

Multilateral Development Banks and EBRD

Lecture 6
LIUC 2013

Multilateral Development Banks (MDBs)

MDBs are institutions that provide financial support and professional advice for economic and social development activities in developing countries. The term Multilateral Development Banks (MDBs) typically refers to the World Bank Group and four *Regional Development Banks*:

- The African Development Bank (AfDB)
- The Asian Development Bank (ADB)
- The European Bank for Reconstruction and Development (EBRD)
- The Inter-American Development Bank Group (IADB)


The World Bank Group

- The World Bank Group is owned by **188** member countries
- It is made up of two development institutions - the **International Bank for Reconstruction and Development (IBRD)** and the **International Development Association (IDA)**
- The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world.
- They provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.
- The **International Finance Corporation (IFC)** is also a member of the Group. It provides investments and advisory services to build the private sector in developing countries



European Bank for Reconstruction and Development (EBRD)


- **Shareholders:** 61 countries and 2 intergovernmental institutions (EIB and European Community)
- **Mission:** promotes entrepreneurship and fosters transition towards open and democratic market economies in Central-Eastern Europe and Central Asia (former soviet bloc). Political Mandate. Extension geographical mandate to SEMED Region
- **Total employees:** 1,260+
- **Headquarters:** London



What do MDBs do?

The MDBs provide financing for development through the following:

- **Long-term loans**, based on market interest. For funding these loans the MDBs borrow on the international capital markets and re-lend to borrowing governments in developing countries.
- **Very long-term loans**, with interest well below market interest. These are funded through direct contributions for governments in donor countries.
- **Grant financing** is also offered by some MDBs, mostly for technical assistance, advisory services or project preparation.



MDB Response to the Financial Crisis

While the IMF is the focal point for the response to the systemic liquidity threat, the MDBs play a critical complementary role in limiting the spread and the impact of the crisis by:

- Financing for fiscal measures targeted towards maintenance of jobs and social protection of the poor
- Closing gaps and mitigating rollover risks in project financing, including infrastructure directly and by crowding in private and other official financing
- Catalyzing trade financing
- Supporting financial systems and credit flows to private sector and SMEs

How MDBs have responded to the crisis

- Acceleration and expansion of lending
- Streamlined facilities made available
- Increased flexibility to meet the varying needs of emerging markets and developing countries
- Provided much larger *scale* of financing than anytime in their history

MDB lending 2008-2010 (bil us)

	2008	2009	2010	2011	2012
AfDB	9.8	13.2	11.4	14,0	13,3
IADB	5.4	12.6	6.3	8,7	6,5
World Bank	11.2	15.5	12.4	10,6	11,1
World Bank	24.7	46.9	58.7	43,0	35,3
EBRD bil €	5.1	7.9	9,0	9,1	8,9

MDBs recapitalization 2009-10

MDB	% Capital increase	New K (\$ billion)	Old K (\$ billion)
Asian Development Bank	200%	165	55
African Development Bank	200%	100	34
Inter-american Development Bank	70%	170	100
World Bank	45%	276	190
EBRD (euro)	50%	30	20



MDBs' role after the 2009-10 crisis

- Global financial environment is more difficult than in the past years.
- MDBs still play a critical role in mobilizing long-term market financing through its direct borrowing and by catalyzing stable private sector financing.
- MDBs remain the most effective channel to provide concessional financing for low income countries.
- New challenges: climate change and food security, global in nature and require globally coordinated action. Inclusive growth, gender equality, fragile states, infrastructure
