

Brookings Roundtable with Heads of Regional Development Banks; Summary

October 7, 2016

Amar Bhattacharya and Homi Kharas

Background

An informal roundtable to discuss the role of regional development banks (RDBs) in the new global development agenda was held at the Brookings Institution on October 7, 2016.

Several recent papers address the role of regional development banks in the new global agenda, including CGD's High Level Panel [report on multilateral development banks](#), the New Climate Economy report "[The Sustainable Infrastructure Imperative](#)", and the report of the International Commission on Financing Global Education Opportunity "[The Learning generation](#)". A [background brief](#) prepared by Brookings scholars was also shared with roundtable participants.

The reports have a common theme—they each lay out an imperative for action with multilateral banks at the heart of implementation of the new global agenda.

Discussion

There is consensus that there is now a shared global agenda, with a need to innovate, scale up, partner with the private sector, and build capacity within countries to address their own development needs more forcefully.

This is a unique moment in history because of the opportunities to eliminate poverty and improve lives everywhere and because of the important transitions that are now underway. Urban populations will close to double in the next four decades and decisions taken in the next two decades will shape our patterns of production and consumption for decades to come. During the next 15 years we will be adding more infrastructure than the existing stock. We can make the new infrastructure and urban areas sustainable and attractive or lock in cities where we cannot move or breathe and that will take global temperatures to well above 2 degrees Celsius with all the consequential impacts and risks. It is also the last opportunity to seriously address the demographic transitions occurring in the developing world including in Africa, with all the implications that entails for migration, jobs, prosperity or frustration and anger. Delay in moving forward with actions on scale would be irresponsible and deeply dangerous given the lock-in of capital and technology and shrinking planetary boundaries including for carbon.

MDBs have a central role in catalyzing the scaling up of actions and financing that is needed to deliver on the 2030 development agenda and the ambitions of the Paris Agreement. Regional banks have a special role in the global agenda at this moment in time—they have developed specialized skills and have been in the forefront of innovation, they are trusted partners of client governments, and they are well equipped to facilitate implementation at scale, especially to support the immense needs for sustainable infrastructure. But these competencies are under-recognized and under-appreciated, and hence under-utilized. RDBs can also articulate their strategy more clearly than global institutions, and they have become the innovators within the MDB system. However, RDBs are constrained in their

capacity to scale up and leverage their resources in part because of a lack of consensus amongst shareholders on their mandates and future directions.

Ideas for Follow-up

A range of ideas for follow-up were discussed, including:

1. Hold a quinquennial review of the multilateral system as proposed by CGD's high level panel. A system-wide review of MDBs is long overdue—the last was conducted over 20 years ago. Today it is important to ask if the MDB system can deliver on the SDGs, if the volume, quality, and allocation of investments is sufficient, and to update this system review every 5 years. Such a review can assess adequacy of capacities, capital and governance structures across institutions. There is much merit in taking a system-wide approach to ensure that the full potential of the MDBs are exploited.
2. Address the learning crisis in the developing world. With over 800 million children potentially having sub-standard education, generations are at risk of being left behind. The Commission report proposes establishing a new MDB financing mechanism—how can this be made real?
3. Involve the G20 more with RDB issues. RDB heads meet often with heads of state of partner countries and have on-the-ground experiences with what developing countries need. They could usefully bring this knowledge to the G20, through appropriate representation. At the same time, more engagement between the RDBs and the G20 could lead to innovations in governance and leadership selection processes in the institutions that would accelerate their modernization and fitness-for-purpose.
4. Manage credit risk better. Rating agencies are changing methodologies and punishing concentration risk. Diversification among MDBs could be helpful. At the same time, MDBs must concern themselves about country risk to ensure that expanded investments do not contradict country imposed debt ceilings for prudent fiscal management.
5. Innovate and cooperate more among RDBs. RDBs have developed skills in, for example, SME lending, energy efficiency, early stage financing and new business models. The four RDBs have started to collaborate on how to deploy their particular strengths and competencies more effectively across the MDB system.
6. Clarify the role of RDBs in the provision of global and regional public goods. RDBs should play an increasing role in the provision of global and regional public goods, and RDBs in particular are better placed to play leading role in sustainable and climate-resilient infrastructure.
7. Communicate better with shareholders. The RDBs have a compelling growth story to tell, especially regarding their contribution to sustainable infrastructure financing. But shareholders are still engaged in several zero-sum conversations—allocations to middle-income countries versus low-income countries; allocations for climate change versus development finance. From a systems perspective, it might be useful to move beyond these differences to more pragmatic conversations around de-risking, early stage financing, creation of scalable platforms, and other problem-solving solutions. It is important to get shareholder understanding of, and support for, the broad-based contribution to growth that RDBs can make.