infrastructure projects with low to medium risk in Pacific island countries. This shared approach aims to ease project-level safeguard compliance across multiple development lenders for countries with limited capacity.

The shared approach seeks to promote:

- More efficient project preparation and implementation via common safeguard compliance and implementation processes.
- Use of the same terminology for E&S documents across all development lenders.
- Strengthening country systems and addressing implementation difficulties in order to increase reliance on country systems.²⁰

Risk categorisation and accountability: By allowing each development partner to use its own screening and categorisation system, the shared approach does not create a new E&S policy. For co-financed or parallel-financed projects, Pacific Region

²⁰ Use of country systems as an alternative to PRIF will be determined on a case-by-case basis since each development partner will employ its own principles to qualify the use of country systems.

Infrastructure Facility (PRIF) development partners are encouraged to collaborate to screen and categorise projects in a consistent way, to the extent possible given respective policies and procedures. The independent accountability mechanisms of participating development lenders continue to scrutinise project outcomes, as previously.

Source: Authors' elaborations based on PRIF (2021)

3.2 Refine and strengthen risk-based approaches to ESF and procurement policy application

All MDBs assess risks when applying and implementing ESF and procurement standards. Risk assessments determine project classifications and associated processes. High-risk projects would typically be subject to considerably heavier process requirements. However, risk assessments vary substantially across MDBs and are conditioned by MDB staff incentives and concerns about shareholder reactions. The G20 can encourage MDB boards to seek incremental and coordinated improvements in assessing and mitigating project risks, while still maintaining high project standards.

Recommendation 5: MDB boards should direct management to devolve greater authority to project staff and country teams and strengthen risk-based approaches with further guidance on risk management.

Context: Review and clearance of ESF and procurement documentation are often intensive processes handled by management in headquarters. These centralised lines of responsibility incentivise staff at the country level to interpret standards and guidelines conservatively (ADB Independent Evaluation Department, 2020; World Bank, 2024). This is exacerbated by overly legalistic and rigid approval procedures that undermine the scope for adaptive management processes, increase transaction costs and lead times, and generate excessive staff and client workloads (Humphrey, 2016). Country and project teams are best placed to assess risk²¹ but are not sufficiently resourced or empowered to do so (MOPAN, 2023: 44). These problems are especially pressing with ESFs, while several MDBs have made progress with procurement by reducing review steps and devolving authority to project staff based on project size and risk.

Proposed solution: Shareholder boards, with the encouragement of the G20, should direct MDB management to develop tailored guidance on implementing risk-based approaches for country teams and E&S staff. This guidance should empower country teams to utilise adaptive management and have decision-making authority on

²¹ This is especially the case for MDBs that have a significant number of E&S and procurement staff based in-country and that have gone through a decentralisation process (like the World Bank, EBRD, AfDB and ADB).

implementation efforts appropriate to local contexts and risks, linked to a well-defined accountability framework. Roles and responsibilities should be clarified and clearance processes should be reviewed and streamlined where possible, following the example of progress made in procurement. MDBs should ensure E&S counterparts are assigned to clients as early as possible during project preparation to enable early discussions that can inform risk assessments and decision-making.

Recommendation 6: MDBs should develop a more uniform approach to evaluating risk categories, improving clarity for staff and clients, and enabling streamlined approvals for multiple projects in a given sector or geography.

Context: Even though most MDBs use similar or identical risk categories, a close analysis of ESF frameworks and discussions with MDB staff reveal that the process by which projects are categorised can vary widely across MDBs, and even across different project teams within the same MDB. This leads to uncertainty among staff and confusion for clients. It also limits the ability to streamline approaches to multiple projects that may face similar risk levels (based on sector and geography). During consultations for this report, MDB staff signalled that greater clarity is needed on how risks are classified and how different risk categories are interpreted, highlighting the need for a more streamlined approach as well as a (re)calibration exercise at some MDBs (World Bank, 2024: 10).

Proposed solution: The G20 can encourage MDBs to develop a uniform methodology to assess risk, including common analytical tools. Special working groups could be set up within MFI WGESS and the HoP network to harmonise how projects are classified and the implementation processes required. This would lead to greater consistency across MDBs, reduce confusion among clients and enable MDBs to build streamlined requirements to qualify multiple projects with similar risk profiles in a single review and approval process.

3.3 Increase the use of country systems

The end goal of MDB ESF and procurement standards should be to become unnecessary, enabling MDBs to use a country's own legal and regulatory framework. This would save time and costs for MDBs and their clients, while aligning fully with the country ownership agenda. Wide variance in country systems and government capacity means that this is a long-term goal, but MDBs and shareholders could seek to advance much further in this direction. Initiatives to use country systems began in the early 2000s, but they were not considered successful (Humphrey, 2022: 112–113). Recent initiatives have shown more promise, but greater impetus is required.

Recommendation 7: MDB management and shareholder boards should encourage MDB staff to use existing policy provisions permitting greater reliance on country systems for ESF and procurement, supported by adequate resources and clear guidelines.

Context: Most ESFs and procurement policies already permit the use of country systems in certain circumstances.²² However, these provisions are rarely acted on by staff due to risk aversion and uncertainty regarding how it would be received by management and shareholders. Another important factor highlighted during discussions with MDB staff and shareholders is insufficient staff capacity to properly evaluate multiple country systems and justify their adequacy to MDB boards. It is far easier and safer for staff to verify that a project complies with the MDB's standards (G20 Independent Experts Group, 2023: 71). The default position for most MDBs is to focus on an MDB's standards as the starting point, rather than a borrower's own systems. Limited reliance on country systems can lead to heavy client workloads, especially considering that project preparation efforts focus excessively on preparing E&S documents, some of which must be duplicated by clients to meet both their own and MDB requirements.

Proposed solution: The G20 should consider a high-level call for MDBs to ramp up reliance on country systems based on a common evaluation of system quality (see Recommendation 8 below), project risk and shareholder-defined standards. Requesting regular updates from the MFI WGESS and HoP network could help signal clear shareholder support, giving greater confidence to MDB staff. Individual MDBs and their boards should provide more detailed guidance on how to promote reliance on country systems. When determining what measures are required for a project to meet ESF/procurement requirements, staff should start with the borrower's frameworks, laws, policies, regulations and institutional arrangements. Only if specific and clearly identified risks cannot be adequately addressed through borrower frameworks would additional measures be required. In combination with MDB technical support, this process would also help clients strengthen their institutional capacity over time (see Recommendation 9 below). This approach is only feasible if MDBs increase their own staff capacity and resources to thoroughly evaluate systems of individual client countries on an ongoing basis. NDB has focused heavily on country systems, and its

²² For example, the World Bank allows for the use of borrowers' safeguards systems in investment project financing provided they are 'materially consistent' with performance standards at the project level. Currently, the ADB's Safeguard Policy Statement (SPS) allows for the use of country systems at the project, sector, agency or national level, in so far as these are considered 'equivalent' to the SPS and if the client's safeguard practices are deemed acceptable. The SPS is now under review and is expected to move from equivalence to material consistency (ADB, 2021). The IDB can use a borrower's framework if it is assessed as functionally equivalent to IDB's ESF. AIIB can use all or part of the client's existing system if it is considered adequately capable of addressing the environmental and social risks/impacts of a project in a manner that is 'materially consistent' with the objectives of the AIIB and its ESF.

upcoming planned evaluation may provide useful lessons for other MDBs.

It is important to note that initial steps to increase reliance on country systems would likely include mostly low- and moderate-risk projects (categories B and C). High-risk (category A) operations or those that are likely to have significant negative environmental impacts should consider using country systems only after there has been more experience with category B and C projects.

Recommendation 8: Formalise common MDB approaches to conducting assessments of client country ESF systems and move towards producing joint assessments.

Context: A necessary first step to scale up the use of country systems is for MDBs to evaluate how well that system aligns with its shareholder-defined MDB standards. For the most part, this is currently done in a piecemeal fashion by each MDB, with a focus on seeing how the country's systems align with its ESF and procurement policies, rather than with international best practice. This increases the burden on recipient governments and leads to varying assessment results by different MDBs.

MDBs are developing a common methodology for conducting overview assessments of country ESF systems within the MFI WGESS. This work should accelerate and deepen. Several MDBs collaborated on a joint review of procurement for Ukraine, which offers useful lessons. Engagement and close collaboration with country officials and key stakeholders over joint assessments will also be critical, and will require that assessments are tailored to country contexts and build on reforms that countries may already be pursuing.

Proposed solution: MDBs should deliver joint assessments of country frameworks. Such an approach would support the production of high-quality assessments and regular updates and encourage harmonisation as well as a shift towards reliance on country systems. Such an approach would allow recipient governments to concentrate their efforts towards one assessment, instead of responding to multiple different enquiries and requirements.

Recommendation 9: The G20 and shareholders should encourage MDBs to collaborate to strengthen client capacity-building, especially in low-income and vulnerable countries.

Context: Strengthening borrower systems is in many cases a prerequisite for their use by MDBs. National frameworks and implementation capacity vary dramatically across recipient countries. MDBs and shareholders must have confidence that borrower policy

frameworks as well as implementation capacity are adequate to meet their standards. MDBs have for years been helping to strengthen borrower ESF and procurement capacity during project implementation, as well as with dedicated technical assistance. In recent years, MDBs have made more systematic and institution-wide efforts to strengthen borrower systems, with varying degrees of success (see Box 2).

Advances have been more notable in procurement, in part due to the technical nature of the issue compared to E&S. The Hands-on Extended Implementation Support (HEIS) across various development institutions as well the Methodology for Assessing Procurement Systems (MAPS) frameworks have both been highly valuable in guiding capacity-building efforts. The World Bank has recently developed an E&S HEIS through which staff provide additional implementation support beyond the Bank's regular assistance, especially on projects with complex E&S risks or where capacity is limited. Roll-out is expected to begin soon. While these efforts require additional MDB resources, the cost and time is partly compensated by reduced transaction costs and delays occasioned by limited country capacity and the current focus on documentation.

Procurement has made more progress but would also benefit from more MDB resources for training as well as investments in e-procurement and other efficiency-focused systems that governments are disinclined to prioritise due to other pressing needs.

Box 2 Examples of MDBs strengthening country capacity

In recent years, MDBs have made new investments to build country capacity to facilitate the move towards greater use of country systems in E&S and procurement. Three examples illustrate the scope of these initiatives and can offer lessons to inform future efforts.

The **World Bank** Australia Safeguards Partnership (WBASP) is a multi-donor programme established in 2012 aimed at strengthening country E&S systems in East Asia and the Pacific (World Bank, 2018).²³ The WBASP includes one regional centre and four based in different East Asian countries, offering pooled long-term technical and institutional capacity support for E&S assessment and management. Building on WBASP's experience, in 2023 the World Bank rolled out a set of 10 measures to streamline and strengthen ESF implementation and country systems, supporting over 70 projects in 30 recipient countries as of March 2024 (World Bank Group, 2024: 9).

²³ WBASP is tied to the PRIF and its shared approach described in **Error! Reference source not found..** The WBASP programme is active in Fiji, Indonesia, Kiribati, Myanmar, Papua New Guinea, the Philippines, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, Vanuatu and Viet Nam.

ADB dedicated over \$50 million in technical assistance between 2009 and 2020 to strengthen national safeguard guidelines, regulations and legislation. The initiative involved helping countries assess legal and policy gaps, good practice guidance, capacity-building and regional learning centres. Despite some positive outcomes, ADB's independent evaluation found that these efforts were ring-fenced to specific projects and largely transactional, as opposed to programmatic (ADB Independent Evaluation Department, 2020). Nonetheless, in early 2017 the ADB became one of the few MDBs to successfully apply country systems through its project with the Power Grid Corporation of India (ADB Independent Evaluation Department, 2020). Further work is under way in Indonesia and Sri Lanka. ADB has been working alongside its peers to adopt a common assessment approach for country systems in the Asia Pacific.

IDB began systematic efforts to strengthen country systems in 2011, with Guyana the first country chosen for equivalence analysis (IDB Office of Evaluation and Oversight, 2013). Despite progress, the government pulled out because the process was seen as too onerous. Nonetheless, E&S strengthening initiatives by IDB have continued as part of Guyana's 2023–2026 country strategy. In 2023, IDB launched a \$1 million regional programme aimed at strengthening country systems and managing E&S impacts and risks in accordance with the Bank's new ESF approved in 2021 (IDB, 2023). As of October 2023, IDB had conducted training for 123 executing agencies from 10 countries (ibid. 3).

Proposed solution: Shareholders should reallocate a share of resources now spent on upstream document preparation towards client support as an essential step to accelerate country system use in appropriate recipient countries.²⁴ These efforts should build on past successful examples (such as the E&S HEIS) to enable smoother implementation for clients and strengthen technical and operational skills, as well as national guidelines, regulations and legislation. Efforts to strengthen country systems should move away from largely transactional project support provided by consultants and towards an approach that is both programmatic and country owned.

To make the best use of limited resources, MDBs should focus initial efforts in countries with a strong interest in moving towards country system use, where E&S and procurement frameworks are already well-developed and where other development actors are ready to coordinate efforts. The HEIS framework for procurement, as well as the E&S version being developed by the World Bank, could be helpful tools to orient capacity-building resources most efficiently. Shareholders could request MDBs to commission a joint assessment

²⁴ Client support frameworks for E&S should include capacity-building, document preparation and project design as well as E&S monitoring/reporting.

to determine the obstacles and funding needs for scaled-up and collaborative E&S capacity-building efforts, part of which could come from project preparation facilities.

Conclusion

The efforts of MDBs to minimise and redress negative environmental, social and procurement outcomes from development projects, while at the same time avoiding excessive bureaucracy and respecting country sovereignty, are fraught with complexities. Development is inherently risky, and the challenges are magnified because of the multiple stakeholders involved, including MDB staff, shareholder governments, recipient country officials, civil society organisations and project-affected people. It should come as no surprise that change is difficult.

In such a context, the focus should be on pragmatic, incremental reforms to harmonise and streamline ESF and procurement standards and their implementation to reduce costs, time and bureaucratic burdens for clients, while respecting the diverse operating contexts of different MDBs and maintaining high standards.

System-wide coordination is critical for achieving meaningful improvements in how clients experience ESF and procurement requirements on MDB projects. Shareholders should build on existing cross-MDB coordination networks on ESF (MFI WGESS) and procurement (HoP) to tackle specific issues, set clear targets for reform, and generate data and reporting to allow shareholders to track progress and manage further reform at the system level. The G20 can play a critical role in helping to coordinate and accelerate reform efforts, while recognising that each MDB will define its own path based on shareholder-driven priorities.

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Appendix 1

Table 3 Summary of MDBs Mutual Reliance/Recognition Agreements (MRAs) and Collaboration/ Cooperation/ Harmonisation Initiatives

MRA/project/initiative name (year)	Parties	MRA details
Mutual Reliance Initiative (MRI) ²⁵ (2013, renewed in 2023 ²⁶)	EIB, AFD and KfW	The MRI is a joint initiative to enhance the effectiveness of development cooperation. It allows the promoters of investment projects in EU partner countries, co-financed by the three development institutions, to benefit from a larger project finance capacity and a simplified partnership with the financiers through a framework optimising the synergy between the three institutions. (EIB, n.d.; EIB, 2023)
ENGIE Solar Power Project (2024) ²⁷	AIIB and ADB	AIIB and ADB co-investment in India. AIIB relies on ADB's 2009 Safeguard Policy Statement to assess the project's E&S risks and impacts. (AIIB, n.d.)
Joint European Financiers for International Cooperation (JEFIC) ²⁸ (2023)	AECID, AFD, BGK, CDP and KfW	JEFIC is a co-financing framework agreement allowing for improved efficiency and better response to partners' needs, to design tailor-made solutions in terms of support, funding volumes and financial instruments, as well as mobilising regional and sectoral expertise in line with the Team Europe Initiatives and Global Gateway. JEFIC allows simplified procedures for common clients, who will follow the procedure of the single lead entity. (AFD, n.d.)
Practitioners' Network for European Development Cooperation ²⁹ (2007)	ADA, AECID, AICS, British Council, CPVA, Camoes, CDA, ENABEL, AFD, FIIAPP, GIZ, LuxDev, RoAid, SNV, Sida and SAIDC	PN is an open platform for exchange, coordination and harmonisation between European Development Cooperation organisations. Members use the platform to share their experiences and reflect on joint efforts in implementation. It encourages an integrated, pluralistic, innovative, pragmatic and efficient approach in implementing European international cooperation programmes.
Team Europe Initiatives ³⁰	EU, EIB and EBRD	Team Europe was initially put in place to ensure a coordinated and comprehensive response between the EU and its Member States to the Covid-19 pandemic and its consequences. The

²⁵ <https://www.eib.org/en/products/mandates-partnerships/mri/index>

²⁶ <https://www.eib.org/en/press/news/the-eib-and-the-french-and-german-promotional-banks-afd-and-kfw-renew-their-mutual-reliance-initiative-to-increase-synergies-and-impact-around-the-world>

²⁷ <https://www.aiib.org/en/projects/details/2024/approved/India-ENGIE-Solar-Power-Project.html>

²⁸ <https://www.afd.fr/en/jefic>

²⁹ <https://www.dev-practitioners.eu/what-we-are/#who-we-are-section>

³⁰ https://international-partnerships.ec.europa.eu/policies/team-europe-initiatives_en

		<p>new approach has quickly become the backbone of Global Europe (the main financial tool for EU international cooperation from 2021 to 2027) and its programming. It notably includes the conception of Team Europe Initiatives, which are the flagships of the Team Europe approach. Fundamental to all is a renewed and re-energised EU ambition to ‘work better together’, as originally outlined in the 2017 European Consensus for Development (Pleleck and Gavas, 2023).</p>
<p>Mutual Reliance Agreement EIB/EBRD³¹</p>	<p>European Commission, EIB and EBRD</p>	<p>When co-financing projects, the banks will endeavour to maximise value added for the clients, notably by closely co-ordinating due diligence and by sharing results, wherever possible and in a reciprocal way, under ‘mutual reliance’ arrangements under the ‘lead-bank’ approach. Mutual reliance based on mutual recognition of procedures and standards and – to the extent possible, in particular for pre-accession and neighbourhood countries – harmonisation of standards (including on procurement and environment) will be pursued and developed to provide the building blocks for intensified cooperation, which both Banks recognise as an important element to enhance the efficiency and impact of joint operations. (EC et al., 2021).</p>
<p>Mutual Reliance Agreement AfDB/EIB³²</p>	<p>AfDB and EIB</p>	<p>The objective of this MRA is to delegate procurement-related tasks in project preparation, implementation and monitoring to the maximum possible extent to the institution that is subsequently assuming the responsibility as Lead financier. Within the overall framework, and recognising differences across regions, it is envisaged that AfDB and EIB will play a balanced role as Lead financiers. (ADB, 2018).</p>
<p>MoU³³ (2024)</p>	<p>AiIB and WBG</p>	<p>Collaboration areas include: (a) share knowledge, ideas and lessons learned; (b) plan joint activities in areas of common interest, including strategic cooperation and grant/concessional resources collaboration and financial innovation related to the activities under this MOU; (c) explore co-financing opportunities in accordance with the Co-financing Framework Agreement; (d) explore harmonisation of practices between the Participants to facilitate the carrying out of activities under this MOU; (e) jointly engage in a dialogue with stakeholders and others interested in activities being pursued under this MOU; (f) periodically evaluate the effectiveness of working in collaboration with each other, with reference to their respective organisational mandates and priorities.</p> <p>At the 2024 WBG-IMF Spring Meetings, AiIB continued to ‘advocate for MDBs to work better as</p>

³¹ https://www.ebrd.com/downloads/news/MoU_EC-EIB-EIF-EBRD_Final_MB_formatting.pdf

³² <https://www.afdb.org/fr/news-and-events/the-board-of-directors-approves-a-mutual-reliance-for-procurement-in-joint-co-financed-public-sector-operations-between-african-development-bank-and-european-investment-bank-18067>

³³ <http://documents1.worldbank.org/curated/en/099008004242488692/pdf/IDU1af98855e191ec148071aa9d11712d046a388.pdf>

		a system and lower transaction costs for clients. [Bank] President Jin emphasized the importance of MDB collaboration and the promotion of mutual recognition and harmonization of policies across several events, including meetings with MDBs and G20. ³⁴ (AIIB, 2024; AIIB and World Bank, 2024)
Co-Financing Framework Agreement³⁵ (2021)	AIIB and EBRD	<p>'A new co-financing framework agreement (CFA) that will enable the two banks to harmonise their operational policies and procedures was signed by EBRD President Odile Renaud-Basso and AIIB President Jin Liqun today.</p> <p>The agreement will speed up the preparation of joint co-financed investment projects and their implementation. It will allow member-countries and clients to focus on preparing their projects on the basis of one set of specific requirements. This will improve the efficiency of investment operations and thus achieve lower costs for clients and a greater development impact in terms of the green economy, digitalization and inclusion.</p> <p>Examples of streamlining include the future application of well-established EBRD instruments such as the Environmental and Social Policy and the Procurement Policies and Rules in co-financed projects.'</p> <p>(AIIB, 2021)</p>
MoU³⁶ (2023)	WBG and IFAD	IFAD and the World Bank signed a Procurement Framework Memorandum of Understanding (MOU), agreeing on mutual reliance on each other's project procurement frameworks and setting out efficient mechanisms for collaboration between the co-financiers. The agreement applies to public sector projects jointly co-financed by IFAD and the World Bank and delegates procurement-related tasks to the party designated as the Lead Co-Financier. The MOU ensures that both parties' fiduciary requirements are complied with in jointly co-funded projects with the lead financier carrying out day-to-day procurement supervision and approvals on behalf of both financiers. (World Bank Group, 2023)
Memorandum of Intent (2023)	WBG, CEB, EBRD and EIB	CEB, EBRD, EIB and WB have agreed to harmonise procurement practices for public sector investment financed by the MDBs in Ukraine. The Memorandum of Intent was signed in October 2023 and responds to a request from the Ukrainian authorities. The four MDBs are working with the authorities to find common ground to allow further use of the national e-tendering platform within the scope of respective MDBs' procurement policy.

Note: See Appendix 1 for an overview of the agreements shown above. Neither this figure nor the Appendix list provide exhaustive references of all agreements and harmonisation initiatives, especially as not all information is in the public domain. ADA = Austrian Development Agency, AECID = Spanish Agency for International Development Cooperation, AICS = Italian Agency for Development Cooperation, BGK = Poland development bank, CPVA = Central Project Management Agency, CDA = Czech Development Agency, CDP = Italian Development Bank, ENABE = National Agency for Business and Enterprise,

³⁴ <https://www.aiib.org/en/news-events/media-center/blog/2024/AIIB-Renews-Commitment-to-Global-Action-and-Advocates-for-Systemic-Responses-at-2024-World-Bank-Group-IMF-Spring-Meetings.html>

³⁵ <https://www.aiib.org/en/news-events/news/2021/AIIB-and-EBRD-streamline-co-financing-procedures.html>

³⁶ <https://www.worldbank.org/en/news/feature/2023/09/25/joint-statement-of-ifad-and-world-bank-on-the-signature-of-the-procurement-framework-agreement>

FIIAPP = International and Ibero-American Foundation for Administration and Public Policies, GIZ = German Corporation for International Cooperation, LuxDev = Luxembourg Agency for Development Cooperation, RoAid = Romanian Agency for International Development; SNV = Netherlands Development Organisation; Sida = Swedish International Development Cooperation Agency, SAIDC = South African International Development Cooperation.