Overview report

Maximising operational effectiveness and impact: key priorities for multilateral development banks

A review of issues and solutions in selected dimensions of MDB operational effectiveness

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
CCDR	Country Climate and Development Report
EBRD	European Bank for Reconstruction and Development
E&S	Environmental and social
ESF	Environmental and social framework
G20	Group of 20
GI Hub	Global Infrastructure Hub
HoP	Head of Procurement
IADB	Inter-American Development Bank
IEG	Independent Expert Group
IFC	International Finance Corporation
MDB	Multilateral development bank
MFI WGESS	Multilateral Financial Institutions Working Group on Environmental and Social Standards
NDB	New Development Bank
PPF	Project preparation facility
SDG	Sustainable Development Goal

1 Introduction and overview

The sheer scale, urgency and complexity of the national and global challenges that emerging and developing countries face require a significant ramp-up in investment for transformative change (Bhattacharya et al., 2023). Multilateral development banks (MDBs) might be small players in the broader financing landscape – compared to national development banks or the private sector – but they contribute significantly to development finance. They provide cheaper financing than many countries can obtain in capital markets, invest in areas overlooked by the private sector, set standards for markets, combine finance with technical assistance and policy advice, and leverage their capital, among other strengths.

A number of G20-led initiatives over the past couple of years have analysed the challenges and explored solutions for how MDBs[1] can scale up the volume of their lending and maximise the effectiveness and impact of their operations, individually and collectively. Since 2017, the reform agenda of MDBs within the G20 has evolved under different presidencies:

- In 2017, the German G20 Presidency initiated efforts to reform the global financial architecture, leading to the Tharman Report (G20 EPG, 2018). This laid the groundwork for the reform agenda.
- The Italian G20 Presidency in 2021, amid the Covid-19 crisis, focused on boosting the lending capacity of the existing capital of MDBs, leading to the establishment of an independent Panel for the Review of MDB Capital Adequacy Frameworks.
- In 2023, the G20 Indian Presidency set up an Independent Expert Group (IEG) to develop an ambitious agenda for MDBs to become better, bolder and bigger (G20 IEG, 2023a; 2023b). The reports produced by this group set out a way forward for MDBs, with recommendations featuring prominently in the Delhi leaders' declaration.
- In 2024 the Brazilian Presidency built on the recommendations of previous presidencies, focusing on tracking progress on the

1 The MDBs included in this report are the members of the Group of MDB Heads, i.e. the African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IADB), Islamic Development Bank (IsDB), New Development Bank (NDB) and World Bank Group.

capital adequacy framework and formulating specific recommendations for achieving better, bigger and more effective banks in an ‘MDB Roadmap’ for reform.

Most of the earlier efforts on the reform of MDBs focused on expanding the size of these institutions, particularly on maximising the lending potential of MDB balance sheets. But how MDBs lend, implement projects and programmes and measure impact also matter. Despite the operational model of MDBs demonstrably possessing many strengths, client countries consistently highlight a number of challenges (Prizzon et al., 2022). As the IEG report points out, a wholesale rethinking of the MDB operational model is required, including a change in the institutional cultures and mindsets shaping how they operate individually and as a system (G20 IEG, 2023b).

First, among the challenges that limit the operational effectiveness of MDBs, **lending approval and disbursement processes can be lengthy and should be streamlined**. Most important is balancing the need for high MDB standards with the legitimate calls from client countries to reduce administrative burdens, accelerate project and programme implementation and recognise their right to design policies and practices based on their social, political and economic contexts (Getzel and Humphrey, 2024). Safeguards, while necessary, have faced criticism for proving challenging for beneficiary countries, lengthening project cycles and deterring some prospective borrowers from engaging with certain MDBs. MDBs have the potential to increase project preparation support and expedite the lending process while concurrently reducing operational costs through the simplification, mutual recognition and, whenever possible, harmonisation of procedures related to social, environmental and procurement standards and rules – while also maintaining high standards and observing the specific mandate of each MDB and the use of country systems.

Second, **strong pipelines of projects are essential for countries to meet climate and development targets**, and indeed for the increased lending power of the MDBs to be matched by investments. However, many Emerging Markets and Developing Economies cannot translate their infrastructure deficits into well-defined and well-prepared project pipelines (GI Hub, 2019). Inadequate legal, policy and regulatory frameworks, institutional capacity and financial resources hinder their ability to develop projects successfully and at scale. Furthermore, delivering public assets and services through public–private partnerships has increased the complexity of project preparation. This scarcity of well-developed, high-quality projects will constrain private capital mobilisation and countries’ ability to expand investments. In view of their range of instruments and proximity to the country context, MDBs should be critical actors in helping to boost high-quality project pipelines. This will require, on the one hand, an enhanced focus on upstream activities that can unblock investments at the sector level, such as policies, institutions and sector frameworks; and on the other financial and technical assistance to support countries in preparing individual projects, especially in infrastructure. In 2023, the G20-mandated Independent Expert Group on Strengthening MDBs recommended ‘tripling the pipeline of bankable projects and working to ensure its conversion to strong deal flow through stepped-up support’ (G20 IEG, 2023b: 64).

Third, as stressed by the shareholders and boards of the MDBs on numerous occasions, it is crucial to promote a rigorous outcome orientation in the operations of the MDBs, and conversely avoid a volume-drive that might load borrower countries with debt without effectively tackling development objectives. All stakeholders wish to ensure that MDB financing produces the biggest development ‘bang for the buck’ (Gregory and Getzel, 2024): shareholders seek to direct lending towards purposes that are consistent with MDB mandates, and for borrowers it is imperative to ensure the best possible value for money in the use of scarce lending. As a result, **there has been growing interest in MDB practices relating to the measurement and reporting of outcomes and impact**, including in relation to impact as a driver of MDB strategy and resource allocation in the context of scarce financing and administrative budget resources.

Fourth, in order to address some of these obstacles and to support countries in their national development agendas, **country platforms are increasingly considered a practical solution to many coordination and financing challenges**. The original proposal for country platforms came from the G20 Eminent Persons Group on Global Financial Governance, which sought to enhance the coordination of international financial institutions at the country level. This was not a new concept in the development effectiveness agenda, where country-focused approaches to development cooperation have seen some success in the past (Hadley et al., 2022). However, their uptake for climate and other transitions initially had limited traction beyond pilot projects led by the World Bank (Kelly and Papoulidis, 2022).

Finally, it will not be possible to respond to development and global challenges with the scale and urgency needed **unless MDBs are able to collaborate much more closely than in the past**. MDBs have different mandates, different shareholding and decision-making structures and different geographical contexts. But they share an overarching common purpose: the pursuit of the Sustainable Development Goals (SDGs) and the urgent necessity to respond to pressing global challenges, including climate change. There has been progress with MDB collaboration, but the G20 IEG report suggests that much more radical steps are needed if MDBs are to deliver the best results as a system.

The remainder of this paper expands on the key challenges and recommendations for MDBs – and their shareholders – and focuses on selected aspects relevant for the operational effectiveness of MDBs: streamlining the processes behind their environmental and social frameworks, and procurement; boosting project pipelines by improving upstream policy support and project preparation; strengthening their approach to measuring outcomes and integrating an outcome lens throughout the project cycle; supporting countries as they develop and implement country platform approaches; and coordinating and cooperating more effectively at the institutional and operational level. This overview paper is based on five technical reports.[2]

[2] See Schneidewind and Prizzon, (2024); Prizzon et al., (2024); Getzel and Gregory, (2024); Getzel and Humphrey, (2024); and Gilmour et al., (2024)

2 What challenges can constrain the effectiveness and impact focus of MDB operations?

2.1 Differences in ESF policies across MDBs

Environmental and social framework (ESF) policies mostly follow a similar structure across MDBs, with (i) a stand-alone institutional commitment/policy statement on environmental and social sustainability; and (ii) a number of standards (between four and 11) that set out the requirements that apply to borrowers (see Table 1). Procurement policies are even more closely aligned. Despite this broad conceptual harmonisation, numerous differences remain in policy coverage and implementation processes, both in ESF and procurement. For example, MDBs vary on whether their frameworks apply to different types of projects (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. Despite the fact they are often relatively minor, their cumulative effect can add considerably to client 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 1 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[3]	+	+	+	+	+	+
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	-	-	+	-	+	+
Financial intermediaries	Special provisions	NSS	-	Special provisions	+	+	+	Special provisions

Source: Getzel and Humphrey (2024)

Note: '+' = standard is included; '-' = standard is not included. Embedded means contained within the safeguards policy framework. NSS= no standalone standard

2.2 Uneven progress towards 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 both MDBs and 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).

Most ESFs and procurement policies already permit the use of country systems in certain circumstances. However, these provisions are rarely acted upon by staff due to risk aversion

[3] 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.

and uncertainty over the reaction of management and boards. AIIB has worked to implement country systems (Vazquez and Chin, 2019), while AfDB has also pursued their use in line with the Busan agreements (MOPAN, 2023a). Despite similar intentions, 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 IADB have struggled to scale, although recent renewed initiatives at capacity-building and country system assessments show promise. The New Development Bank (NDB) has prioritised the 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.

Another important factor – highlighted in consultations for the analysis in Getzel and Humphrey (2024) – is insufficient staff capacity to evaluate multiple country systems to 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 IEG, 2023b: 71). The default position for most MDBs is to focus on an MDB's standards as the starting point, rather than the borrower's own systems. Limited reliance on country systems can lead to heavy client workloads, especially considering that, in project preparation efforts, there is an enormous focus on preparing environmental and social (E&S) documents, some of which must be duplicated by clients to meet both their own and MDB requirements.

2.3 Weak enabling environments for investments

The absence in many cases of well-regulated, functional markets is a significant obstacle to translating project opportunities into actual investments (Le Houérou and Lankes, 2023). Barriers to project development and investment can be sector-specific and, therefore, extend beyond the lack of enabling factors linked to the general business environment and investment climate. These barriers derive from market failures, inadequate regulation and institutions or a set of wrong incentives that can prevent the emergence of markets. The absence of functional markets is often linked to the lack of government strategic planning and transparency, leading to unclear signals to market participants (World Bank, 2022).

MDBs can help countries address sector-specific challenges to unlock project development and investment downstream. A conducive enabling environment that 'creates markets' and catalyses investments in a specific sector requires adequate public sector capacities, policies and regulations as well as a robust and innovative private sector. With their strong focus on diagnostics and technical assistance and instruments such as policy-based lending, the sovereign-lending arms of MDBs are well-positioned to support governments in implementing public sector reforms that can support market creation. The private sector arms or divisions of MDBs can contribute their expertise and on-the-ground experience to the underlying diagnostics. They can also directly support private actors to strengthen their capabilities.

Therefore, **effective coordination between MDBs' public and private sector activities is critical for market creation**. Silos between the public and private sector arms or divisions within MDBs are often ingrained. Staff tend to belong to and operate in separate organisational divisions or different entities. More fundamentally, there are substantial differences in business processes, the nature of clients, and professional backgrounds among staff working in these distinct areas (ADB, 2022; IADB, 2023). These differences can hinder collaboration and coordination between public sector and private sector operations. Across MDBs, some recent reform initiatives have been aimed at strengthening the interaction between public and private sector arms to support market creation efforts. However, significantly more effort will be required to enable transformational change.

2.4 Fragmented and underfunded project preparation support

The system of project preparation facilities (PPFs) is highly fragmented, with significant proliferation combined with diverse mandates, focus areas and business models, and often relatively modest financing (World Bank, 2022; GI Hub, 2021; Bhattacharya et al., 2019; Nassiry et al., 2018; Kortekaas, 2015). To the best of our knowledge, the most recent comprehensive overview of PPFs identified at least 130 worldwide, 53% of which are led by MDBs (GI Hub, 2021). Before 2000, very few PPF initiatives were in place. However, their number has grown exponentially since then. For example, over 80% of MDB-led PPFs were created after 2015 (GI Hub, 2019).

Concerns about the fragmentation of the system of PPFs and recommendations for reviewing their structure, including consolidating them, are not new. The G20 High Level Panel on Infrastructure noted the existence of numerous PPFs and recommended that the size and range of PPFs be reviewed 'with the view to restructuring them on a more sustainable basis, including the provision of additional resources if needed' (G20 High Level Panel on Infrastructure, 2011: ii). The Infrastructure Action Plan of the MDB Working Group on Infrastructure advocated pooling resources across PPFs through mergers and/or syndication arrangements. The Working Group also encouraged better coordination and the establishment of multi-donor windows within existing PPFs, and recommended assessing existing PPFs in Africa to inform the restructuring of PPFs 'to have fewer, more effective facilities' (MDB Working Group on Infrastructure, 2011: 3).

However, attempts to harmonise the PPF system in the early 2010s proved more difficult than envisaged. Several institutions and research groups attempted to assess the PPF ecosystem comprehensively (Nassiry et al., 2018; Adam Smith International, 2014; ICA, 2012). However, assessing and comparing how PPFs have performed has been difficult because of a lack of information about individual PPFs and their characteristics, e.g. in mandates, focus areas and business models, and limited evaluations. There is a general lack of accountability and transparency regarding the PPF ecosystem. Consequently, actors like the G20 face challenges in steering the system and monitoring progress, while MDBs struggle to access the necessary information to coordinate more effectively.

The estimated time and costs for project preparation can vary considerably based on the complexity and readiness of the project. Project preparation in infrastructure typically requires from three to eight years, with an average of six (IMF, 2020). Project preparation costs, including pre-construction finance, usually represent 5–10% of the total project investment (World Bank, 2022).

Considering the trillions of dollars in additional investment required to achieve the SDGs and address climate change, much of it for infrastructure, tens of billions might be needed annually to finance project preparation. Furthermore, at least in the short to medium term, with increased investment some new projects are likely to exhibit progressively lower levels of readiness as more funding flows to lower-income countries and/or countries with fragility challenges. Higher standards and new requirements related to sustainability, inclusion and technology are also driving up project preparation costs (GI Hub, 2021).

2.5 Strategies and operational management and reporting not sufficiently oriented towards impact

MDB strategies and operational monitoring and reporting focus too much on inputs – e.g. on how much was disbursed – rather than outcomes and impacts. Correcting this requires systems that embed impact measurement and reporting throughout the lifecycle of operations. Implementing effective impact measurement and management systems involves deciding what to measure, how to measure it, how to use the evidence generated in operations, and what to disclose. Based on relevant best practices and international standards and frameworks, the selection of what to measure should be based on theories of change that explain how MDB activities are expected to contribute to outputs, outcomes and impact on development. Metrics should be selected to assess progress at each stage of the results chain, so that progress towards impact can be measured during implementation, and divergences from expected impact can be understood. Impact metrics should be integrated into the project cycle: identified during the design of MDB operations and strategies, monitored during implementation, and evaluated after implementation (both by operational teams and by independent evaluation functions). The evidence and knowledge gained from monitoring and evaluation should feed back into the design of new strategies and operations. However, measuring impact in MDBs does not always align with these best practices and management standards. Several MDBs use impact scoring tools for their private sector operations throughout the project cycle: Anticipated Impact Measurement and Monitoring (AIMM) at the International Finance Corporation (IFC), Development Effectiveness Learning, Tracking and Assessment (DELTA) at IDB Invest, Transition Impact Monitoring System (TIMS) at EBRD, and the Additionality and Development Outcomes Assessment (ADOA) at AfDB. While sovereign lending arms of MDBs have made progress identifying impact metrics to be tracked during project supervision, most do not yet use scoring tools to aggregate expected impact for integration into project selection and monitoring. For example, post-impact assessment of sovereign lending operations is typically conducted when the project is fully disbursed, which may be too soon to fully capture all impacts. Arrangements for continued monitoring of impact post-project completion could generate a fuller picture of impact achieved. Many MDBs monitor impact beyond individual projects at the country level, but often struggle to do so at the sector level or in relation to cross-cutting themes especially as outcome indicators can be more challenging to set for these areas (MOPAN, 2023b; 2024).

Management by results instead of by inputs requires tracking of aggregate output and outcome achievement in corporate scorecards, with a clear line of sight to SDG and climate impacts. It also requires aligning staff incentives, including staff appraisal, remuneration and progression processes with a focus on impact, to ensure a better balance of incentives between approval/commitment volumes and the achievement of development results, while avoiding creating inappropriate incentives such as avoiding taking risks. The World Bank and IFC both integrate impact results and targets as part of their country strategies. At the World Bank Group, the Systematic Country Diagnostic (SCD) informs the design of each country partnership framework and guides the prioritisation and selection of programme objectives at the country level. It is now complemented by Country Climate Diagnostic Reports (CCDRs) and Country Private Sector Diagnostics to better integrate climate and private sector impacts into country strategies. At IFC, country strategies are reviewed and adjusted every six months to take stock of impact and progress and adjust to changes in context.

2.6 Costs and limited incentives for collaboration and coordination across MDBs

While every MDB has its own mandate, mission statement, shareholding and decision-making structure that must be respected,[4] particularly at the country level and in common priority areas, by coordinating and cooperating more closely **MDBs can be more than**

4 See Prizzon et al. (2024) for a definition and examples of collaboration and cooperation among MDBs at the institutional and operational levels.

the sum of their parts. While some areas of MDB coordination and cooperation have seen significant progress (e.g. reporting on climate action, mutual recognition of procurement processes and measures for balance sheet optimisation), others have proved more challenging (e.g. on private capital mobilisation, harmonisation/mutual recognition of E&S standards, joint diagnostics).

Coordination and cooperation among MDBs can be costly and difficult for these institutions, generating direct and opportunity costs. This is not limited to MDBs: it applies to coordination and cooperation among international organisations more widely. An array of tensions – autonomy versus integration, diversity versus unity – results from concerted efforts to work together, either spontaneously or more often as a result of external pressure (Mele and Cappellaro, 2018).

Each institution's incentives prioritise its own performance rather than collective results. **MDBs' performance is primarily measured by the volume of finance they individually commit and disburse annually and by progress on their institutional scorecards.** MDBs are not assessed based on collective amounts or joint indicators of impact. While efforts and initiatives to boost coordination and cooperation among MDBs have significantly accelerated and expanded in recent years, high-level objectives for MDBs working together are required: to raise the ambition of ongoing actions; to match the scale, urgency and complexity of interventions necessary to support client countries; to prioritise actions; to ensure coordination remains high on the agenda of MDB management; and to monitor progress on coordination over time at institutional and system-wide level.

High-level objectives for MDB coordination and cooperation may not be sufficient in the absence of each shareholder also having a clear, whole-of-government and coherent vision for how each MDB can promote cooperation to maximise joint operations, being consistently implemented by both capitals and board members. **Diverging priorities and views on coordination and cooperation of individual shareholders across MDBs was a concern raised in the consultations for the analysis in Prizzon et al. (2024), and could limit the potential for MDBs to work effectively together.**

2.7 Competition and duplication of efforts across MDBs at the country level

At the country level, MDBs can be perceived as competing for projects and programmes, rather than cooperating. Competition can expand client countries' choices, including on pricing, incentivise efficiencies in individual institutions, and foster innovative solutions. However, competition can also result in a smaller scale of the overall offer of MDBs in each country, where each MDB tries to access scarce concessional funding, and in duplication of effort (across MDBs and between the MDBs and the client country). Government officials in some client countries do not believe that MDBs coordinate well.[5]

Coordination on implementation at the country level has made strides in the mutual recognition of procurement systems. While we recognise it to be much more challenging, **progress on harmonisation or mutual recognition of ESF standards, particularly E&S safeguards, will take time to materialise, and short-term solutions will be needed** (Getzel and Humphrey, 2024).

Furthermore, many MDBs generate similar knowledge products and diagnostics, often requiring similar information and inputs from their government counterparts, leading to duplication and pressure on client systems. Beyond duplication, **a more fundamental challenge is that the toolkit of technical assistance and policy advice, and the modalities through which MDBs generate and communicate knowledge, do not meet clients' requirements**. Government officials are concerned about the responsiveness of MDBs to client demands and government priorities (Prizzon et al., 2022). They feel that MDBs struggle to adapt to local realities, prioritise advice from headquarters over local expertise, and focus on enabling new project approvals rather than providing tailored policy advice. The analytical products offered by MDBs may lack the nuance needed to address practical policy problems and often come in the form of long, set-piece reports with 'best practice' off-the-shelf policy advice.

5 In a survey of government officials in client countries run in 2021, less than half of government officials believed that MDBs coordinated well among themselves in their countries (Prizzon et al., 2022). On this point see also Magunna (2023).

3 What should MDBs, their shareholders and the G20 do for MDBs to become ‘better’ and ‘more effective’ institutions?

3.1 Support the country platform agenda

Country platforms, with their nationally led and programmatic approach to sectoral transformation, are increasingly considered a practical solution to many of the coordination and financing challenges that have long beset national development agendas. MDBs are uniquely positioned to provide effective support and services for the development and implementation of country platforms, reflecting the combination of their policy, finance and capacity-building activities, and based on the strength of their country dialogue (see Gilmour et al., 2024).

First, **MDBs should seize the momentum generated by recent country platforms by providing early funding and institutional support to countries seeking to establish their own initiatives and to individual operational components within each platform**. For example, MDBs (with the support of donors) should provide access to concessional funds dedicated to supporting country platform development and implementation. These funds may operate alongside and in coordination with support provided through bilateral mechanisms. Support can be functional (for example analytics or project preparation), thematic (for example for just transition, nature-based solutions or other SDG-related areas) or mobilisation-oriented to enhance private finance participation in the platform.

Second, **MDBs should set internal incentives, align systems and dedicate instruments, private and local financial partnership mechanisms and documentation/reporting to support the country platform approach**. Doing so will enable MDBs to provide wide-ranging support, which might include the following, depending on country needs: the maintenance of coordination mechanisms, at a minimum among MDBs to facilitate ‘working as a system’ and if necessary among all international partners to reduce transaction costs for countries; ongoing support for dialogue and consultations with domestic stakeholders, particularly communities adversely affected by the planned transition, and with the private sector; ongoing policy and investment analysis to support countries to be informed about evolving distributional impacts, technological cost curves, costs of capital and other factors, and to adjust their policy roadmaps, investment plans and financing strategies accordingly; and ongoing strengthening of domestic capacities for the detailed project design, financing and delivery phases. Climate transitions will take place over years, creating an opportunity for countries to build the strong local capacities necessary for national ownership and successful implementation.

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

MDB shareholders should set high-level results-focused harmonisation objectives for existing MDB coordination mechanisms. Despite broad agreement among shareholders on the value of harmonisation, progress has lagged in part due to a lack of clarity and incentives directed to 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 to share experiences and best practices and promote collaboration, but it lacks a results-oriented mandate. The MFI WGESS has 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. Nonetheless, it could also benefit from a clear mandate and high-level results-focused objectives. For example, 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 for consideration by MDB boards.

MDBs should systematically map differences in policy and implementation to support continued harmonisation of ESF and procurement standards. MDBs should work together to provide a joint input note clearly identifying the key differences between their respective ESF and procurement policies, with a focus on how they are operationalised, 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 (i) provide a rationale for these differences and why harmonisation may not be possible; or (ii) 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.

3.3 Increase the use of country systems

MDB management and shareholder Boards should encourage MDB staff to make use of existing policy provisions permitting greater reliance on country systems for ESF and procurement, supported by adequate resources and clear guidelines. 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. 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 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 (category B and C). High-risk (category A) operations or those that are likely to cause significant negative environmental impacts should consider using country systems only after there has been more experience with category B and C projects.

The G20 and shareholders should encourage MDBs to collaborate to strengthen client capacity-building, especially in low-income and vulnerable countries. Strengthening borrower frameworks is in many cases a prerequisite for the use of country systems. National frameworks and implementation capacity vary dramatically across recipient countries. In recent years, MDBs have made more systematic and institution-wide efforts to strengthen borrower systems, with varying degrees of success (Getzel and Humphrey, 2024). Efforts to strengthen country systems should move away from largely transactional project support provided by consultants and move towards an approach that is both programmatic and country-owned. To make the best use of limited resources, MDBs should focus initial efforts on countries with a strong interest in moving towards country system use, with already well-developed E&S and procurement frameworks, and where other development actors are ready to coordinate efforts.

3.4 Strengthen market upstream support to project pipelines

MDBs should update and enhance incentives to foster coordination between their public and private sector arms for market creation and project development. Well-regulated markets are critical to translating project opportunities into investments. When it comes to their role, MDBs should improve their support to countries to address sector-specific obstacles to market creation. That includes their public and private sector support to be better integrated within individual institutions and across MDBs. MDB shareholders can play a crucial role in ensuring that MDBs align on and adhere to key approaches and 'rules of the game' that set incentives for behaviours that aim to create space for the private sector.

MDBs should also strengthen the alignment and leverage complementarities of strategies and diagnostic products of MDBs' public and private sector operations and arms. Many MDBs lack systematic cooperation between their public and private sector arms in the development of diagnostic products and integrated country strategies, weakening their effectiveness in analysing and addressing obstacles to investment. A common challenge is that these tools, typically led by MDBs' public arms, often lack sufficient integration of expertise and perspectives from MDBs' private sector arms.

3.5 Enhance the integration and syndication of project preparation funding and expand resources for project preparation

Given their fragmentation and proliferation in recent years, **MDBs should enhance integration and syndication of project preparation funding across MDBs and MDB-led PPFs, particularly for large, transformational and/or regional projects**. For example, MDBs could leverage country platforms and the collaborative co-financing platform recently announced by Heads of MDBs (2024) to scale up these efforts. An option would be for **G20 initiatives like the GI Hub and the Global Infrastructure Facility to be revamped and expanded** to provide a centralised repository for various support tools and programmes, alongside being a home to experts with a comprehensive overview of the entire project preparation ecosystem. Those experts should guide and advise both MDBs and country actors upon request.

Shareholders and MDBs should expand resources to invest in project preparation, including supporting MDBs' efforts to build capacity and strengthen the development of country ecosystems for project preparation. Preparation costs are significant, usually between 5% and 10% of the total project investment. Greater investment should also extend to technical assistance for sector-wide and sector-specific upstream support, such as enhancing legal and regulatory frameworks, to foster a more conducive enabling environment.

To address the limited resources available to them to directly support project preparation, **MDBs should experiment with innovative approaches to PPF business models and recovery approaches that can attract private investors,** like venture capital models or a tiered PPF structure (WEF, 2015).

3.6 Adopt outcome and impact-oriented corporate scorecards and full cycle impact monitoring and reporting

There are opportunities to strengthen impact measurement and reporting to mainstream good practices across the MDB system in the short term, while working on further development of practices over the medium term.

MDB management should work with their Boards and shareholders to design corporate scorecards to focus on outcomes as well as outputs, with a clear line of sight from outcomes to impacts on the SDGs and COP climate change goals using standard metrics. MDB shareholders and management should align key targets set in the context of replenishments, capital increases and Trust Fund agreements with corporate scorecards, and avoid introducing ad hoc targets or non-standard metrics. MDBs should annually publish aggregate portfolio data on their performance in achieving outputs, outcomes and impact related to the SDGs and climate change goals. This data should be independently assured.

Furthermore, linking impact targets to MDB investment strategies requires a structured framework which assesses the overall development impact against strategic priorities from ex ante appraisal through monitoring to ex post evaluation. **MDBs which have not yet established full cycle impact assessment and monitoring systems for their operations should continue to build them out, learning from good practices in other MDBs**, and seeking a balance between harmonisation of approaches and systems that reflect the different mandates, size and scope of operations of individual MDBs. In doing so, they should ensure that mechanisms exist to capture the perspective of intended beneficiaries, and to build local capacity for impact assessment. They should also adopt common metrics and processes across MDBs and strengthen mechanisms for sharing good practices in impact assessment.

Boards should give greater attention to impact in their deliberations, and require greater use of impact assessments, impact data and evaluation findings in the strategy, operational and project proposals which come to them for approval, using harmonised metrics, approaches and systems where appropriate.

3.7 Improve institutional coordination across MDBs

As is clear from Section 2, there will need to be a multi-pronged approach to improving institutional coordination among the MDBs. This will need to start at the top, by ensuring individual shareholders coordinate their approaches across MDBs. There will need to be a rebalancing of incentives for management and staff, a process for monitoring coordination in order to ensure continuity, as well as coordination around specific institutional topics.

Shareholders should align priorities and principles on coordination and cooperation across 'their' MDBs. Coherence across MDBs requires coherence of individual shareholder positions on MDB boards. This approach should cover MDBs as a group and individual MDBs, and it needs to be agreed across multiple government departments/ministries in some countries, as well as between capitals and boards. Most shareholders have regular annual retreats of the departments in charge of MDBs with their executive directors and/or alternate directors. If they are not already, these should become cross-government, cross-MDB meetings and include a discussion on coordination and cooperation among MDBs as a regular agenda item. This would help give direction about, or at least discuss, which objectives – individual or joint – should take priority in board discussions and how to manage potential trade-offs.

Develop incentives for MDB management and staff, rewarding cross-MDB coordination and cooperation. The high-level objectives for MDB coordination and cooperation should cascade into the individual corporate scorecard (either as a separate item/cross-cutting or embedded in individual results, where relevant), into performance assessments for top management, and then down to key performance indicators on coordination and regional and country-level programmes. These also should be linked to the main areas for MDB cooperation at the country level (e.g. contribution to country platforms, joint project preparation, joint diagnostics). Incentive structures for coordination and cooperation should be discussed and reviewed periodically by each board.

Monitor progress on coordination and cooperation. MDBs should continue publishing a short annual report outlining their actions and progress, much as they did for the Viewpoint Note. The report should be coordinated by the lead of the MDB Heads group that year. The report could include a deep dive into a theme/area for coordination and cooperation, which is different each year, along the lines of the joint reports on private capital mobilisation.

Another way to assess performance on MDB coordination and cooperation from a client's perspective and systematically would be via a regular feedback survey. MDBs run regular surveys of their clients. However, even if consulting companies implement them, they are not fully independent. In addition, these surveys focus on individual projects, countries are not surveyed simultaneously, and they do not allow for a comparative analysis across MDBs. Such a client survey could also improve the mapping of each MDB's current strengths and weaknesses, based on accumulated expertise, shared knowledge and practice. This proposed survey should be jointly commissioned and funded but independently led to ensure candid replies by government officials. Monitoring high-level objectives of MDB coordination and cooperation through a client survey was recommended in the IEG reports (G20 IEG, 2023b).

3.8 Boost operational cooperation across MDBs

Continue to scale up co-financing arrangements at the country level, where appropriate. Co-financing arrangements between MDBs could help reduce transaction costs for client countries and enable the scaling up of operations at the country level. MDB co-financing can help reduce country, sector and project risks, facilitating financing of larger transactions (GI Hub, 2022). Furthermore, co-financing across MDBs can enable MDBs without concessional finance to mobilise resources that otherwise do not conform with the client country's debt sustainability constraints. Co-financing can also promote the client country's ownership of projects and programmes (Kotchen and Negi, 2019).

The recently launched Collaborative Co-financing Platform can be a useful tool for promoting co-financing between MDBs and other financiers. Even if it is too early to assess its strengths and challenges, this platform is a positive step to boost information sharing, discussion of opportunities and common issues related to co-financing.

Prioritise common or coordinated diagnostic tools, technical assistance, policy and institutional support and knowledge generation tailored to country needs. At the country level, MDBs should promote common diagnostic work and coordinated policy and institutional support. Diagnostic tools like the World Bank's CCDRs, and country-led assessments such as Long-Term Strategies and Nationally Determined Contributions, can help build common coherent country strategies led by client country governments. They would also support more systematic and coordinated action across MDBs to enable investments (both public and private) through policy, regulatory and technical assistance and capacity-building action at the sector level ('upstream' of investments).

More fundamentally, coordinated diagnostic and knowledge products should also reflect a changing approach to technical cooperation, policy advice, knowledge generation and learning. This requires redesigning how advice and analysis are funded, when and how they are offered and delivered, who generates knowledge, and how it is communicated (G20 IEG, 2023b). The core MDB comparative advantage should shift towards partnerships with policy research institutes in the developing world to leverage the extensive expertise now available outside MDBs, for example from academia, think tanks and client country governments. This approach will also build analytical capacity in client countries and encourage greater use of local knowledge and solutions.

Finally, MDBs should take into consideration the strategies of other MDBs in their country strategies and include options for working together. In addition to the proposals above to reduce duplication across MDBs and strengthen country-owned strategies when it comes to diagnostic tools and knowledge, each MDB country strategy should describe and reflect the plans of other MDBs, explaining how their own strategy differs and articulating options for country-level collaboration and cooperation. These strategy papers would offer an additional instrument to help reduce duplication for in-country stakeholders, developing shared analysis of issues and priorities and ensuring consistency in policy advice.

4 Conclusions

Ongoing **efforts to reform the MDBs have largely focused on expanding their lending capacity**. However, it is essential to recognise that the way MDBs lend, implement projects and programmes and measure impact are crucial aspects that require attention, and are indeed critical complements to enable MDBs to scale up finance. Addressing the challenges faced by client countries, streamlining lending approval and disbursement processes, and finding a balance between high MDB standards and the needs of beneficiary countries are critical for enhancing operational effectiveness.

Going forward, MDBs, their shareholders and the G20 should continue to work towards greater harmonisation, mutual recognition of ESF and procurement standards, and increased use of country systems. Furthermore, boosting operational cooperation across MDBs – including via their support for country platforms – and adopting outcome- and impact-oriented corporate scorecards will be vital in maximising the effectiveness and impact of MDB operations. By addressing these key priorities and challenges, MDBs can better fulfil their role in supporting transformative change and sustainable development in emerging and developing countries.

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