



**T20** **Brasil 2024**  
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# T20 Policy Brief

Task Force 03

**REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE**

## Restoring Purpose, Instilling Inclusivity: Reforming Multilateral Development Banks (MDBs) for Infrastructure Resilience

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## Abstract

This Policy Brief proposes operational reforms to restore the MDBs' infrastructure development mandate. Arbitrary lending criteria have diverted MDB finance away from the regions and countries which need infrastructure finance the most. This Brief focuses on inclusiveness in lending processes to show how MDBs can constrain cascading crises by investing in sustainable infrastructure. This includes addressing an unpredictable climate in emerging markets and developing economies (EMDEs), resource shortfalls, and inadequate planning and construction.

Infrastructure is central to about 90% of the Sustainable Development Goals. Social and economic progress, especially in EMDEs, hinges on sustainable and climate-resilient infrastructure. Multilateral Development Banks (MDBs) can raise the USD 15 trillion needed by 2040 to build such infrastructure, including utilities, transport systems, and buildings, as well as social infrastructure. This action would be in line with the intended purpose of MDBs, namely, to give "equitable consideration to projects for development and projects for reconstruction alike."

This Brief illustrates how MDBs can restore existing infrastructure, strengthen at-risk infrastructure, and build new and sustainable infrastructure in the EMDEs by working with National and sub-National Development Banks. It explores how centring inclusivity across operating models, blended finance vehicles, early project development, and public-private partnerships can improve MDB effectiveness.

The G20 plays a crucial role in lending decisions given its share of vote in International Financial Institutions. The New Delhi Leaders' Declaration notes that the G20 is "working to deliver better, bigger and more effective MDBs by enhancing operating models, improving responsiveness and accessibility, and substantially increasing financing capacity to maximise development impact." This Brief offers practical recommendations for the G20 to deliver on this commitment.

## The MDB Infrastructure Trilemma

Established to mobilise capital for post-war reconstruction and development, Multilateral Development Banks (MDB) now face an infrastructure development, resilience, and sustainability trilemma. Infrastructure is central to 90% of the Sustainable Development Goals (SDGs), but much of the developing world's infrastructure is yet to be built, while existing infrastructure is ageing and unable to keep pace with demand.

Every year, climate and disaster risks destroy essential economic, social, and natural infrastructure, cost thousands of lives, displace communities, and decimate livelihoods. Building and maintaining infrastructure is resource intensive, consuming over half the world's material resources, and contributing to 79% of global greenhouse gas emissions.

This trilemma presents a unique challenge for MDBs, who have agreed to align their capital flows with the Paris Climate Agreement, and is also an opportunity to catalyse finance for well-planned, resilient, *and* sustainable infrastructure for all households, cities, and countries.

**Resilience is at the heart of sustainable infrastructure.** Resilience is the capacity to prevent, resist, absorb, adapt, respond and positively recover from a range of risks without compromising on services, developmental outcomes, or sustainability. Sustainable infrastructure is planned, designed, built, operated, and decommissioned to ensure economic, social, environmental and institutional sustainability through its life cycle. Infrastructure built with lifecycle sustainability *and* resilience can help avoid extreme, widespread, and cascading impacts of disaster-related losses.

The benefits of addressing the infrastructure trilemma far outweigh the costs. By some estimates, natural disasters and extreme climate events together cost the global economy USD 2.2-3.6 trillion annually, including consumption losses – which amounts to USD 35-

57.6 trillion by 2040. Yet, investing USD 15 trillion by 2040 on infrastructure could close the global investment gap and help prevent the damages caused by natural disasters and extreme events.

MDBs are intended to give *“equitable consideration to projects for development and projects for reconstruction alike.”* They can close the global infrastructure investment gap by financing future-ready new and retrofitted utilities, transport systems, buildings, and social infrastructure.

### **Global reform to solve for local risks**

Addressing three key challenges can help reform MDBs’ financing models for infrastructure resilience and sustainability:

First, **MDBs need to create a unified understanding of the term “infrastructure”** by reconciling disparate definitions that mask its developmental significance, incorporating resilience and sustainability as key tenets. While this may increase its complexity, a comprehensive definition can incorporate parameters like economic benefits, the total value of all earning assets, equipment and circulating capital, structures for natural resource conservation, and social welfare projects for public administration, education, and healthcare.

Second, the **current project-by-project financing approach of MDBs is detrimental to linking their repository of data, capital, and capacity for integrated planning with countries’ unique development and sustainability needs.** While intelligent analytical tools can inform countries on how to target available resources, local capacity, resources, and risks must be considered and included for MDBs to move to country-level platforms that support local impact and wider development co-benefits.

Third, **MDBs' lending criteria can overlook countries' challenges, state capacity constraints, and local contexts, which when combined with their low risk appetite, makes finance inaccessible to countries that need it most.** MDBs rely on external credit rating systems that use opaque and proprietary methodologies to determine sovereign creditworthiness, emphasising qualitative variables such as perceived political stability and external vulnerabilities over need. For instance, the Asian Development Bank (ADB) makes concessional resources available to countries with a high gross national income (GNI) per capita and strong market-based credit ratings, thereby excluding many low-income countries.

Debt-stressed Emerging Market Developing Economies (EMDEs) lose USD 280 billion due to extreme climate events annually. Haiti is facing extreme long-term consequences of disaster risks since its massive 2010 earthquake, with floods, hurricanes, and disease outbreaks leading to infrastructure collapse, population displacement, and political instability. In Tanzania, power outages and transport disruptions due to rain and floods cost the economy USD 251 million annually, ~0.7% of national GDP.

Further, limited availability of infrastructure insurance compromises reconstruction and recovery. Most US insurance companies do not cover climate risks. Some states provide limited coverage, like California's Wildfire Insurance, but such *ad hoc* products neither address the range of climate risks, nor protect against broad socio-economic impact.

Since 1944, the World Bank has leveraged USD 19 billion from shareholders into USD 800 billion in lending. The ten MDBs, including ADB and European Investment Bank (EIB), which intend to realign their portfolios to the Paris Climate Agreement could use their collective USD ~3.8 trillion in assets and callable capital to narrow the USD 15

trillion infrastructure investment gap. We need to accelerate action on recent calls to treat MDB finance as a system of balance sheets to be leveraged together for maximum impact.

## Recommendations

**This Policy Brief proposes that the G20 adopt four recommendations to help MDBs and borrower countries streamline and target infrastructure finance.** These include developing standard definitions for resilient and sustainable infrastructure, mapping infrastructure needs and risk profiles, creating a Disaster Risk Resilience Insurance Pool, and prioritising fiscal and power equity in MDB structures.

These recommendations can be overseen and coordinated by the G20 Task Force for Global Mobilisation against Climate Change (G20 Climate Task Force), whose role is to “*articulate coordinated responses of the G20 Sherpa and Finance Tracks.*”

### Recommendations:

**1. Develop standard definitions for resilient and sustainable infrastructure:** MDBs need common definitions that harmonise disparate criteria, building up to a uniform taxonomy for infrastructure that includes resilience and sustainability.

Unique institutional definitions change what sustainability means in infrastructure systems. The Inter-American Development Bank finances projects that “*are planned, designed, constructed, operated, and decommissioned to ensure economic and financial, social, environmental, and institutional sustainability over the life cycle of the project,*” while the G20's Global Infrastructure Hub (GIH) considers infrastructure sustainable only if it delivers “*long-term environmental, social, and economic benefits.*”

Evolving taxonomies, norms, and certification systems for “green” constructions and “sustainable infrastructure” also vary across geographies. For instance, green building ratings differ based on the type of certification. In India, GRIHA-rated buildings, typically for low-cost infrastructure, apply different “green” parameters than, say, the US Green Building Council’s LEED rating. Such variances in definitions greatly impact lending by MDBs.

A common definition and taxonomy for resilient and sustainable infrastructure that includes national risks and requirements, created and upheld by MDBs, can ensure that infrastructure designed for different income groups and contexts is equitable. This supports Focus Area 1 of the G20, to align investments with sustainability goals, including its call to pursue sustainable development taxonomies using common language and classifications where possible.

With a mandate from the G20 Infrastructure Working Group (IWG), a dedicated entity like the Coalition on Disaster Resilient Infrastructure (CDRI) could create definitions and a taxonomy for infrastructure in consultation with MDBs, National Development Banks (NDBs), and domestic planning authorities, factoring in income levels, geographic challenges, climate and disaster risk vulnerability, etc.

**2. Mapping infrastructure needs and risk profiles:** In addition to their lending function, MDBs also provide technical assistance and policy advice. Broadening MDB’s policy function can help countries better identify and plan their infrastructure requirements. Implementing the below four recommendations can help the G20 Sustainable Finance Working Group (SFWG) and G20 Disaster Risk Resilience Working Group (DRRWG) – already tasked with addressing fragmentations and inconsistencies in

acquiring climate finance – ensure MDB capital comes in at a strategic juncture, maximising development outcomes. This will help:

- a. **Map and bridge the gap between perceived and real risks:** Capital often does not flow where needed due to disproportionate risk perceptions. Subnational pension funds in just seven countries (Brasil, Canada, Germany, Netherlands, South Africa, UK, and the US) hold USD 9.5 trillion in assets. But despite the substantial infrastructure development and resilience gap, they claim a lack of investment-ready, bankable projects due to varied local and national regulations. Establishing balanced and equitable lending criteria for sustainable infrastructure can reduce the gap between real and perceived risks, inform MDB capital injections, trigger public-private partnerships, and inform broader investment decisions.
- b. **Leverage and overlay infrastructure and physical climate risk modelling tools:** Modelling tools like the UN-developed National Infrastructure System Model (NISMOD), G7’s Global Shield for disaster/climate risk vulnerability modelling, and the data-led resources of CDRI can be co-leveraged to simultaneously predict risks and plan infrastructure requirements. Each of these initiatives, currently available only to a handful of countries, can be scaled up and be housed in CDRI with a mandate from the G20 DRRWG.
- c. **Map infrastructure needs, including via feasibility studies and project planning:** The SFWG and IWG can urge MDBs to change their orientation from one of project development to cohesive sustainable SDG-aligned development in consultation with national governments. MDBs should collaborate with national or local planning authorities to develop roadmaps for current and future infrastructure needs and risks, strategically plan projects, conduct feasibility



studies, and better inform countries' budgetary allocations and efforts to seek concessional or non-concessional capital.

- d. **Factor resilience and sustainability into MDB capital outflow:** The G20 DRRWG and IWG can encourage MDBs to use risk-mapping tools for cost-benefit analyses that inform grant and lending decisions for infrastructure projects. This would also align with MDBs' Principles for Paris Agreement Alignment, which include a "*do no harm*" requirement.

Collectively, adopting these steps will ensure that MDB capital injections are tailored to local needs, conditions, opportunities, and risks, and help reduce operational inefficiencies and costs. Leveraging NDBs for capital disbursement across targeted sectors could even reduce perceived risks.

3. **Creating a Disaster Risk Resilience Insurance Pool:** A multilateral, multi-peril disaster risk resilience insurance pool can improve asset assessments and valuations, reduce the cost of premiums, incentivise the private sector to provide climate and disaster risk insurance, and improve demand levels within countries, as well as across countries and regions.

In 2018, Cambodia, Indonesia, Lao PDR, Myanmar, Singapore, and Japan created the South East Asian Disaster Risk Insurance Facility (SEADRIF), a regional catastrophe risk pool, to provide emergency relief finance within 21 days to safeguard sovereign policymaking capacity disaster situations.

Similarly, with coordination across the G20 Sherpa and Finance Tracks, the G20 can leverage MDB finance to develop a G20 Disaster Risk Insurance Pool and scale models like SEADRIF, or the 2007 Caribbean Catastrophe Risk Insurance Facility.

4. **Prioritising fiscal and power equity in MDB structures for greater capital flows:** The MDB voting system, based on donor contributions, typically excludes EMDEs from participating in decision-making due their inadequate financial strength as compared to developed countries. The G20 Finance Track is already exploring MDB reform to make banks “*bigger, bolder, and better.*” Decision-making reforms can improve process equity and help MDBs lend more equitably, in projects which need capital the most.

## Scenario of outcomes



MDB borrowing countries have little say in MDB decision-making processes. Developed countries disproportionately influence MDBs' decision-making, and could act with greater urgency to improve MDB processes to address this imbalance. The G20, now with the inclusion of the African Union, is a broad and consensus-driven strategic coalition, and could show the way to develop inclusive and equitable policies and implementation pathways.

India's G20 Presidency has set a strong precedent to prioritise infrastructure resilience and sustainability from a finance and development lens. The G20 New Delhi Leaders' Declaration recognises the need for urban, resilient, public, digital, and affordable care infrastructure. Initiatives like establishing the Disaster Risk Resilience Working Group (DRRWG) augur well.

In 2023, the G20 Finance Ministers and Central Bank Governors (FMCBG) agreed to share innovative financing models to scale up private sector investment to close the infrastructure financing gap, and compiled infrastructure taxonomies from G20 countries and International Organisations. The IWG's 'Principles on Financing Cities of Tomorrow' highlighted the need to make varied financial solutions accessible for modern cities, and agreed to support disaster and climate-resilient infrastructure in developing countries. The SFWG focused on analytical frameworks for nature and social impact investing to channel funds in circulation to meet the Sherpa Track's call for sustainable infrastructure finance.

In the Sherpa Track, the Environment and Climate Sustainability Working Group (ECSWG) agreed to mainstream adaptation in development in sectors such as climate-resilient agriculture, physical infrastructure, integrated water resources, sustainable

heating and cooling solutions, and (as relevant) nature-based solutions and ecosystem-based approaches.

These convergence points were the latest in a series of G20 decisions on infrastructure finance. In 2014, the G20 set up the Global Infrastructure Facility (GIF) to offer project design, preparation, appraisal, structuring, and transaction support to attract private investment. Since then, GIF support has helped raise a commendable USD 108 billion (G20 GIF 2023); though even this is a fraction of the USD 15 trillion infrastructure finance gap. Summits in Germany (2017), Japan (2019), and Italy (2021) also discussed mobilising finance for development, environment, and climate-resilient infrastructure.

The New Delhi Leaders' Declaration notes that the G20 is *"working to deliver better, bigger and more effective MDBs by enhancing operating models, improving responsiveness and accessibility, and substantially increasing financing capacity to maximise development impact."* The G20 should further leverage its Finance and Sherpa track working groups to link macroeconomic climate transition and developmental pathways with resilient and sustainable infrastructure development.

In 2024, Brazil's G20 Presidency – and especially the SFWG – is focused on optimising access to environmental and climate finance, establishing credible and robust just transition plans, and implementing sustainability reporting requirements that work for all, including EMDEs.

The practical and scalable recommendations of this T20 Policy Brief illustrate pathways for MDBs to integrate resilience and sustainability in their infrastructure funding. Brazil's cross-cutting G20 Climate Action Task Force could help coordinate these recommendations across working groups.

The main challenge for the G20 is in building consensus quickly across a range of national and multilateral stakeholders. Global calls for MDB reform and green



development present a unique opportunity to integrate infrastructure resilience and sustainability into an inclusive, future-ready global economy, where no one is left behind.





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