

Report

Coordination and cooperation between multilateral development banks

Motivation, progress and priority actions for MDBs working as a system

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Abstract

Coordination and cooperation among multilateral development banks (MDBs) are crucial for achieving sustainable and impactful outcomes. MDBs must work more closely together to address the urgent and complex challenges faced by emerging and developing countries.

The paper outlines a framework for MDB coordination and cooperation, presents an overview of recent progress, identifies the main challenges, and proposes priority actions to address them at both the institutional and country levels for MDBs to work as a system.

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Acronyms

AfDB	African Development Bank
ADB	Asian Development Bank
CEB	Council of Europe Development Bank
COP	Conference of the Parties
CRA	credit rating agency
G20	Group of 20
IADB	InterAmerican Development Bank
IEG	Independent Expert Group
IsDB	Islamic Development Bank
LTS	Long-Term Strategy
MDB	multilateral development bank
NDB	New Development Bank
PCM	private capital mobilisation

1 Introduction

The sheer scale, urgency and complexity of the national and global challenges that emerging and developing countries face require multilateral development banks (MDBs)¹ to ramp up the volume of their lending and maximise the impact of their operations, individually and collectively. To achieve these goals and better meet the needs of their clients, **MDBs will have to coordinate and cooperate more closely than in the past, and do so in different ways.**

Coordination and collaboration efforts and concrete initiatives across MDBs are longstanding and have significantly accelerated over the past year (Heads of MDBs, 2023; 2024). MDBs must further enhance their joint performance and leverage their substantial collective potential to better harness capacities and complementarities across the system.

It is worth stressing that there is no agreed definition of coordination and cooperation in the context of international organisations. For this report, we will refer to *coordination* as the attitudes, behaviours and outcomes of a *joint determination of common goals*; and *cooperation* as the attitudes, behaviours and outcomes of *implementing those goals*, as articulated in Castañer and Oliveira (2020).

Every MDB has its own mandate, mission statement, shareholding and decision-making structure. These must be respected. That does not mean MDBs cannot work better as a system. All MDBs share a common purpose: promoting sustainable development and supporting efforts to tackle national and global challenges. They all subscribe to the Sustainable Development Agenda and the Paris climate finance commitments. Furthermore, more than one MDB usually operates in any given client country. **By coordinating and cooperating more closely, particularly at the country level and in common priority areas, MDBs can be more than the sum of their parts for their clients.** The challenge of the Sustainable Development Goals, the scale of the climate crisis, the complexity of these issues and the size of the financing gap are such that success will be impossible if each institution chooses to work alone. By not coordinating and cooperating, MDBs will also increase the burden and transaction costs for country counterparts and prevent them from

¹ The MDBs included in this report are the members of the Group of MDB Heads: 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), InterAmerican Development Bank (IADB), Islamic Development Bank (IsDB), New Development Bank (NDB) and World Bank Group (WBG).

taking advantage of key synergies, e.g. achieving complementary and mutually reinforcing outcomes on capacity, policy, markets and investments. Both the G20 Eminent Persons Group on Global Financial Governance in 2018 and the G20-mandated Independent Expert Group (IEG) on strengthening MDBs in 2023 have called for reforms to enable MDBs to work together as a system (EPG, 2018; IEG, 2023b).

1.1 Scope and methodology of this report

This report articulates what MDBs working more closely together means in practice. It presents a framework to help map and clarify the areas where MDBs can foster coordination and cooperation (Section 2.1) and sets out key initiatives thus far (Section 2.2). Section 3 outlines the main challenges that might prevent MDBs from achieving greater coordination at the institutional level and cooperation at the operational level. Section 4 outlines a number of priority actions for MDB management and shareholders to foster greater coordination of the strategies of MDBs at the institutional level, as well as cooperation at the country level.

Two caveats should be noted. First, the academic and grey policy literature analysing why MDBs should coordinate and cooperate more closely and what blockages prevent this is very limited. Second, an in-depth analysis of the achievements and challenges of individual coordination and cooperation initiatives across MDBs is beyond the scope of this report. The paper relies on existing analyses in previous G20-commissioned reports, the Viewpoint Note (Heads of MDBs, 2024) and the experience of the authors and their networks. To test ideas and receive inputs, we arranged and participated in a series of consultations with key stakeholders: MDB shareholders, members of the G20 and invited countries and international organisations at an online meeting of the G20 International Financial Architecture Working Group (IFAWG) on MDBs on 8 May 2024, including their written feedback on a preliminary version of the report (*interim note*); colleagues in MDBs (strategy departments or equivalent) on 14 May; and government officials from selected members of the Group of 24 on 17 May and at a session of the IFAWG on 12 June in Fortaleza, followed by written comments.

2 Coordination and cooperation among MDBs

2.1 What does ‘working together’ mean and imply?

MDBs working together to address national, regional and global development challenges encompasses multiple levels and stakeholders: with national authorities in the context of country projects and programmes; with national and regional actors in regional programmes; and across MDBs for institutional collaboration. It can, in principle, relate to all dimensions of MDB strategy-setting, financing and operations: institutional coordination; cooperation at the country level on diagnostics, knowledge generation and project preparation, financial mobilisation and co-financing; and project and programme operational policies, collaboration on implementation, accountability mechanisms, and monitoring and evaluation systems (G20 IEG, 2023b). Coordination and cooperation does not mean that all MDBs should join forces on every single initiative – there may be different degrees of coordination and cooperation depending on the area of work or the geography. Nor does it imply that MDBs act as if a single entity.

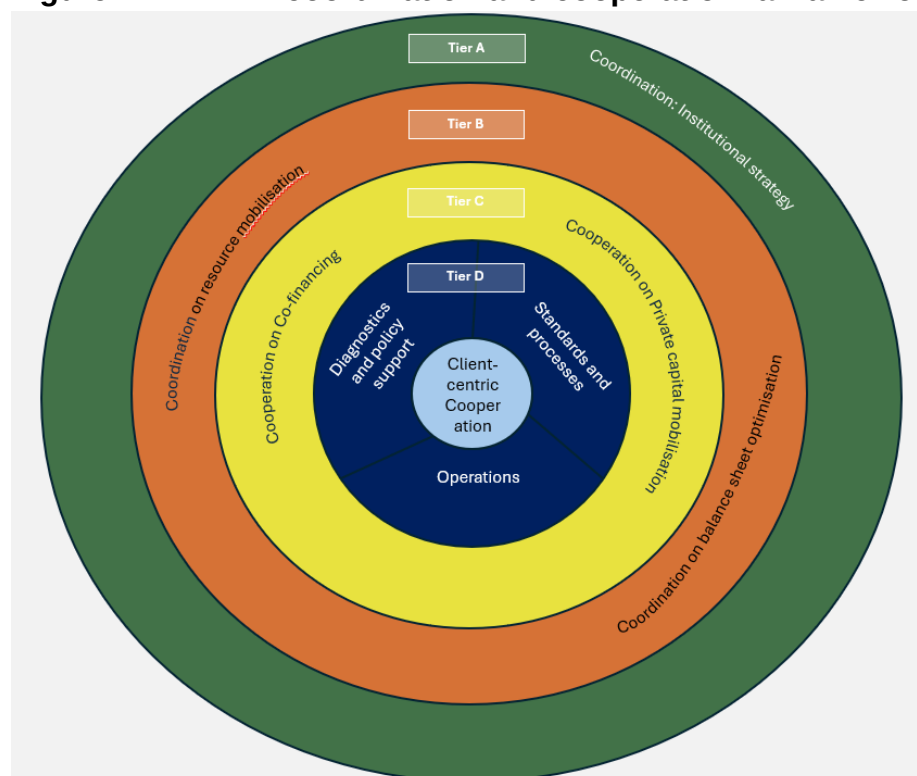
By coordinating and cooperating more closely, MDBs can generate synergies and efficiencies, for example by:

- *Sharing risks for greater capital efficiency* by expanding exposure exchanges to reduce concentration risk; strengthening their collective bargaining power vis-à-vis credit rating agencies (CRAs) by adopting a joint position and joint dialogue; and standardising hybrid capital instruments to facilitate uptake by the private sector (G20 Expert Panel, 2022).
- *Exploiting complementarities*; for example, recognising that some MDBs have stronger expertise in specific sectors, geographies, instruments or innovations. By working together, MDBs can offer their country counterparts a range of complementary financial and technical capacities, instruments and products and a wide range of solutions (EPG, 2018).
- *Reducing duplication*; for example, in a given country, each MDB might analyse similar policy issues or produce regular macroeconomic updates (G20 IEG, 2023b).

- *Lowering client countries' transaction costs, potentially transferring savings for more affordable financing.* Each MDB has its own set of policies and procedures; while the underlying principles might be similar, their application often differs across institutions. This leads to high transaction costs and complex and burdensome procedures, and many client countries do not have sufficient manpower and capacity to coordinate relations, negotiations and administration with multiple MDBs and development partners (Humphrey and Getzel, 2024; Prizzon et al., 2022; Lee and Cardenas, 2021; Prizzon et al., 2016).

To reiterate, we will refer to the concepts of coordination and cooperation as articulated in Castañer and Oliveira (2020). Figure 1 depicts where MDBs can coordinate at the institutional level, and cooperate on operations.

Figure 1 MDB coordination and cooperation: a framework



Source: Authors' elaboration

- **Tier A. Coordination: institutional strategy** (green tier in Figure 1). Coordination at the strategic level is a prerequisite to achieving many of the key objectives of MDB cooperation from the perspective of the client, such as maximising resources and impact and reducing duplication and transaction costs for clients.
- **Tier B. Coordination on joint balance sheet optimisation and resource mobilisation** (orange tier in Figure 1). Measures include standardised hybrid capital instruments, measures to boost the value of callable capital or the coordinated development of innovative financial products, such as asset securitisation, with

the aim to create asset classes and achieve recognition by CRAs of the value of these instruments. Most of the challenges, and recommendations to address them, are included in the independent expert panel's review of MDB Capital Adequacy Frameworks (G20 Expert Panel, 2022).

- **Tier C. Cooperation: joint resource mobilisation at the country level** (yellow tier in Figure 1). At the country level, MDBs can also coordinate to maximise the volume of finance each country receives by promoting co-financing arrangements and jointly pursuing private capital mobilisation.
- **Tier D. Cooperation across MDBs, i.e. implementing programmes and projects** (dark blue tier in Figure 1). Cooperation can occur for diagnostic and policy support, at the operational level (e.g. building project pipelines), or on standards and processes (environmental and social frameworks, procurement). Country platforms should be considered fundamental tools for MDB cooperation at the country level. They enable these institutions to shift collectively from project to programmatic approaches and can enable cooperation on resource mobilisation and implementation (Gilmour et al., 2024).

As we outline in Section 3, MDBs face a number of hurdles and costs to coordinating and cooperating effectively. In principle, coordination and cooperation can involve all aspects of the strategies, finances and operations of MDBs. Therefore, MDBs should prioritise where to focus their efforts, and we would suggest the litmus test of at least two principles:

- Be *client-centric*, i.e. maximise the benefits for country counterparts, for example the volume and impact of lending and operations in countries, efficiency gains, reduced transaction costs and less duplication.
- *Create value for clients that exceeds the perceived costs of increased cooperation for individual MDBs*. In other words, recommendations should prioritise initiatives leading to the highest gains.

While some 'cooperation' initiatives have been put in place by individual MDBs, in this report we focus on initiatives that involve at least two institutions. This is because initiatives that are designed and implemented by more than one institution are likely to be more effective in overcoming institutional obstacles to genuine and systematic cooperation.

2.2 Coordination and cooperation among MDBs: a brief overview and recent progress

Even though MDBs were not created by their shareholders with the vision for them to work together, initiatives promoting coordination and cooperation among MDBs at the institutional and country levels are well-established and longstanding. MDBs

have set standards across institutions (e.g. on procurement) (G20 IEG, 2023b); enabled joint reporting on common initiatives (e.g. tracking climate commitments in their joint climate reports) (EIB, 2023); spread risk across their portfolios (e.g. exposure exchanges between the AfDB and the IADB and between the AfDB and the ADB to reduce concentration risk) (see Humphrey, 2017 for a review); shared information across similar functions in several expert working groups (Heads of MDBs, 2024); fostered innovation across institutions (e.g. sharing local currency liquidity pools); and created space for policy dialogue between management (e.g. the Heads of MDBs meetings) as well as among technical staff (Heads of MDBs, 2024). Measures implemented by individual institutions can represent a signal to other boards and foster reform in other MDBs (e.g. the reduction of statutory lending limits).

The scale and number of joint strategies and actions have significantly increased in the past few years. These were often supported by initiatives under the G20 Finance Track (e.g. the review of MDB capital adequacy frameworks and the IEG on strengthening MDBs) or by pressing global challenges requiring stronger collective action, such as climate change mitigation and adaptation. In Marrakech in October 2023, MDB Heads announced a joint action plan (Heads of MDBs, 2023). The Viewpoint Note, issued following an MDB Heads retreat at the end of the 2024 IMF/World Bank Spring Meetings, reports on progress on the commitments in the joint action plan and identifies several deliverables for ‘joint and coordinated actions for 2024 and beyond’ (Heads of MDBs, 2024).

Table 1 outlines initiatives described in the Viewpoint Note that fit within the framework for MDB coordination and cooperation outlined in Figure 1. MDBs coordinate and cooperate in many of the areas outlined in our framework.

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 proven more challenging (e.g. on private capital mobilisation, harmonisation/mutual recognition of environmental and social standards, joint diagnostics). The next section discusses the main challenges to MDBs working together, including in specific areas.

Table 1 MDB coordination and cooperation: a review of progress and examples from the Viewpoint Note

Coordination	Area	Action/initiative – examples in the Viewpoint Note
Institutional strategy (Tier A)		Boost joint action on climate. Organise informal dialogue among MDB Heads every six months. Continue with formal regular annual retreats with the group at large (started in April 2024). Define common approaches to measuring climate results – foster consistency and comparability across MDBs in climate results measurement. Progress will be reported ahead of COP29. Partner on impact evaluation for joint projects, exchange experiences around monitoring and evaluation and pursue harmonisation initiatives, where useful. Take stock of key performance indicators on nature and biodiversity.
Joint balance sheet optimisation measures and resource mobilisation (Tier B)	Balance sheet optimisation measures	Engage with credit rating agencies jointly. Seek greater recognition by CRAs of the value of callable capital. Introduce hybrid capital-based solutions to channel SDRs through MDBs. Standardise hybrid capital instruments. Progress on Global Emerging Markets Risk Database (GEM) data sharing; harmonisation of methodologies and data quality control. Expand guarantees and exposure exchange agreements (EEAs) for several MDBs' sovereign-guaranteed lending operations and credit-risk-insurance transactions.
	Resource mobilisation	Develop and issue innovative financial products, such as asset securitisations. Boost dialogue on principles and solutions to allocate concessional finance.
Cooperation	Area	Action/initiative – examples in the Viewpoint Note
Resource mobilisation at the country level (Tier C)	Private capital mobilisation	Review measurement of private capital mobilisation. Scale up local currency finance and hedging instruments – launch a dialogue to identify scalable solutions that facilitate the deployment of larger amounts of private capital through local currency lending and foreign exchange hedging solutions.
	Co-financing	Expand collaborative co-financing approaches.
Implementation (Tier D)	Diagnostic and policy support	Boost policy support and the Joint MDB Long-Term Strategies (LTS) programme. Provide coordinated support to countries' LTS and sectoral and subnational climate policies and plans.
	Operations	Launch the Global Collaborative Co-Financing Platform. Intensify upstream engagement to address regulatory and other barriers to private sector investment, build robust project pipelines, and support early-stage investments.
	Standards and processes	Harmonise or promote mutual reliance on procurement. Since 2017, MDBs have progressively incorporated mutual reliance provisions into their procurement policies and have entered into specific agreements with their major MDB co-financing partners.

Source: Authors' elaboration based on Heads of MDBs (2024)

3 What are the main challenges to MDBs working together?

3.1 Institutional coordination

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 – result 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. 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 levels. To date, **the cross-shareholder vision for the system of MDBs as well as resulting objectives and monitoring of performance have largely focused on climate action.** Objectives and measurement should go beyond climate action.

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 'their' MDBs was a concern raised in the consultations for this report, and this could limit the potential for MDBs to work effectively together.**

To the best of our knowledge, there are no internal incentives that promote collaborative behaviour by MDB staff and management (Lee and Cardenas, 2021). As noted, MDBs' performance is primarily measured individually by the volume of finance they commit and disburse annually, and by progress in their institutional scorecards. MDBs and their top managements are not assessed based on their collective delivery of finance or joint performance indicators. This also applies to staff, for whom collaborative behaviour among MDBs is not rewarded through career progression (Lee and Cardenas, 2021).

Information-sharing is key to effective coordination and cooperation.² Most MDB staff exchange information in country, especially when the MDB has an office. **Our consultations and written feedback stressed that incentives to share knowledge and information should be strengthened and institutionalised at both headquarters and country levels.** MDB staff also have extensive experience and knowledge in specific sectors and regularly innovate. However, knowledge might not necessarily be shared in a structured way beyond working groups or ad hoc sessions.

3.2 Country-level cooperation

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 between MDBs can also result in a duplication of efforts and even a shrinking of the scale of projects where MDBs are competing against each other for projects and scarce concessional funding. Government officials in some client countries do not think that MDBs coordinate well.³

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 environmental and social framework standards, particularly environmental and social safeguards, will take time to materialise, and short-term solutions will be needed** (Humphrey and Getzel, 2024). Many projects also require funding at scale over a period of time, raising concerns about risk concentration. Some MDBs cannot deploy resources as their lending is not sufficiently concessional to meet a country's requirements.

While most MDBs offer loans in local currency, amounts are often relatively small and concentrated in countries with more developed financial markets. Currency risk exposure contributes to debt vulnerabilities, particularly in lower-income countries. Debt

² See Lakshminarasimha (2017) for a review.

³ 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).

management offices in lower-income countries often lack the capacity to deal with currency risk. Many of these countries have a significant proportion of their borrowing with MDBs in hard currency (TCX, 2023). Local currency lending can be seen as risky or technically complex, and risk management frameworks might not encourage or permit local currency lending. Internal and external incentives, such as borrower preferences or contractual simplicity, might promote operations in hard currency. When available, lending modalities tend to be rigid, predominantly ‘back-to-back’ hedging, relying largely on offshore products. While these approaches can help mitigate foreign currency risk, they do not necessarily contribute to the development of local markets and, therefore, do not contribute to building a long-term solution. Few institutions are willing or able to take on the risks associated with operating onshore. Some major MDBs have deployed risk-sharing facilities in local currency with local financial intermediaries and created currency liquidity pools – e.g. through local bond issues – to bridge market gaps between the desired maturity of lending and the maturity of available liquidity in local currency, but efforts in this area remain limited and largely uncoordinated.

The G20 IEG recommended that MDBs aim to quadruple private direct and indirect capital mobilisation to \$240 billion annually by 2030, on the assumption of a tripling of own-account lending (G20 IEG, 2023a). The reality is that private capital mobilisation (PCM) rates are well below this target, at just over \$71 billion in 2022 (MDB Task Force, 2024). **As MDBs – on both sovereign and private books – develop new and innovative forms of PCM, including from their balance sheets and through platform approaches, current definitions and reporting systems will need to be reviewed.** The current approach measures private capital mobilisation at the point of investment, while much of the innovation that may help to boost PCM in future relates to balance sheet or portfolio-level activities, or mobilisation at the level of sub-investments.

Many MDBs generate similar knowledge products and diagnostics, often requiring the same 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.

4 Priority actions to enhance coordination and cooperation

The challenges emerging and developing countries face require MDBs to ramp up the volume of their lending and maximise the impact of their operations, individually and collectively. To achieve this, MDBs will have to coordinate and cooperate more, and do so in different ways.

While coordination and cooperation among MDBs have accelerated in recent years, as described in Section 2, a number of challenges remain for MDBs to work more effectively and efficiently together (Section 3). In this final section, we outline a number of recommendations to enhance coordination among MDBs at the institutional level (Tier A in Figure 1) and to strengthen cooperation at the country level among MDBs (Tiers C and D in Figure 1). Most recommendations on coordination on balance sheet optimisation and resource mobilisation (Tier B in Figure 1) are extensively covered in the G20 Expert Panel and IEG reports and is an area that is already monitored by the G20. Recommendations to foster mutual recognition and harmonisation of standards on safeguarding and procurement across MDBs are analysed by Humphrey and Getzel (2024) in depth; priorities for MDBs to initiate and operationalise country platform approaches by Gilmour, A. et al. (2024); and actions to enhance and harmonise measurement of the impact of MDBs by Getzel, B. And Gregory, N. (2024).

4.1 Coordination at the institutional level

- 1 **Set high-level objectives for MDB coordination and cooperation, providing strategic guidance and advice.** While respecting the mandates, missions, geographies and core strengths of each MDB, within the G20, a group of MDB shareholders – G20 and non-G20 members – should set long-term, coherent, high-level objectives for MDB coordination and cooperation, providing strategic guidance to MDB management. As no forum has a system-wide remit, the creation of a G20-led group – with non-G20 members – with this mandate was proposed by the Eminent Person Group on Global Financial Governance in 2018 to ‘steer important shifts to ensure coherence and complementarity among IFIs’ (EPG, 2018). This high-level set

of objectives for MDB coordination and cooperation should also include key principles for measuring joint performance, embedding them in the objectives and operations of individual MDBs, and monitoring them over time as recommended in the reports of the IEG on strengthening MDBs (G20 IEG, 2023b). The MDB Heads should continue to use their annual retreat to discuss strategic priorities and actions for MDB coordination and cooperation, based on the high-level objectives set by MDB shareholders.

- 2 **Shareholders to 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 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.⁴
- 3 **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, performance assessments for top management, and then down to key performance indicators (KPIs) 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.
- 4 **Monitor progress on coordination and cooperation.** MDBs should continue publishing a short annual report outlining their actions and progress against them, 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 systematically on MDB coordination and cooperation from a client’s perspective would be via a regular feedback survey. MDBs run regular surveys of their

⁴ It is worth recognising that joint projects/programmes might require longer preparation affecting the objectives for individual institutions.

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. A client survey of MDB coordination and cooperation was recommended in the IEG reports (G20 IEG, 2023b).

- 5 **Establish mechanisms for regular information and knowledge sharing across MDBs that cover both institutional coordination and country-level cooperation.** MDBs should improve and integrate databases of their own country operations and commit to a more systematic exchange of information with other MDBs. Harmonising information databases on projects would also facilitate exchanges. Another concrete option would be to start with specific country cases or pilots in selected areas to explore potential configurations. An additional action would include developing and deploying world-class technical expertise (in specialised niche areas) and operational experience flexibly across MDBs through a structured and incentivised programme of secondments and/or a shared pool of specialists and consultants.

4.2 Cooperation at the country level

- 6 **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 (Global Infrastructure 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).
- 7 The recently launched Collaborative Co-financing Platform⁵ 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.

⁵ The platform aims to improve coordination across the multilateral system, identify co-financing opportunities and better serve MDB clients. It includes a digital component (the Co-financing Portal) and a Co-financing Forum. The Co-financing Portal will comprise a database of projects seeking co-financing from each participating institution. The Portal will be complemented by a forum for participants to discuss co-financing opportunities identified through the Portal and common issues related to co-financing.

While co-financing arrangements have several strengths, there are also potential challenges. These include shifting to areas with the greatest co-financing potential or to countries with greater ‘government effectiveness’ and measurement and implementation challenges (Kotchen and Negi, 2019). The evidence on co-financing arrangements tends to focus more on their strengths and less on their challenges, at least in the public domain and in academic literature. MDBs and shareholders should identify longer-term objectives and criteria for co-financing among MDBs and other financiers and define a guiding framework for when and where co-financing arrangements are appropriate and should be prioritised.

- 8 **Boost private sector mobilisation by reviewing and expanding options to manage foreign exchange risk.** As outlined in the Viewpoint Note, MDBs are already considering expanding options for client countries to manage foreign exchange risk. MDBs have proposed a dialogue ‘to identify scalable solutions that facilitate the deployment of larger amounts of private capital through local currency lending and foreign exchange hedging solutions’, with the end goal of formulating specific recommendations to MDB Heads for joint implementation (Heads of MDBs, 2024). This would include a stocktake of existing initiatives across MDBs to discuss how they can be scaled up or adapted according to needs and country contexts. This is a key initiative to take forward in the short term.

Several key points should be prioritised in this review. First, MDBs could explore the costs and operational implications of systematically offering client countries the choice between borrowing in a foreign currency or reducing currency risk by indexing debt repayments to the local exchange rate. Second, MDBs could ramp up technical assistance and capacity-building on foreign exchange risk management in client countries, particularly in debt management offices in lower-income countries, to improve understanding and assessment of the implications of hard versus local currency finance. Third, and linked, MDBs should also help assess the implications of borrowing in hard currency for debt sustainability (TCX, 2023). Fourth, shareholders and MDBs should identify options to increase the affordability of currency risk hedging, particularly in lower-income countries. For longer-term sustainability, and especially for operations in the private sector, MDBs should consider boosting onshore hedging options through technical assistance for money market development and by building and managing local pools of liquidity through shared treasury services (G20 IEG, 2023b).

- 9 **Update definitions and disclosure policies for private capital mobilisation.** The MDB Task Force on Mobilization developed a common methodology for reporting on PCM in 2016 and has been publishing data for 27 MDBs and development finance institutions on an annual basis. Given the PCM innovations under way – such

as portfolio securitisations and risk transfers through reinsurance where PCM does not take place at the point of investment and which are not captured by the existing methodology – and the value of information both for management and private finance providers, the Task Force should reassess its methodology and the scope of data disclosures, conduct consultations on alternative approaches and present an updated methodology for decision in 2025. The Task Force could refer to the work conducted by Publish What You Fund (PWYF, 2024) and presented, in draft form, at the World Bank/IMF Spring Meetings in 2024, which reviews existing methodologies for reporting on PCM, possible adjustments and extensions to capture PCM innovation, and disclosure practices.

- 10 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 Country Climate and Development Reports, 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 the 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.

- 11 Include and take into consideration the strategies of other MDBs in their country partnership frameworks and include options for working together.** In addition to the proposals above to reduce duplication across MDBs and strengthen country-owned strategy when it comes to diagnostics 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.

To conclude, in a rapidly evolving global landscape, the imperative for MDBs to cooperate and coordinate has never been more pressing. By working together effectively, MDBs can amplify their impact, address complex challenges, and support the sustainable development of client countries. It is time for MDBs to leverage their collective potential to ensure that their efforts are impactful, sustainable and aligned with the evolving needs of the countries they support.

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