“Multilateral Development Institutions, New Challenges, New Strategies”
Panel’s Keynote Remarks by Marilou Uy, Director of G-24 Secretariat
Inter-American Development Bank (IDB), November 19, 2015

It is a privilege for me to be part of this seminar. I would like to thank the organizers for giving me the opportunity to speak on the topic of multilateral development banks, which I believe will become increasingly important actors in supporting countries to achieve their development goals.

I would like to focus my remarks on two areas: Fist, the need for a revitalized system of multilateral development finance. And second, the key areas where MDBs will need to emphasize in a special effort for renewal, if they are to meet their future challenges as partners in development.

The 2030 Development Agenda sets out comprehensive and ambitious development goals to end poverty, promote inclusion and ensure sustainability, in all its dimensions. It recognizes the importance of inclusive growth and tackling inequality as means to achieve these development goals. It highlights environmental sustainability as a development imperative. The Addis Ababa Action Agenda recognizes that countries will need to be in the driver’s seat of their development, and that the global community has an important role to play in providing a supportive environment for countries to implement this highly challenging agenda.

Against this backdrop, the financing for development agenda laid out in Addis shows the high expectations for the MDBs’ role in supporting the implementation of the Sustainable Development Goals. It sets out these expectations in many areas, ranging from investing in people to investing in infrastructure, and through lending, the provision of knowledge and expertise, policy advice, and in technical support. *MDBs could build on their existing strengths but they will also need to convert the challenges and limitations they will face in supporting the 2030 agenda into opportunities to “exploit their full potential” as development partners of choice.*

Indeed, MDBs historically have been considered effective avenues for the multilateral system to support global development. It is a financing model that has worked. For relatively small amounts in capital contributions, MDBs are able to deliver large volumes of development lending. To illustrate, the Shareholders' capital contributions of around $51 billion to a select group of 8 MDBs at the time of their operational launch yielded a cumulative lending of about $1.5 trillion by 2013. Beyond lending, MDBs also have become important institutions for policy advice and development expertise.

Much has changed, however, since MDBs were created. And this has raised concerns about whether they can sustain their relevance. Private financial flows to developing countries have increased, and net official financing -- including that from MDBs -- now comprises a very small share of annual capital flows to developing countries. This share is somewhere between 1 to 2 percent. In 2012, public and publicly-guaranteed loans from MDBs amounted to $60 billion, and net disbursements amounted to $21.7 billion -- this out of a total of $1.72 trillion in total capital flows to developing countries.

That said, private financing of investments of investments to developing countries still falls short of potential, given large pools of global savings. An important challenge for MDBs is to crowd in private financing, especially for infrastructure investments.

Moreover, many emerging and developing countries have also made considerable progress in recent decades, and some have themselves become development partners. There is increased scope for peer learning and South-South cooperation. MDBs will need to play a complementary and supportive role to the increasingly in this increasingly complex development landscape.

Against this background, MDBs have been undertaking initiatives to enhance their ability to respond to these changes and to respond more effectively to development needs. The Asian Development Bank has merged its concessional window into their non-concessional, thereby expanding their lending capacity. The IDB, as you know, has spun out a private financing arm to boost its ability and capacity to catalyze private financing. MDBs are cooperating to further stretch their balance sheets and play on their comparative advantages. The World Bank has introduced the Global Infrastructure Facility to support project preparation and standardization of practices to facilitate PPPs. The WBG and the IMF have launched a joint initiative to support countries in their efforts to mobilize further domestic resources and to benefit from international tax cooperation. New MDBs have also emerged.

Nevertheless, MDBs' financial capacity remains small in relation to development needs. This is true, even though it can be argued that they have the capacity to scale up their lending and simultaneously catalyze private financing. Efforts to leverage their balance sheets more effectively may not be enough. MDBs will need also to boost their capital base, through increased capital contributions from their shareholders.

Beyond lending, MDBs also have the scope to enhance their roles as knowledge institutions, in a world where they may be less important lenders and where the role of knowledge and innovation in development is increasing, a point that I will come back to shortly.

Let me now move to the second part of my remarks, in which I will comment on three key areas that need greater strategic attention by MDBs, and which have also been the focus of the G-24.

The first is the need to enhance MDBs' support for the implementation of sound policies, and for the development strategies that deliver inclusive growth and job creation

MDBs play an important role in supporting countries in developing and implementing policies to achieve their growth objectives. This point was emphasized in the paper "From Billions to Trillions" recently prepared jointly by a number of MDBs. Indeed, the importance of sound policies and institutions in underpinning growth and progress in meeting development goals has been a key lesson of the implementation of the Millennium Development Goals and of Monterrey.

It will become increasingly important to recognize that there are some, important unanswered questions on what will work to achieve certain development objectives. Some policy orthodoxies may need to be re-examined. Do we have the requisite knowledge to design policies that will improve equality and the inclusiveness of growth, and ensure that the gains in improving equality are not eroded when growth slows down? What will significantly improve productivity, generate new sources of growth and improve employment especially among the young? How will countries cope with the impact of employment on rapid technological change, especially among the lower skilled? What will it take to make financial markets work better in order to support development in the long term?

Part of MDBs support for countries' development strategies will require investing in knowledge as well as openness to working with countries and stakeholders to develop and explore more effective development solutions.

The second area that needs focus is scaling up sustainable infrastructure investments

This is an area in which the G-24 has provided a lot of advocacy in global discussions on financing for development. The working papers that we released this year, jointly with the Global Green Growth Initiative, provided substantive support to this work. Estimates vary as to the size of the infrastructure requirements, but what is clear is that massive investments will be needed in rapidly growing cities, sustainable energy, and other infrastructure. The numbers speak for themselves: 1.4 billion people have no access to electricity, .9 billion have no access to safe drinking water, and 2.6 billion have no access to basic sanitation. Changing demographics will also determine demand for infrastructure: While Africa's population was less than half of China's in 1960, by 2023, Africa's population will exceed that of China. Addressing the infrastructure deficit is essential to expanding access to basic services and more inclusive growth in all parts of the developing world.

Furthermore, given that developing countries account for over 70% of global physical investment, ensuring investments in sustainable infrastructure could also have a large impact on environmental sustainability and resilience.

The current architecture of infrastructure financing, however, clearly falls short of raising the required investments. On the supply side, the financial sector has failed to intermediate the large pools of private long-term savings -- particularly those held by institutional investors -- to finance long-term investments, including in infrastructure. Of the $1 trillion dollars currently being invested in infrastructure each year only 15 percent comes from private sources. On the demand side, there still are substantial impediments holding back infrastructure investments, many of them arising from government policies and institutions. Unlocking private financing will require tackling the constraints on both the supply and demand sides.

Despite the uncertain global financial situation, there is a window of opportunity to demonstrate the potential of scaling up both public and private infrastructure investments. A number of developing countries, including those within the G-24 are embarking on, or are in the midst, of more ambitious infrastructure programs. Colombia, for example, is undertaking an infrastructure investment program that is at historically high levels. In Africa, Ethiopia is doing the same. In Asia, Philippines is increasing its infrastructure spending from 2 percent of GDP in 2010 to a planned 5 percent in 2016. India has also scaled up investments in infrastructure as a development priority. In all of these cases, and in varying degrees, governments are implementing public investments in ways that crowd-in and complement private investments in infrastructure.

MDBs are well-positioned to support countries in scaling up their public infrastructure investments and leveraging private financing. In addition to helping build effective public investment capacity, MDBs can play a larger role in supporting the structuring PPPs to ensure effective risk sharing, and they can provide the necessary risk mitigation instruments. Increasing their direct lending would also also have a strong positive impact in crowding in private financing.

MDBs lending to infrastructure has increased in the last 10 years. But this comes after a considerable decline in the share of infrastructure in their total lending during previous decades, and this decline is not attributable only to financing constraints. Looking ahead, therefore, MDBs will face both the challenge of raising more financing and optimizing the use of their balance sheets and, at the same time, putting in place effective operational models and instruments in order to be more effective and larger supporters of sustainable infrastructure.

The third area that MDBs and IFIs need to focus on – and the last I wish to mention here – is for them to spur progress in their governance.

We have noted the important change in the global economic and financial landscape, in which emerging and developing countries now account for a greater share of global economic output. These countries are now more important drivers of savings and investments, as well as of global growth (despite recent trends). This highlights the importance of changing the governance of International Financial Institutions to increase the voice of developing countries commensurate with their greater economic role globally.

At this point, let me clarify that the work of the G-24 on the area of voice and governance reforms has focused largely on the IMF and the World Bank, although these reforms may also be important to some regional development banks.

The World Bank, for example, is currently undertaking such a shareholding review. An important goal of this review should be a material increase in the share of emerging and developing countries, while also preserving the shares of the smallest poor countries.

Any future capital increases of MDBs in general that will enable the expansion of its lending will also raise opportunities for developing countries to increase the share of their capital contributions to those MDBs.

In addition to shareholding changes, there is a need to ensure that selection of the leaders of IFIs in general is competitive and merit-based. It is interesting that this was affirmed by the G20 in its most recent communiqué.

Broadly speaking, the governance of MDBs has already begun to change, with the entry of the New Development Bank of the BRICs and the Asian Infrastructure Investment Bank. These are predominantly owned by emerging and developing, borrower countries. It can be argued that these new MDBs emerged not only to augment multilateral financing but also as a response to the slow progress in voice and governance reforms within incumbent MDBs.

Finally, let me emphasize that voice and governance reforms are not an ends by themselves but rather the means by which developing countries can play a bigger role in informing and shaping how MDBs support development in the years ahead and the decades to come.

Thank you.