



2nd G20 Finance Ministers and Central Bank Governors (FMCBG) Meeting

SESSION 1: INTERNATIONAL FINANCIAL ARCHITECTURE FOR THE 21ST CENTURY

G20 Presidency and Co-chairs' note on the way
forward for better, bigger, and more effective MDBs

April 18th, 2024

Washington, D.C., April 2024

I. INTRODUCTION

In September 2023, G20 Leaders committed to “pursue reforms for better, bigger and more effective Multilateral Development Banks to address global challenges to maximize developmental impact”¹ and called for the MDBs to “undertake comprehensive efforts to evolve their vision, incentive structures, operational approaches and financial capacities so that they are better equipped to maximize their impact in addressing a wide range of global challenges.”²

In response to the Finance Ministers and Central Bank Governors’ (FMCBG) call in October 2023 for the International Financial Architecture Working Group (IFAWG) to suggest a way forward for better, bigger, and more effective MDBs, including ways to work together better as a system, by the G20 FMCBG meeting in April 2024,³ this G20 Presidency and Co-chairs’ note provides updates on the progress achieved so far and provides a framework for developing the G20 Roadmap towards better, bigger, and more effective MDBs (henceforth ‘G20 Roadmap’).

In alignment with the IFAWG work plan, the three pillars of the G20 Roadmap will be developed and discussed in Q2-Q3 2024. The full G20 Roadmap will be presented at the 4th IFAWG meeting in September 2024, and is intended for submission and approval by the 4th FMCBG meeting in October 2024. The approved G20 Roadmap will eventually be submitted to G20 Leaders at the 2024 Rio Summit for their endorsement.

The process of finalizing the G20 Roadmap, from September to its submission and approval in October, will be transparent and include consultations with members to ensure G20 ownership. Discussions on specific and technical topics could be arranged virtually in addition to the in-person IFA meetings.

The G20 Presidency will also explore synergies with other pertinent platforms where discussions on MDB reform are ongoing, such as the Finance in Common (FiC), the UN Summit of the Future, and the World Bank/IMF Annual Meetings, to inform the G20 Roadmap process. Increased cooperation and harmonization will also be implemented with other G20 discussions (SFWG, IWG, TF CLIMA, TF Global Alliance against Hunger and Poverty).

1. G20 New Delhi Leaders’ Declaration. New Delhi, India, 9-10 September 2023. Available at: https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf

2. Ibid.

3. Fourth G20 Finance Ministers and Central Bank Governors Meeting Communiqué. Marrakesh, Morocco, 12-13 October 2023. Available at: <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/oct/doc20231014260901.pdf>

II. PROGRESS TO DATE

The first quarter of the IFAWG under the Brazilian G20 Presidency (December 2023 - February 2024) prioritized establishing an ecosystem conducive to the inclusive and collaborative development of the G20 Roadmap. To this end, and building upon the efforts of previous G20 presidencies, such an ecosystem is anticipated to accelerate the implementation of the MDB Capital Adequacy Framework (CAF) Review G20 Roadmap endorsed by the G20 Leaders in 2023, foster discussions on the Independent Expert Group (IEG) report recommendations within the G20 and MDBs, and convey key messages from the IFAWG to G20 Deputies, Ministers, and Leaders.

The first step in this direction was the FCBD's decision in December 2023 to establish sessions within the IFAWG dedicated to operationalizing the ambitious MDB reform agenda. Standard operating procedures for IFAWG MDB dedicated sessions (IFAMDB) were developed and incorporated into the IFAWG work plan approved in January.⁴

The second step in establishing an ecosystem conducive to the development of the G20 Roadmap involved enhancing collaboration with the MDBs through the Heads of MDBs Group (HoMDBs) and with individual MDBs. Under the chairship of the Inter-American Development Bank (IDB) in 2024, the HoMDBs will provide joint inputs to the IFAWG work plan, among other responsibilities. The HoMDBs met on the sidelines of the 1st FMCBG to draft a MDB viewpoint note featuring proposed solutions based on the Marrakesh agenda and provided updates to the IFAWG on the progress made.

The third step involved discussing the recommendations of the CAF and IEG reports with both the G20 and MDBs during the IFAMDB meeting in January. The Terms of Reference (ToR) for the studies that would serve as the foundation of the G20 Roadmap for better, bigger, and more effective MDBs were also introduced and deliberated upon in the same meeting, after which they were made available for online feedback and comments. Resources were mobilized, and an expert team working for the G20 Presidency was structured to assist in gathering the inputs for the development of the G20 Roadmap.

Efforts were made to explore synergies with other G20 working groups and platforms, such as the World Bank and IMF Spring and Annual Meetings, the FiC, and the UN Summit of the Future. An ambitious program of side events for the World Bank/IMF Spring Meetings has been confirmed, and preparations for G20 sessions during the FiC mini-Summit in May are well under way. The G20 Presidency will also engage with the Financing for Development (FfD) Forum in April. Coordination with the Think20 (T20) Engagement Group and dialogue with the Independent Experts Group (IEG) has initiated. A coordination mechanism with the troika has been established through regular meetings with India and South Africa in preparation for key meetings.

4. The IFAMDB already comprises over 100 representatives from 29 G20 members, invited countries, and international organizations. Members who have not designated MDB experts from their capitals retain representation through their regular IFAWG representatives.

III. FRAMEWORK FOR DEVELOPING THE G20 ROADMAP TOWARDS BETTER, BIGGER, AND MORE EFFECTIVE MDBS

Moving forward, the development of the G20 Roadmap will be structured as follows. During the second quarter of the IFAMDB under the Brazilian G20 Presidency (March - May 2024), emphasis will be placed on developing, presenting, and discussing the interim results of the studies with both G20 members and MDBs. This work will build on, but not be limited to, the CAF recommendations of 2022 and the roadmap developed and endorsed by the G20 Leaders in 2023, the recommendation of IEG Report in 2023, the World Bank's Evolution exercise and other MDB reform endeavors currently under way. In addition, the IFAMDB expects to receive the MDB viewpoint note, which will also serve as an input to the G20 Roadmap. Crucial to this process will be the discussions held during the World Bank/IMF Spring Meetings, the FiC mini-Summit, and the UN FfD Forum.

The third quarter (June – August 2024) will prioritize consolidating the results of the second quarter and developing and discussing the first draft of the G20 Roadmap with both G20 members and MDBs. The G20 Presidency also anticipates receiving inputs from G20 engagement groups and discussing them with think tanks, business groups, and civil society, in addition to G20 Members and MDBs.

Finally, the fourth and last quarter (September – November 2024) will be devoted to finalizing the G20 Roadmap and creating momentum for its submission and adoption by the G20 Finance Ministers and Central Bank Governors and eventual endorsement by G20 Leaders. Crucial to this process will be the discussions held during the World Bank/IMF Annual Meetings. Also important will be discussions at the FiC Summit, and the UN Summit of the Future.

The G20 Roadmap will comprise a set of short-, medium-, and long-term measures to be guided by the following principles as discussed in the 1st and 2nd IFAWG meetings:

- **Client-centric approach:** Ensure that MDB support is demand-driven, aligned with national and regional priorities, and delivers tangible benefits to beneficiary countries.
 - **Emphasis on collaboration among MDBs as a system:** Focus on areas where MDBs can add value collectively, including how they can work together to increase financing for development from billions to trillions, while recognizing their individual operating models, governance structures, and successful practices.
 - **Alignment with ambitious global targets:** Focus on the collective role MDBs must play in response to the global challenges and the efforts that will put countries on track towards achieving the SDGs and the Paris Agreement.
 - **Balanced response to development and global challenges:** Enhance the MDBs' ability to respond effectively at scale to development and global challenges in a balanced manner.
-

- **Ambitious yet realistic approach:** Establish clear high-level objectives and milestones that can be monitored while remaining flexible in operational implementation and adaptable over time.
- **Multi-stakeholder engagement:** Recognize that MDB reform efforts require actions from multiple stakeholders over the short, medium, and long term, with varying intensities, including by shareholders, credit rating agencies, and beneficiary countries through the design of national strategies and pathways aimed at addressing development challenges.

The sections below delineate the primary objectives of each pillar of the G20 Roadmap, along with the process for attaining them.

Pillar 1: Better MDB system

The goal of the first pillar of the G20 Roadmap is to facilitate access to MDB lending to support country-led and country-owned priorities. To this end, and factoring in the HoMDBs' agenda established in Marrakesh, while considering the specific mandates and initiatives of each MDB, the G20 Presidency will develop an operational improvements report featuring evidence-based and comprehensive recommendations for:

- Enhancing collaboration among MDBs to function as a cohesive system by increasing coordination of MDB support through beneficiary-led country platforms and improving speed and agility while maintaining the robustness of standards. This encompasses aspects such as project preparation; increased knowledge sharing on development strategies, data, diagnoses, findings and lessons learned; aligning MDB lending with private capital and domestic resources in national and subnational development banks;⁵ mutual recognition and, where feasible and practical, harmonization of social, environmental and procurement standards, and the use of country systems. This enhanced collaboration and possible harmonization of standards and processes should also aim at decreasing the disbursement timeline for projects and make funds available more rapidly for beneficiary countries.
- Enhancing MDB support for local currency financing by promoting sustainable financing practices while establishing the necessary architecture and incentives for MDBs to catalyze private capital. This includes initiatives such as mitigating foreign exchange (FX) risk and promoting the use of local currencies and guarantees in MDB-supported country platforms to activate private sector investment. This architecture for private capital mobilization must be rooted in the principles of MDBs as a system with shared knowledge on innovative tools (especially various guarantee schemes) and the use of joint MDB cooperation mechanisms on

5. MDBs, national and subnational development banks altogether comprise more than five hundred organizations world-wide, managing approximately USD 2.3 trillion a year in assets and flows.

mobilizing and de-risking engagement with the private sector. These initiatives must be supported by strong technical assistance programs to enhance the capacities of the local financial institutions to mitigate the risk of further private investments and increase direct resource mobilization in development activities through increased participation of local financial institutions and companies. The issue of cooperation with local national and subnational development banks on these matters should also be addressed.

The operational improvements report will contribute to discussions and recommendations by the IFAMDB in June and the FMCBG meeting in July. Additionally, it will be connected with discussions in the Infrastructure Working Group (IWG) and the Sustainable Finance Working Group (SFWG) on issues related to FX risk mitigation and private capital mobilization, respectively. The work on country platforms, in turn, is expected to feed into the G20 Task Force for Global Mobilization against Climate Change.

Pillar 2: Bigger MDB system

The goal of the second pillar of the G20 Roadmap is to reinforce MDB financing capacity. To this end, and based on consultation with MDBs and Credit Rating Agencies, the G20 Presidency will enhance the existing template for MDB reporting on CAF implementation, and prepare a report on regular review of MDB system capitalization needs with evidence-based and comprehensive recommendations for:

- Further advancing and delivering on MDB capital adequacy review and balance sheet optimization in an iterative approach, safeguarding MDBs rating and preferred creditor status. This involves updating and refining the MDB voluntary reporting framework first drawn up under the Indian G20 Presidency⁶ to assist in tracking CAF progress in the medium term; working towards common standards on how to evaluate key aspects of capital adequacy frameworks across the MDB system; and creating a reporting template for MDBs on two key aspects of the MDB financial model (preferred creditor treatment and portfolio concentration) in relation to CAF recommendation 1, on defining shareholder risk appetite. This will also involve the possible creation of a mechanism within IFAMDB to review CAF progress, advise where more work is needed, and support the delivery of more complex recommendations by G20 shareholders at MDBs boards related to CAF policies and regular capital reviews, in line with recommendation 5 of the CAF report.
- Without pre-empting on the MDBs' board work but with the idea of having a more structured approach on the needs of potential capital increases, energizing discussions at MDB boards on how to unlock a stepwise MDB capital increase

6. G20 Roadmap for implementing the recommendations of the G20 Independent Review of Multilateral Development Bank Capital Adequacy Frameworks (July 2023).

to ensure sufficient resources are aligned to address global and development challenges. This consideration takes into account ongoing efforts on MDB capital adequacy and balance sheet optimization work, including under World Bank's Evolution agenda, as well as the innovative portfolio guarantees and hybrid capital solutions, and the revision of MDBs' risk assessment.

- Complementing the current ad hoc approach to capital increases toward regular, formalized reviews of the alignment of MDB resources with the strategic objectives set by shareholders, consistent with the fifth CAF Review recommendation, and more ambitious global targets such as the SDGs and the Paris Agreement.
- Encouraging ambitious MDB concessional windows and other concessional funds replenishment with clear proprieties and focus on the poorest populations.

The G20 Presidency and Co-chairs will also work on a G20 note on options to channel SDRs via MDBs and their viability, as well as a side event with credit rating agencies (CRAs) to:

- Offer evidence-based and comprehensive recommendations for accelerating the fulfilment of the G20 USD 100 billion SDR pledges and facilitating the adoption of innovative hybrid capital solutions. This includes a side event during the World Bank/IMF Spring Meetings to launch the G20 note on SDR channeling and a call to action for the voluntary channeling of SDRs towards MDBs , taking into consideration the reserve asset nature of the SDR and countries' legal frameworks.
- Taking stock of progress to date in MDB engagement with CRAs and the exercise on clarification of the procedure and risks on callable capital undertaken by some shareholders and MDBs, engaging in discussions with CRAs about their assessment of MDB risk, such as how to better incorporate callable capital, guarantees, hybrid capital instruments, and portfolio concentration. The discussion is expected to feed into the work on CAF detailed above.

The revised and updated MDB voluntary CAF reporting framework will build on the template featured in Annex 1 of the July 2023 CAF Roadmap report, providing refinements where appropriate due to evolving circumstances and updating progress based on MDB voluntary reporting. MDB inputs will be collected by the end of April and compiled in a report updating table 1 and table 2 of the July 2023 CAF Roadmap report, featuring commentary for consideration by the IFAMDB meeting in June, and delivered in final form in July.

The reporting template for MDBs on preferred creditor treatment and portfolio concentration will be drawn up under the guidance of the IFAMDB following the March meeting, and will be circulated for comment to MDB management and IFAMDB members in early April. Based on feedback, the draft will be revised for final circulation to MDBs by early May. MDBs will be requested to revert with their results to the IFAMDB by mid-August. The G20 Presidency will then prepare a summary of main findings for discussion at the IFAMDB meeting in September. With the formal receipt of findings and expected endorsement of IFAMB, an appropriately high-level summary of the findings can be publicized at the World Bank

and IMF Annual Meetings. Closed-door technical meetings with MDBs may be held at the margins of the Annual Meetings to present detailed findings to CRAs.

The possible CAF-focused mechanism within IFAMDB to review CAF progress, advise where more work is needed, and support the delivery of more complex recommendations by G20 shareholders will proceed in an iterative fashion, based on consultations with MDBs and G20 governments, to ensure broad consensus and utility to all stakeholders. A strong focus will be to establish strict confidentiality policies to thoroughly address legitimate concerns on the protection of CAF-related data and information reported by individual MDBs. The initial round of consultations with (first) shareholders and (next) MDB management teams would take place in April and May, to draw up a first proposal for discussion at the IFAMDB meeting in June. Based on reactions and comments, the proposal will be further revised, circulated for further consultations in July and August. A final proposal will be presented and discussed at the IFAMDB meeting in September for a decision.

The report on regular review of MDB system capitalization needs, informed by discussions of MDB boards, the G20 note on SDR channeling options, and the side event with CRAs, will contribute to discussions and recommendations by the IFAMDB in June and the FMCBG meeting in July. The G20 note on SDR channeling options is expected to feed into the G20 Task Force against Poverty and Hunger ahead of the 3rd FMCBG meeting and contribute to climate priorities as signaled at COP29.

Pillar 3: More effective MDB system

The goal of the third pillar of the G20 Roadmap is to maximize MDB development results and impacts, with the goal of evolving their approach towards more impact-oriented development activities. To this end, building on and complementing the work of the Evaluation Cooperation Group (ECG) and the Managing for Development Results Working group (MfDR), the G20 Presidency will develop a report examining the development results and impact assessment methodologies employed by different MDBs with evidence-based and comprehensive recommendations for:

- Harmonizing methodologies and enhancing the assessment, adoption, and utilization of results and lessons, providing MDB boards and borrowing countries with adequate instruments to meaningfully assess MDBs' development results and impact, shareholders to assess performance and value for money, and private investors to decide which MDBs are the most impactful partners.
 - Building local capacities, knowledge production and sharing, and provision of training and technical assistance, which are crucial for project design and success.
 - Enhancing the integration of development results and impact assessment methodologies into MDB strategic and operational processes, in line with country-specific circumstances and priorities, and considering resource implications and required changes to MDB internal processes as well as quality and development assessment tools throughout a project's lifecycle.
-

The report examining the development results and impact assessment methodologies employed by different MDBs will contribute to discussions and recommendations by the IFAMDB in June and the FMCBG meeting in July.

The G20 Presidency and co-chairs will also work on mapping MDB practices on regional and gender representation at their top positions, which could potentially inform recommendations for:

- Enhancing the representation and voice of developing countries in decision-making processes in global international economic and financial institutions while maintaining a merit-based approach for the selection of candidates to deliver more effective, credible, accountable, and legitimate institutions, as called by the G20 Leaders in September 2023.

This note-mapping exercise will contribute to discussions and, potentially, recommendations by the IFAMDB in June and the FMCBG meeting in July. The work will be coordinated with the IFAWG work plan's priority 2: "Making the GFSN more effective, representative, and resilient".

