Reforming Multilateral Banks

Why in news?

There is a need to strengthen and to implement structural changes on multilateral development banks to cope up with the complexities of 21st century.

What are Multilateral Development Banks (MDB)?

- **MDB -** A multilateral development bank (MDB) is an international ***financial institution chartered by two or more countries*** for the purpose of encouraging economic development in poorer nations.
- It consist of member nations from *both developed and developing countries*.
- MDBs originated in the aftermath of World War II to rebuild war-ravaged nations and stabilize the global financial system.
- **Aim** - To promote *inclusive growth and reduce inequalities.*
- To *eliminate poverty*
- To *foster shared prosperity*
- **Source of funds** - MDBs raise funds through capital contributions from member countries, borrowing funds from capital markets, and using funds received via loan repayments.
- Since MDBs are not organizations associated with specific countries, they are subject to international law.

While the International Monetary Fund (IMF) and MDBs share similar objectives of promoting global economic stability and development, it is not considered as a MDB as it primarily focuses on macroeconomic stability and provides financial assistance to member countries facing balance of payments problems.

Types of Multilateral Development Banks	
International Development Banks	**Regional Development Banks**
• World Bank • International Bank for Reconstruction and Development (IBRD) • International Finance Corporation (IFC) • International Development Association (IDA)	• European Investment Bank (EIB) • Asian Development Bank (ADB) • New Development Bank (NDB) • Eurasian Development Bank (EDB) • Islamic Development Bank (IsDB) • Asian Infrastructure Investment Bank (AIIB)

Why are MDBs so significant?

- **Concessional financing** - While commercial banks seek to make profits, the goal of MDBs is to issue *grants and low-cost loans to middle and low income countries.*

- **Development goals** - These banks prioritize *development goals* such as poverty reduction, infrastructure development, education, healthcare, and environmental sustainability.
- **Technical assistance -** MDBs also offer *technical assistance* and risk management advisory to member countries, in addition to financial support.
- **Maximization of impact** - They also collaborate with other organizations and *mobilize private sector investment* to maximize their impact.
- **Stabilization of global economy** - They are seen as an international pillar to stabilize the global economy.
- **Policy advice and reforms** - MDBs offer policy advice to member countries, helping them formulate and implement sound development policies and reforms.

What are the challenges associated with MDBs?

- The new challenge is to broaden the mandate and vision to address the challenges of *transboundary issues*.
- It also includes the *financial crunch* due to pandemic and other issues.
- In recent times, *Climate change* has occupied the forefront place.
- *Shared prosperity* at intra and inter-country levels has also worsened in recent times.

> *The World Bank Group estimates that the average annual spending needed to address global challenges of climate change, conflict, and pandemics is $2.4 trillion per year for developing countries between 2023 and 2030.*

What reforms are needed for MDBs?

- **Financing** – There is a need to optimize the current balance sheet and create higher leverage from existing fund.
- It is imperative to broaden the mandate of MDBs.
- Transparency in capital mobilization must be ensured.
- They need to fix annual targets and judge performances by the outcomes secured in this altered framework of accountability.
- There is a need to mobilise private capital.
- **Structural changes** – There is a need to create incentive structure.
- Multilateral institutions must work in close coordination with each other.
- **Opportunity for India –** For India, reforming MDBs would mean advocating the voice of the *Global South.*
- India under G20 presidency created an expert group to take a holistic approach on a wide range of issues and outline a pragmatic implementable programme on strengthening MDBs.

References

1. The Indian Express | Need for MDB Reforms
2. Investopedia | Multilateral Development Bank



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