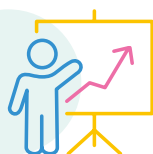


This overview is published in the framework of the International Research Initiative on Public Development Banks working groups and released on the occasion of the 14th AFD International Research Conference on Development



The network of Multilateral Development Banks (MDBs) can make a major contribution to achieving the Sustainable Development Goals (SDGs). Their cooperation with National Development Banks (NDBs) can be crucial for both types of institutions, but there has been no systematic analysis of this cooperation. In the area of climate change, MDBs and global environmental funds increasingly support NDBs, but the scale of this financing is still limited.



Objectives and research questions

The paper analyzes the roles that development banks should play, and the evolution and regional coverage of the system of MDBs and NDBs.

The authors underscore the role of the World Bank Group (WBG) and of regional development banks that service emerging and developing countries, and examine the relation between MDBs and NDBs.



Methods

Based on the theoretical literature on market failures in finance, the authors propose seven major functions that the development bank architecture must fulfill:

- providing counter-cyclical financing
- supporting countries and regions that lag behind in the development process
- supporting social groups and regions that also lag behind
- enhancing financial inclusion
- promoting innovation and structural transformation
- financing infrastructure investment
- supporting the provision of public goods, particularly combatting climate change.



Results

Based on AFD/INSE's database on public development banks, the paper finds that the regional coverage of MDBs is very heterogeneous: they are particularly important in Sub-Saharan Africa, followed by South Asia, Latin America and the Caribbean, but lag behind in East Asia and the Pacific. The WBG's support to the poorest regions of the world (Sub-Saharan Africa and South Asia) is crucial. The regional banks have grown faster than the WBG in recent decades.

All MDBs play a counter-cyclical role, following WBG's lead. There is, however, a significant contrast between the role given to MDBs during the current crisis compared to the North Atlantic financial crisis, as there has been no call by the G20 to capitalize these institutions, contrary to 2009. They also play an important role in fulfilling other functions, but some should be enhanced (see second recommendation).

The most remarkable feature of NDBs' regional coverage is the significant importance they have in the European Union countries and East Asia, followed by Latin America and the Caribbean, Middle East and North Africa. In contrast, the low weight of NDBs in the two poorest regions of the world, Sub-Saharan Africa and South Asia, is striking.



Recommendations

- **The counter-cyclical role of Multilateral Development Banks (MDBs) should be a priority under the current conditions**, both to mitigate the Covid-19 crisis, and to support the recovery of emerging and developing countries. This requires a capitalization of all MDBs, similar to that of 2009-10.
- **The policies to support the recovery should be aligned with the Sustainable Development Goals (SDGs), and should enhance the role of MDBs**, especially in promoting innovation and structural transformation, and in supporting climate change mitigation and adaptation. Their support in all areas should be better monitored, including how they contribute to the development of lagging regions.
- **The development banks should operate as a system**. The complementarity of MDBs' activities is important, but competition among them helps improve the programs they support. Cooperation between the MDBs and the international environmental funds is essential regarding climate change. Better networking between MDBs and NDBs is essential and should be subject to systematic monitoring.
- **MDBs should support the advance of strong NDBs in the regions where these institutions are underrepresented**, particularly sub-Saharan Africa and South Asia.

The research program "Realizing the Potential of PDBs for Achieving Sustainable Development Goals" is initiated by INSE and financed by AFD, Ford Foundation and IDFC.



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