



Eurasian Development Bank

NEW
NON-REGIONAL
SHAREHOLDERS

INCREASE IN
PAID-IN
CAPITAL

INSTITUTIONAL
INVESTORS

NEW REGIONAL
SHAREHOLDERS

CHANNEL
SDRS TO
MDBS

LARGER
MDBS

PERPETUAL
SUBORDINATED
DEBT

	2023	2022	2021
TOTAL ASSETS	8,167,342	8,428,591	8,988,122
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and deposits from financial institutions	18	3,090,987	3,145,238
Financial liabilities at fair value through profit or loss			1,028,700
Deposits from customers	13	199,091	2,958
Debt securities issued	19	140,195	307,307
Other liabilities	20	2,661,484	3,030,079
Total liabilities	21	6,179,336	6,892,240
EQUITY:			
Share capital:			
Authorized share capital		7,000,000	7,000,000
Paid-in share capital		(5,484,300)	(5,484,300)
Reserve fund	22	1,515,700	1,515,700
Technical assistance fund reserve	22	146,220	146,220
Digital initiative fund reserve	23	23,731	21,137
Revaluation deficit for financial assets at fair value through other comprehensive income in Treasury portfolio	23	872	5,588
Revaluation (deficit)/ reserve for financial assets at fair value through other comprehensive income in Investment portfolio		(18,604)	(61,959)
Retained earnings		(9,269)	(3,520)
Total equity		1,988,006	2,132,051
TOTAL LIABILITIES AND EQUITY		8,167,342	8,428,591



Authorised by the Management of the Bank

Capital in Multilateral Development Banks

Raising Capital and Enhancing MDBs' Capital Structure for the Benefit of Member States

Report 24/7

Almaty — 2024

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Project Manager: Anton Malakhov, Head of the EDB Centre for International Finance Analysis.

MDBs contribute significantly to the international development agenda. Funding for member countries and regional connectivity projects depends largely on the ability to expand lending capacity of such MDBs. This paper covers the whole 'MDB family' of institutions, but highlights regional and sub-regional MDBs because of their specifics of raising shareholders' capital. The study discusses seven standard and novel options for increasing capital: (1) increasing existing shareholders' capital; (2) new regional shareholders; (3) new non-regional states; (4) attracting institutional investors; (5) larger MDBs' participation in a smaller MDB's capital; (6) rechanneling the SDRs to the MDBs' capital; (7) issuing perpetual subordinated debt available to the public. Based on case studies, we illustrate different capital enhancement strategies of MDBs that, in addition to raising capital, could lead to positive effects, related to improvement in credit rating, corporate governance, strengthening of financial position, and international status. Additionally we discuss capital optimization, which is complementary to capital expansion.

Keywords: multilateral development bank; international financial architecture; international financial institution; bank capital; development financing.

JEL: F33, F36, F55, G23, G24, P33.

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFC	Africa Finance Corporation
AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AIIB	Asian Infrastructure Investment Bank
BADEA	Arab Bank for Economic Development in Africa
BDEAC	Development Bank of the Central African States
BOAD	West African Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America and the Caribbean (Corporacion Andina de Fomento)
CBN	Central Bank of Nigeria
CBR	Central Bank of the Russian Federation
CDB	Caribbean Development Bank
CET1	common equity tier 1
DR	depository receipt
EADB	East African Development Bank
EBRD	European Bank for Reconstruction and Development
EDB	Eurasian Development Bank
EEA	exposure exchange agreement
EIB	European Investment Bank
ESG	environmental, social and governance
GFSN	global financial safety net
IBRD	International Bank for Reconstruction and Development
ICD	Islamic Corporation for the Development of the Private Sector
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IIB	International Investment Bank
IMF	International Monetary Fund
IsDB	Islamic Development Bank
MDB	multilateral development bank
NBRK	National Bank of the Republic of Kazakhstan
NDB	New Development Bank
PRGT	Poverty Reduction and Growth Trust
RAC	risk-adjusted capital
RDB	regional development bank
ROE	return on equity
RST	Resilience and Sustainability Trust
SDG	Sustainable Development Goals
SDR	Special Drawing Right
TDB	Eastern and Southern African Trade and Development Bank
Bn	billion

CHAIRMAN'S FOREWORD



Nikolai Podguzov,

Chairman of the
Management Board,
Eurasian Development Bank

The **'MDB family of institutions'**, to which the Eurasian Development Bank belongs, **can be described using a Football League analogy.** The larger 10 MDBs (WB, AfDB, ADB, AIIB, CAF, EBRD, EIB, IDB, IsDB, NDB), with \$10+ billions paid-in capital, play in the 'Premier League'. These are institutions with a long history, with huge resources and a wide impact on the global economy. They are the main actors of MDB reforms. As a rule, all eyes are on them. However, there is also an often overlooked **'Championship'** segment. It consists of smaller but numerous, active, and useful regional and sub-regional MDBs (to provide a few examples: the Arab Bank for Economic Development in Africa, the East African Development Bank, the Eurasian Development Bank, FONPLATA). The regional and sub-regional MDBs more readily accept the risks associated with non-sovereign financing and with local currencies. They are in many respects closer to their shareholding countries. These banks possess intimate knowledge and expertise regarding local markets, local borrowers and industries. They simply have to be that way to be competitive in development finance facing the global triple-A institutions.

Increasing the importance and role of multilateral development banks (MDBs) is one of the priorities on the global development agenda. MDBs channel over \$190 billion

yearly to the world's development agenda, focusing primarily on developing countries. Hence, their important place in the global development agenda and ongoing G20 discussions. However, the world clearly wants more from the MDBs, in the volume of their input to world development. SDG financing and investment gaps for developing countries range from \$2.5 trillion to \$4 trillion annually. Globally about 43% of investment needs are concentrated in transport. MDBs should unlock at least \$200 billion of the additional annual financing, according G20 estimations. The financing needs are immense – to build up sustainable infrastructure and human capital, to promote global economic growth, and to achieve the UN Sustainable Development Goals. These needs often require more capital for MDBs and a more efficient use of the MDBs' lending resources.

So the issue of capitalizing MDBs – and doing it right from the viewpoint of member states! – is important.

In this report, we dissect **available options to boost the capital of regional and sub-regional MDBs.** We particularly emphasize MDBs from the 'Championship' segment – that is, numerous smaller regional and sub-regional multilateral financial institutions. New shareholder capital is highly efficient for expanding lending capacity. I think that this issue deserves and frank and objective discussion: we should take into account potential risks associated with capital expansion, such as dilution of shareholder structure, shifting away from the development agenda, and changes in ratings.

I support the current discussion of the importance of enhancing the capital base of MDBs to expand lending operations in response to global development challenges. I also hope that this discussion will draw more attention to regional and sub-regional multilateral development banks' current and future place in the global development agenda.

EXECUTIVE SUMMARY

Shareholders' capital provides the "fuel" for MDBs' lending operations. A financial institution should have an adequate amount of risk capital on hand to meet financial obligations in the event its assets deteriorate.

In the internal risk-based capital adequacy frameworks of the MDBs, available capital comprises paid-in capital and retained earnings and reserves, but excludes callable capital. Regulators recognize Common Equity Tier 1 (CET1) capital, which consists mostly of common shares, retained earnings, and accumulated reserves, and Tier 2 capital, which refers to subordinated instruments that provide loss absorption in a debt work-out scenario (G20, 2022).

MDBs contribute significantly to the international development agenda; therefore, strengthening their role and weight is at the top of the G20 agenda. New shareholder capital is highly efficient for expanding lending capacity. MDBs transform every shareholder's dollar into 3–4 dollars of lending on average. However, the potential of MDBs to finance development needs is limited by the size of shareholders' capital.

MDBs could be categorized by geography (global, regional, and sub-regional). Simply put, the 'MDB family' can also be described using a Football League analogy. Larger 10 MDBs (WB, AfDB, ADB, AIIB, CAF, EBRD, EIB, IDB, IsDB, NDB), with \$10+ billions paid-in capital, play in the 'Premier League' (mostly global and legacy MDBs). Regional and sub-regional MDBs are the part of the 'Championship' – an important but often overlooked segment of global development finance.

The specifics of raising shareholders' capital by the smaller regional and sub-regional MDBs differ significantly from global MDBs. Their potential to finance development needs is limited by the size of shareholders' capital. The present study discusses six options for increasing shareholders' capital of regional and sub-regional MDBs, and suggests an additional novel option for discussion (Picture A).

↓ Picture A. Options for increasing shareholders' capital of the MDBs



Source: the EDB.

The most straightforward option of enhancing the lending capacity of the MDBs is to inject capital from existing shareholders. The result of the capital increase of the MDB is strengthening of its financial position, while maintaining control and voting power. Capital increase by shareholders demonstrates their willingness to support a MDB over the long term. This is an acute issue for regional and sub-regional MDBs that are managed by developing countries only.

1

“the most straightforward option”



BADEA

Arab Bank
for Economic
Development
in Africa

Since its inception in 1974, BADEA has never borrowed and has been fully funded by shareholders' equity. Its capital increased from \$231 million in 1975 to \$5.6 billion, at the end of 2023 via several rounds of capital increases — all paid-in. The rating agencies have given very strong credit ratings (S&P AA, Moody's Aa2 as of end-2023), underpinned by the extraordinary support of BADEA's shareholders through capital increases and the introduction of callable capital.

Regional and sub-regional MDBs have a strong opportunity to increase importance in their region compared with others by attracting new regional members into its capital structure. New regional members could enhance the MDB's capital base and hence lending capacity, promote strong regional ownership, diversify and decrease risks of the loan portfolio, mitigate geographic concentration, strengthen the international status of the MDB, and increase its credit rating.

2

“The attraction of new regional members might be challenging”

The attraction of new regional members might be challenging, as most regional MDBs operate in a lower-income environment. This translates into a high level of risk and lower credit rating of member countries, resulted in a higher cost of funding.



DEVELOPMENT BANK
OF LATIN AMERICA

CAF is an example of successful regional membership expansion. The membership expansion was a critical component of CAF's strategy to improve its access to capital markets. CAF was founded by six Andean countries, and now it has 21 member states, including 19 regional countries from Latin America and Caribbean. CAF's membership expansion has allowed to reduce the concentration of its loan portfolio, and increase its lending capacity. By the end of 2023, it had a shareholders' capital of \$14.7 billion, which increased from \$2.8 billion in 2004.

Membership expansion by non-regional countries (that will not borrow) could lead to a substantial increase in subscribed capital. This is particularly attractive for MDBs seeking to improve their credit ratings in order to access cheaper funding from bond markets. It is a promising option for MDBs to introduce various classes of shares to new members with different degrees of participation in the decision-making process.

3

“Membership expansion by non-regional countries can help access cheaper funding from bond markets”

Sub-regional MDBs in Africa and Latin America have non-regional non-borrower shareholders, such high-income donors as Germany, France, the Netherlands, and Belgium as shareholders. In addition to paid-in capital,

non-regional high-income shareholders could contribute callable capital. The rating of MDBs improves if the callable capital is provided by a country with a high rating. The advantage of shareholders like China and India is that they bring access to new sources of finance.

Non-borrower high-income shareholders could have own views on development and operations that may differ from those of regional MDB. This may include demanding stricter environmental, social, gender or procurement policies, and lending restrictions to avoid financial problems.



AIIB members have grown from original 57 members to 109. As of now, the AIIB includes sovereigns that are rated Triple-A by Fitch, S&P, and Moody's, and has a stand-alone credit profile of "AAA". At the end of 2023, shareholders' equity increased to \$21.4 billion from the original \$17.7 billion in 2016; loans increased to \$21.9 billion from \$10 million in 2016.

4

"The model of capital increase due to institutional investors can be effective for MDBs with high profitability"

An MDB could invite institutional investors such as commercial banks, pension funds, insurance companies, and other financial institutions to become shareholders. The BOAD, EADB, and TDB offer 'B-class shares' with less voting power for development finance institutions, other publicly owned institutions, and private financial institutions.

The model of capital increase due to institutional investors, especially commercial banks, can be effective for MDBs with high profitability. The business model generally is placed in trade finance and does not always coincide with the development agenda.

Entry of institutional investors can have a number of positive effects beyond capital expansion, including improving the quality of governance and the accountability of MDBs. At the same time, there are negative aspects associated with the risks of diluting the effects of governance and downgrading of ratings. There is also a trade-off between the development agenda and profit-driven motives.



The TDB is the foremost example of non-sovereign investors' participation in MDB capital. The TDB has 18 institutional investors, of which 14 are regional pension and insurance funds as well as banks. The TDB created dividend-paying Class-B shares in 2013. The Class-B shareholders could only contribute to paid-in capital, while Class-A shareholders contributed paid-in as well as callable capital. The high level of TDB profitability ensured the attractiveness of investments. Return on equity before the launch of B shares in 2008–2012 averaged around 11% per annum.

Global and regional/sub-regional MDBs could derive meaningful positive effects from capital cooperation. The global MDB can expand its presence in a region through the regional and sub-regional MDB. In turn, the latter receives strong financial and operational support. This allows it to expand its lending activity and become a more efficient bank.

5

“MDBs could derive meaningful positive effects from capital cooperation”

Local knowledge of regional and sub-regional MDBs provides a logical conduit for global MDBs to reach out to end-customers, including medium and large non-sovereign borrowers, by efficiently leveraging its scale.

Global MDBs as shareholders with AAA-rated shareholders’ capital are extremely valuable for the regional and sub-regional MDB’s credit rating. Highly rated MDBs could also play an important role in speeding up the capacity-building processes by contributing to operational policy and administration, loan standards, and financial policy. MDBs’ cooperation is not limited to capital participation. Cooperation can also take place through loans, equity, and risk participation. MDBs could also mobilize debt capital from global MDBs’ shareholders.

One challenge may be a decrease in shareholders’ motivation in the development of the regional and sub-regional MDB and its further capitalization, due to the emergence of a strong investor.



In 2022, the EIB supported the BOAD’s capital increase, thanks to which the EIB’s share in equity increased from 0.4% to almost 1%. The purpose was to increase its financing of projects. The EIB’s capital increase should also support its external rating by raising the share of highly rated equity investors. It is anticipated that the EIB will also have a positive influence on the policy and integrity standards of the BOAD.

Rechanneling Special Drawing Rights could be an option for increasing MDBs’ capital. On May 2024, the IMF approved the proposal to expand permitted use of SDRs by authorizing their use in the acquisition of hybrid capital issued by prescribed holders (official entities approved by the IMF to hold SDRs).

6

“It will be both crucial and fair to expand the IMF list of SDR prescribed holders”

The AfDB and IDB have developed a proposal under which member countries may channel SDRs as hybrid capital contributions to help expand their lending capacity. SDR allocation across countries tends to be inverse to countries’ development needs. Larger quotas are held by advanced economies, which are the least likely to need them.

SDRs could be used to provide capital injections not only to global but also to regional and sub-regional MDBs. For that purpose, it will be both crucial and fair to expand the IMF list of SDR prescribed holders. The list currently includes only 13 development and other multilateral institutions, most of which are MDBs managed by advanced economies. This list does not include smaller borrower-led MDBs.

7

“The issuance of “perps” by MDBs represents a non-conventional approach to capital increase”

Challenging times call for out-of-the-box solutions. We put on the table for discussion an issuance of “perps” by MDBs as a non-conventional approach to capital increase. Perpetual subordinated debt is a type of relatively high-risk bond usually without a certain maturity date. *De facto*, perpetual bonds usually have a maturity date which is more than 10 years. They rank lower in priority to other debts in the case of default. The price of perpetual subordinated bonds is somewhat higher than the price of ordinary ones.

According to the Basel III standard, perpetual subordinated bonds could form part of Additional Tier 1 Capital when specific conditions of issuance are met. In practice, it is often included in Tier 2 Capital as supplementary capital. Issuing public perpetual debt, available both to institutional investors and the general public, could strengthen ties between a development bank and citizens of its member states.

Optimization of the Capital Adequacy Framework

Optimization of the use of capital is complementary to capital expansion. They both may effect greater lending in the short term, while MDBs negotiate capital injections with shareholders and other potential investors. There are several possible options for capital optimization: risk appetite adjustment; risk transfer options to the private sector; risk transfer options among MDBs; restricting budget support operations by MDBs; integrating a prudent share of callable capital into capital adequacy metrics. The last one is still under consideration to determine the appropriate methodology.

I. INTRODUCTION

G20 Agenda Concerning the Reform of MDBs

The global economy is fracturing, growth is decelerating, and trust is eroding. This requires MDBs to be at center stage in creating an effective response and bringing diverse actors to support a shared agenda of transformative development. MDBs have a distinctive comparative advantage in playing a catalytic role in fostering government and private sector investments. They bring together a package of knowledge, affordable financing, and efficient risk management (IEG, 2023b).

In the Delhi Declaration, the G20 Leaders called on the MDBs to undertake comprehensive efforts to evolve their vision, incentive structures, operational approaches, and financial capacities, so that they are better equipped to address a wide range of global challenges while being consistent with their mandate and commitment to accelerate progress towards the SDGs (G20, 2023).

In 2023, a triple agenda of reform for the MDBs was set out, which includes (IEG, 2023a):

- To triple annual sustainable lending levels to \$390 billion per year by 2030;
- To adopt a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods, focused especially on climate change, the preservation of biodiversity and the global water cycle, and pandemic preparedness and response;
- To expand and modernize funding models to broaden the investor base in flexible and innovative ways.

Since 2008, G20 members have engaged with matters pertaining to the reform of MDBs through the International Financial Architecture Working Group (IFAWG). Under the Brazilian G20 Presidency, the IFAWG continues to play a key role in reforming and strengthening the MDBs, and in 2024 it developed a multi-year G20 roadmap for MDB reforms to make MDBs better, bigger, and more effective. MDBs need to step up their efforts and work together effectively and on a larger scale. Central to this effort is ensuring that the MDBs' support remains aligned with national development priorities and delivers concrete benefits to countries.

The reform of MDBs has five major categories containing 28 specific reforms:

1. To maximize capital efficiency (expanding financing capacity using existing resources), including *freeing up capital through risk transfers at the portfolio level*.
2. To add capital to meet needs and manage risks (traditional capital increases and more innovative approaches), including *to undertake regular capital reviews, issue non-voting hybrid capital instruments for shareholders (using SDRs)*.
3. To expand mandates to include global challenges. This category assesses whether MDBs have integrated global challenges into their mandates and country strategies.
4. To transform country engagement for efficiency and impact. These reforms track ways in which the MDBs can act with increased operational efficiency, effectiveness, and impact to strengthen their engagement with recipient countries.

5. To achieve major expansion in private finance mobilization. This reform category assesses whether MDBs are putting in place the private finance mobilization targets and private sector diagnostics (CGD, 2024).

These reforms include traditional capital increases and more innovative approaches like hybrid capital. MDBs transform every shareholder's dollar into 3–4 dollars of lending on average. However, even if better leveraged, the current stock of MDB capital will not be sufficient to support the increased MDB lending capacity needed to help fill large SDG and climate finance gaps in emerging markets and developing economies (Landers, C. 2024).

The G20 MDB Roadmap is based on three pillars: a better, bigger, and more effective MDB System. Bigger MDBs would help mobilize the financial resources at affordable terms that countries need to raise investment volumes sufficiently to achieve transformational change. They should (IEG, 2023b):

- Triple sustainable annual commitment levels to around \$390 billion per year (of which \$300 billion is in non-concessional lending);
- Aggressively pursue all efforts at balance sheet optimization in the short term, then implement portfolio guarantee and hybrid capital structures, and bridge to capital increases to sustain lending volumes in the longer term;
- Develop simple funding mechanisms to facilitate non-governmental contributions to global challenges, linked to MDB activities;
- Advocate for scaled-up concessional financing for low-income countries.

This paper investigates how to reinforce MDB financing capacity through increasing shareholders' capital.

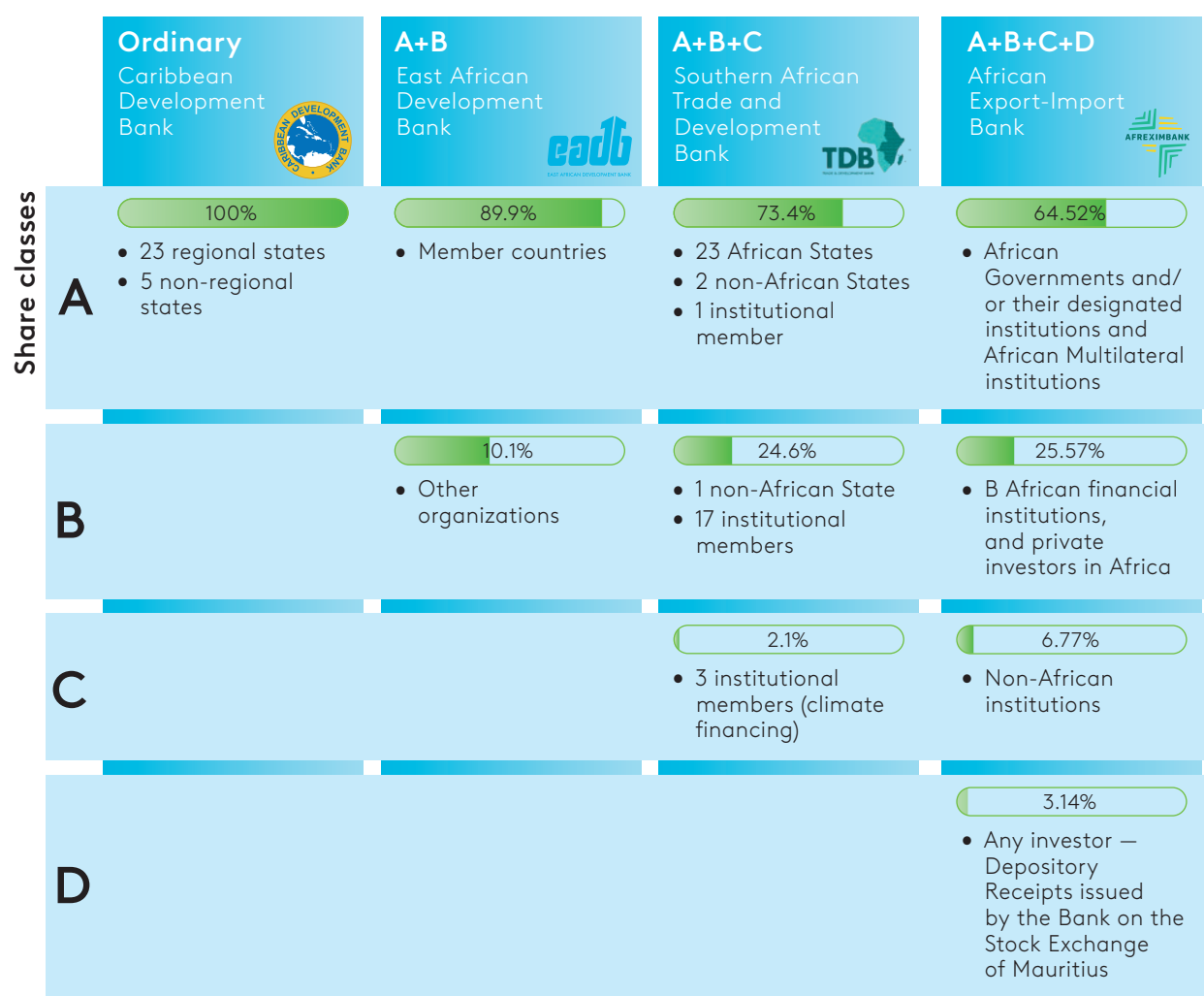
The MDB Family: Diversity and Specifics

MDBs are categorized by geography (global, regional, and sub-regional) and institutional governance structure (led by developed countries and by borrowing countries). Developing countries usually initiate and control borrower-led MDBs. Legacy regional development banks (RDBs) are a special type of MDB. They were founded in the second half of the 20th century, with G7 countries among the founders – the IDB (1959), AfDB (1964), ADB (1966), and EBRD (1991).

Simply put, “the MDB family” can also be described using a Football League analogy. The largest 10 MDBs (WB, AfDB, ADB, AIIB, CAF, EBRD, EIB, IDB, IsDB, NDB), with \$10+ billions paid-in capital, play in the ‘Premier League’ (mostly global and legacy MDBs). These are institutions with a long history, huge resources, and a wide impact on the global economy. However, there is also the ‘Championship’ segment – regional and sub-regional MDBs (see [Picture 2](#)). They have unique knowledge and expertise regarding local markets, local producers, and local industries. They more readily accept the risks associated with using and advancing local currencies. Global and legacy MDBs should coordinate and collaborate with regional and sub-regional MDBs to support them in incorporating innovations that boost their lending capacity ([Vinokurov et al., 2024](#)).



















The specifics of how regional and sub-regional MDBs raise shareholders’ capital differ significantly from those of global MDBs. They could have different types of shareholding in order to attract different investors (see [Picture 1](#)). Each MDB has its own experience that is valuable for others.

↓ **Picture 1. Examples of different shareholder classes and types of shares (as of 31 December 2023)**



Source: compiled by EDB analysts based on MDBs’ data.

↓ Picture 2. Regional and sub-regional MDB overview

			Assets to Equity Ratio	Assets (US\$ bn)	Shareholders' Capital (US\$ bn)
1993	 African Export-Import Bank Afreximbank	Moody's Baa1 Fitch BBB	5.5	33.4	6.1
1985	 Eastern and Southern African Trade and Development Bank TDB	Fitch BB+ Moody's Baa3	4.8	10.1	2.1
2006	 Eurasian Development Bank EDB	S&P BBB-	4.1	8.1	1.98
1960	 Central American Bank for Economic Integration CABEI	S&P AA Moody's Aa3	3.7	17.2	4.7
1970	 Development Bank of Latin America and the Caribbean CAF	S&P AA Fitch AA- Moody's Aa3	3.7	53.8	14.7
2007	 Africa Finance Corporation AFC	Moody's A3	3.6	12.3	3.4
1999	 ECOWAS Bank for investment and development EBID	Moody's B2 Fitch B	3.6	1.8	0.5
1970	 International Investment Bank IIB	NR	3.6	1.1	0.3
1973	 West African Development Bank BOAD	Fitch BBB Moody's Baa1	3.0	5.9	2
2000	 Islamic Corporation for the Development of the Private Sector ICD	S&P A- Fitch A+ Moody's A2	2.8	3.2	1.2
1994	 Black Sea Trade & Development Bank BSTDB	S&P BBB Moody's Baa2	2.5	2.2	0.9
2015	 Asian Infrastructure Investment Bank AIIB	S&P AAA Fitch AAA Moody's Aaa	2.5	53	21
2015	 New Development Bank NDB	S&P AA+ Fitch AA	2.5	28.8	11.6
1969	 Caribbean Development Bank CDB	S&P AA+ Fitch AA+ Moody's Aa1	2.3	2	0.9
1969	 FONPLATA Development Bank FONPLATA	S&P A Moody's A2	1.7	2.6	1.5
1967	 East African Development Bank EADB	Moody's Baa3	1.4	0.5	0.3
1976	 OPEC Fund for International Development OPEC Fund	S&P AA+ Fitch AA+	1.2	7.7	6.3
1973	 Arab Bank for Economic Development in Africa BADEA	S&P AA Moody's Aa1	1.1	5.9	5.6

 Credit Rating Scale as of July 2024

Note: assets and capital as of end-2023.

Source: compiled by EDB analysts based on MDBs' data.

Report Structure

This report discusses in detail methods of increasing equity capital and analyzes the opportunities, benefits, and risks of each option.

In Chapter 2, we emphasize six options for increasing capital. We add a seventh option as a novel proposal (see [Picture 3](#)). Finally, we consider options of optimization of capital adequacy framework ([Chapter 3](#)).

↓ **Picture 3. Options for increasing shareholders' capital of the MDBs**



Source: the EDB.

Each chapter has four sections:

1. "Features" examines the analyzed method of equity capital increase, and highlights the technical issues of implementation.
2. "Opportunities" analyzes specific advantages for the MDB and its shareholders that arise from the chosen method of capital increase.
3. "Challenges" analyzes potential risks for the MDB and its shareholders, as well as possible mechanisms for mitigating or overcoming these risks.
4. "Cases" analyzes real examples of MDBs that used this method of capital increase and the effects they obtained.

Based on case studies and best practices, we illustrate different capital enhancement strategies of MDBs that can lead to improvements in credit rating, corporate governance, strengthening of financial position or international status, etc.

II. OPTIONS FOR INCREASING SHAREHOLDERS' CAPITAL OF THE MDBs

1 Increasing Existing Shareholders' Capital

Features

The most straightforward option for enhancing the lending capacity of the MDBs is to inject capital from existing shareholders.

In the context of the G20 MDB Reform, experts are engaged in discussions regarding the introduction of MDB regular capital resources reviews. This is already the practice of some MDBs (for instance the EBRD has a five-year cycle). Such a review would allow shareholders to consider the MDBs' capital situation and set it against strategy in a deliberate manner, rather than reacting to events (G20, 2022). However, formalized reviews need to be discussed in more detail.

The additional capital required is typically determined through an assessment of the MDB's financial requirements and its current and future investment project activities.

Discussion with the representatives of the governments of the member states on additional capitalization can go through several rounds. It is possible that shareholders may have budgetary constraints that prevent them from providing additional resources to increase MDB capital. In some cases, this may result in changes to operating policies and loan application procedures, and internal functioning of the institution. For example, the request for an increase in the IDB's capital entailed a debate on changes in the bank's organizational structure (IDB, 2021).

After a favorable decision, the MDB usually puts the issue of additional capitalization to a vote. For example, in the case of BADEA, a three-fourths majority of the total votes is required for a capital increase to take effect. The EIB's decisions are taken by a majority representing at least 50% of the capital subscribed.

Shareholders are typically allocated a number of shares in proportion to their shareholding in the MDB's authorized capital (general capital increase). Another option is to increase voting power of some countries (selective capital increase).

Opportunities

The result is to increase and strengthen an MDB's financial position, while maintaining control and voting power, efficiency, security, and reliability. The existence of a sufficient capital base directly reflects the MDB's ability to absorb losses, which is particularly important case of financial crises.

By providing additional resources, shareholders demonstrate trust in the MDB and its strategy. This also demonstrates their willingness to continue to invest in and support the MDB over the long term, which contributes to greater transparency, and helps to formulate long-term strategies.

A notable advantage of increasing existing shareholders' capital is that there is no requirement to repay the amount raised over the life of the MDB and, in some cases, there are no income payments for each share placed (dividends). Additional capitalization using funds from existing shareholders is usually less costly than other alternatives, as there is no need to seek third party funding.

Credit rating agencies (CRAs) monitor whether none of the supporting shareholders has withdrawn from the MDB in the recent past, and track timely payments of capital subscriptions by shareholders. This can have a rapid impact on global credit rating improvement in positive cases. For example, on 30 January 2024, S&P Global Ratings confirmed FONPLATA's risk rating at A and improved the outlook to stable. This was because Argentina, one of FONPLATA's key shareholders, confirmed that it would remain a member of the bank, and ongoing discussions over a new capital increase of \$3.5 billion. On 6 February, FONPLATA approved an increase in authorized capital from \$3 billion to \$6.5 billion.

The creation of callable capital can indirectly improve the financial position of MDBs, but does not have a direct impact on capital increase. CRAs view callable capital as a stabilizing factor for an MDB if shareholders demonstrate sufficient ability and willingness to pay it when necessary. It is the portion of capital subscriptions that shareholders commit to providing in specific situations, usually to prevent default on debt. Such commitments have never, in the eight decades since the 1944 Bretton Woods conference, been invoked ([Birdsall et al., 2024](#)).

As a result, a stronger capital base and improved ratings will enhance the MDB's credibility in the financial markets and increase the volume of funds raised through bond issues.

Challenges

Developing countries typically have limited fiscal space to contribute to paid-in capital increases. Paid-in capital generally does not exceed 10% of share capital. This is an acute issue for regional MDBs that are managed by developing countries only. There is a practice where the MDB accumulates part of the net income in reserves (retained earnings) and periodically transfers it to the capital account in proportion to each member's shareholding. However, the accumulated amount is very often insufficient to meet the needs of the MDB.

Confirmation of participation in the additional capitalization by all shareholders can be a lengthy process. All countries have different procedures for confirming a subscription to MDB capital. Some may require ratification procedures and passage through parliament. The budget planning process varies across countries and takes a long time.

MDBs could undertake an active PR campaign to create positive public opinion about the need for recapitalization, so that the public, including politicians and parliaments, are aware of the issue.

A major shareholder might provide capital injections on the condition that other state members express their loyalty to and help promote the political interests of the major shareholder in the regional or global political agenda.

If shareholder countries contribute more capital, they may seek to influence the priorities and decision-making processes of the MDB. This can lead to dilution of shareholders' interests, including conflicts of interest, policy disagreements, and delays or inefficiencies in project implementation. CRAs see increased concentration as a potential deterioration in the financial position of MDBs.

↓ Table 1. Increasing share capital by current member states

Opportunities	Challenges and risks
<p>Shareholders</p> <ul style="list-style-type: none"> Maintaining control over the bank's activities Supporting a long-term strategy <p>MDBs</p> <ul style="list-style-type: none"> Strengthening the financial position Expansion of investment portfolio Quick impact on improving ratings 	<p>Shareholders</p> <ul style="list-style-type: none"> Budgetary constraints Dilution of interests of small shareholders Increased influence of large shareholders in case of disproportionate capital contribution <p>MDBs</p> <ul style="list-style-type: none"> Lengthy approval process with all shareholders
<p>The advantage for the MDBs is that there is no requirement to repay or pay dividends</p>	<p>Shareholder countries usually have limited budgets to replenish the capital of their MDBs</p>

Cases



Arab Bank for Economic Development in Africa

BADEA is a financial institution owned by 18 Arab countries, members of the League of Arab States. The bank was created for the purpose of strengthening economic, financial, and technical cooperation between the Arab and African regions.

The capital increase of BADEA is linked to its five-year plans to expand its activities. Since its inception in 1974, BADEA has never borrowed and has been fully funded by shareholders' capital. The capital increased from \$231 million in 1975 to \$5.6 billion, at the end of 2023, after several rounds of capital increases — all paid-in (BADEA, 2023).

The gradual increase in capital enabled BADEA to meet the growing needs of African countries. Disbursements of loans and grants increased from \$0.5 billion in 1975–1984 to \$4.7 billion in 2023.

In 2022, BADEA introduced callable capital to the new structure. The Board of Governors decided to increase the authorized capital to \$20 billion, of which \$10 billion has been

subscribed and \$5 billion paid-in (BADEA, 2023). The ninth capital increase aims to bolster implementation of the African Continental Free Trade Agreement.

The rating agencies have given very strong credit ratings (S&P AA, Moody's Aa2 as of end-2023), underpinned by the extraordinary support of BADEA's shareholders through capital increases and the introduction of callable capital. The bank is rated "Aa2" with positive outlook by Moody's Investors Service and "AA" with stable outlook by S&P Global Ratings.



Since 1991, all capital increases of the EIB were self-financed from their earnings and it borrowed the bulk of its lending resources on the international capital markets.

In 2012, all 27 of the EIB's shareholders agreed to double the EIB's paid-in capital with an increase of €10 billion to safeguard its financial strength and to help put Europe's economy back on track after the 2007–2008 Global Financial Crisis.

This was followed by positive ratings. Fitch Ratings and Standard & Poor's noted the stabilization of the quality of the loan portfolio and positively assessed the strong commitment of the EIB's shareholders to support the EIB.

As a result of the increase of paid-in capital, the EIB extended its lending activity by some 40% between 2013 and 2015. By end-2014, the bank delivered over €50 billion of additional lending, mobilizing more than €150 billion in total investment and reaching the target earlier.

In 2016, EIB economists conducted an impact assessment of the 2013–2015 capital increase period. The results predicted that by 2017, the Bank's lending was likely to have a considerable impact on Europe's economy, adding 830,000 jobs and 0.8% to GDP. The long-term impact by 2030 is estimated as an additional 1.1% GDP and 1.4 million additional jobs (EIB, 2016).



In 2012, the IDB approved the ninth general capital increase after receiving the minimum required votes in direct response to the 2008 financial crisis (IDB, 2016). Venezuela and the Netherlands did not provide subscription instruments. Their shares were reallocated to other member countries.

The IDB concluded its ninth general capital increase in 2017. This comprised \$1.7 billion of paid-in capital and \$68.3 billion of callable capital, allowing the bank to lend as much as \$12 billion per year and doubling the lending levels it had before the Global Financial Crisis.

2 Regional Member Countries' Participation

Features

Attracting new regional members to the MDB capital structure represents a significant opportunity for an MDB to enhance its importance within its operating region.

The admission of a new regional member to an MDB generally follows a process including exchange of letters, negotiations, approval by existing members, ratification by the governments, and financial contributions.

It is necessary to discuss a number of issues in order to determine whether the MDB should engage a new regional member, including capital distributions, aligning diverse economic interests, addressing geopolitical considerations, and ensuring equitable voting power. The MDB typically conducts a comprehensive assessment to ascertain the current and prospective trade, investment, and financial relationships of the applicant with MDB's shareholders.

When the MDB invites non-members to join, applicants may request changes to the conditions of membership. There may be amendments to the MDB's charter or agreements related to financial contributions, governance, and operational matters.

Once integrated into the MDB, depending on the terms of accession, the new regional member gains access to MDB resources, participates in decision-making processes, and interacts with other member countries.

Opportunities

The following key opportunities can be identified as benefiting from the expansion of MDB membership to new regional countries:

1. Strengthening the MDB's capital base and hence its lending capacity, while maintaining a strong regional focus;
2. Bringing in new borrowing countries to diversify and decrease risks of the loan portfolio, including geographical risks;
3. Strengthening the international status of the MDB and increasing its credit rating;
4. Reduction of concentration and influence of the largest shareholders.

New regional members joining the MDB typically make financial contributions to the MDB's capital. This infusion of funds directly adds to the capital base, providing the MDB with more resources to support its lending and development activities. This improves the MDB's ability to manage risks effectively.

Inclusion of new regional members will not reshape the character of the MDB, and helps to keep a strong regional focus ([Humphrey, 2019](#)). Regional MDBs usually have deep knowledge of the economic situation of their region, and have close relationships with regional governments and regulators.

With more countries contributing to the capital base, the MDB becomes less reliant on individual contributors. This diversification of funding can enhance the stability and sustainability of the MDB's financial position.

The MDB could diversify its loan portfolio, and mitigate its geographic concentration.

The following effects have relatively limited impact:

- The credit ratings of the MDB could improve due to enhanced creditworthiness because of its capital increase and loan portfolio diversification.
- MBD's international status could strengthen, as it becomes more credible and attractive to potential partners, investors, and other stakeholders.

Challenges

The attraction of new regional members might be challenging, as most regional MDBs operate in a lower-income environment, where countries have fiscal constraints on making capital injections into MDBs. These markets are prone to political instabilities and macroeconomic imbalances.

Access to lower-cost funding remains a challenge to most regional MDBs. Most regional MDBs are owned by emerging market and developing countries (EMDCs), which makes them less attractive in terms of creditworthiness for the capital markets. This translates into a high level of risk and lower credit rating of member countries, resulting in a higher cost of funding.

This could be addressed by attracting non-regional members with developed economies, as well as global or legacy MDBs, which could improve credit ratings and enhance access to capital markets.

Dilution of shareholder structure may give new regional shareholders a vote, which allows them to participate in policy and operational decisions, and contribute to the strategic direction of the MDB. Each membership expansion decreases the decision-making influence of existing shareholders. This can be assessed as an opportunity for the MDB.

This can be addressed by motivating existing shareholders about their enhanced opportunity to develop trade and investment cooperation with new member states.

The admission of new members does not ensure an adequate mix of countries, as most of them are from one region. High concentration of the loan portfolio in a region is a major issue for most regional MDBs, as they lend to a relatively small set of borrowers. For example, the Central American Bank for Economic Integration (CABEI) is exposed to low-quality borrowers and the portfolio concentration inherent to its regional mandate (Moody's, 2023).

Attracting non-regional borrowing members could be a solution. This is the case for the Asian Infrastructure Investment Bank (AIIB), which attracted borrowing countries aside from Asia or Oceania, from Africa, Europe, and Latin America. Such non-regional lending is capped at 15% of the total financing.

↓ Table 2. Attracting new regional states to share capital

Opportunities	Challenges and risks
<p>Shareholders and MDBs</p> <p>Strengthening links with the region. Close links with regulatory authorities</p> <p>MDBs</p> <p>Expansion of the investment portfolio to new countries</p> <p>Enhancing international status through a stronger role in the region</p> <p>Strengthening the financial position</p>	<p>Shareholders</p> <p>Decrease in lending to existing members</p> <p>Dilution of shareholder structure (may be a positive factor)</p> <p>MDBs</p> <p>Limited impact on portfolio diversification</p> <p>Weak incentive for rating agencies to upgrade ratings</p>
<p>Shareholder countries and MDBs gain an opportunity to strengthen their economic influence in the region</p>	<p>Financial advantages for MDBs are limited due to the similar and/or low income levels of countries in the region</p>

Cases



The CAF is a successful case of regional membership expansion. Established by Ecuador, Colombia, Bolivia, Peru, Chile¹, and Venezuela and focused on the Andean region, CAF has expanded to include most Latin American and Caribbean countries as borrowers.

By end-2023, the CAF had 21 shareholders², including 19 regional countries from Latin America and Caribbean, and 2 non-regional European countries (Spain and Portugal). The shareholder structure has changed significantly. In 2004, 90.4% of CAF was owned by Andean countries, in 2023 – 53.7%.

By end-2023, the CAF had shareholders' capital of \$14.7 billion, increasing from \$2.8 billion as of end-2004. CAF's loans portfolio rose from \$7.2 billion in 2004 to \$33.8 billion in June 2024. CAF's lending was concentrated in the Andean region³ in 2004, accounting for about 93% of its loan portfolio. This indicator decreased to 43.3% in June 2024, which shows enhanced portfolio diversification.

The membership expansion was a critical component of CAF's strategy to improve its access to capital markets. The bank was the first borrower-led MDB to receive a bond rating and issue a bond in the US market, in 1993. Membership growth and capital increase strengthened

¹ Chile was one of the six founding countries of CAF, but in 1977 it retired from the institution's shareholding. However, in 1992, the country rejoined CAF as a Series "C" shareholder. Finally, in 2023, Chile became a CAF member country again.

² For CAF, member countries are those that have shares A and B, while shareholder countries are those that have shares in any of the series (A, B or C). Currently, CAF has 21 shareholder countries, of which 15 are member countries. In addition, two other countries have signed the agreements to become Series C shareholders; however, these have not yet entered into force.

³ This comprises the six Andean countries (Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela). In 2004, five of them were members and one (Chile) was a shareholder.

CAF's credit rating, which was upgraded five times by Moody's from Baa3 in 1993 to Aa3 in 2023. S&P Global Ratings upgraded CAF's rating six times from BBB in 1993 to AA in 2023.

S&P's last rating upgrade from AA- to AA occurred in May 2023. Regional membership expansion was a key factor: reincorporation of Chile as a full member; and shareholder expansion and an outstanding role in the region (Chile, El Salvador, Dominican Republic, Honduras became new full member countries; Mexico and Costa Rica are in the process of becoming full member countries).

Finally, it is important to note that in 2023, eight Caribbean countries formally applied to join CAF as Series C shareholders.



Eastern and Southern African Trade and Development Bank

The TDB increased the number of regional members from 15 to 25. The purpose of the membership expansion was been to expand its operating region, raise its resource base, and strengthen regional economic integration. The membership expansion, combined with attracting other classes of new shareholders, strengthened the TDB's financial capacity and credit rating.

Diversification of the loan book by decreasing the geographical concentration and providing additional capital were credit positive developments for the TDB (Moody's, 2015). In 2017, Moody's upgraded its rating from 'Ba1' to the investment grade level 'Baa3' (Moody's, 2017).

The TDB's loan portfolio grew from \$0.2 billion in 2005 to \$7.8 billion in 2023. Non-performing loans as a percent of the loan portfolio decreased from 20% in 2005 to 3.6% in 2023 (TDB, 2024).

The TDB's five-largest exposures decreased from 61% of the loan portfolio in 2016 to 49% in 2021 (Fitch, 2022). Fitch expects further improvement in concentration risk, as the TDB intends to increase lending to new member states.

The TDB's capitalization is assessed as 'strong', as its equity to assets ratio improved from 20% in 2012 to 24% in 2023 (Fitch, 2012, 2023a). This was driven by strong capital injections and ongoing capital payments from shareholders.

Due to changes in the TDB's capital structure, most strategic issues are decided by consensus. Decision-making generally requires a simple majority or, in special cases, a two-thirds majority.



Central American Bank for Economic Integration

Established by five Central American countries in 1960, now CABEI is owned by 15 member countries:

- Five founding members (Republic of Guatemala, Republic of El Salvador, Republic of Honduras, Republic of Nicaragua, Republic of Costa Rica);
- Three non-founding regional members (Dominican Republic, Republic of Panama, Belize), incorporated in 2006–2007;
- Seven non-regional members (Mexico, Taiwan, Argentina, Republic of Colombia, Spain, Cuba, and Republic of Korea).

As of end-2023, 53% of total capital was owned by the founding members, 10% by non-founding regional members, and 37% by non-regional members. The incorporation of new participants has important strategic implications for CABEL. The bank's objective is to promote the economic integration and the balanced economic and social development of the Central American region, which includes the founding members and non-founding regional members, attending to and aligning itself with the interests of all members. Among CABEL's main goals are the improvement of financing terms, increasing the lending capacity accompanied by credit rating improvements.

S&P Global Ratings first assigned CABEL an investment grade rating of "BBB-" in 2002. Since then it experienced seven rating upgrades, reaching "AA" in 2019. Among the factors were the incorporation of new members in the shareholding structure, allowing it to increase a paid-in capital from \$0.5 billion in 2012 to \$1.5 billion at the end of 2023. Regional members (founding and non-founding) account for 62.6% of the paid-in capital structure.

Since its creation, CABEL has disbursed over \$36.6 billion to the Central American region. Almost 50% of those disbursements have taken place over the past 10 years. The loan portfolio rose from around \$5 billion in 2012 to \$10.8 billion in 2023. The loan portfolio diversification expanded beyond the founding members, with five founding countries' exposure accounting for 81% in 2023 in comparison with 96% in 2012.

3 Non-Regional Member States' Participation

Features

Non-regional countries with high-income economies tend to join the MDBs as non-borrowing countries. Membership expansion through them leads to a substantial increase in subscribed capital in the first place. In addition, they bring an improvement to credit ratings and access to capital markets with more favorable funding terms, which are important factors leading to more financing and operations for the MDBs.

There are many examples of MDBs with non-regional members, including legacy RDBs, the AIIB, African sub-regional MDBs (BDEAC, BOAD, EADB, TDB), and Latin American and Caribbean MDBs (CAF, CABI, CDB).

African sub-regional MDBs have high-income donors such as Germany, France, the Netherlands, and Belgium as shareholders, along with middle-income donors such as China, India, and Kuwait.

Non-regional members in MDBs can be donors (non-borrowers) or recipients of funds, based on the level of income of the member country. For example, in the case of the African Development Bank, the non-regional members are donors. However, the EBRD provides funding outside its region. The case of the AIIB is mixed — technically every member can borrow, but high-income shareholders do not actually borrow; furthermore, the AIIB provides financing to several non-regional countries.

Opportunities

The main advantages of non-regional member states' participation in MDBs' capital are opportunities for substantial additional capitalization, transfer of high ratings, and access to capital markets.

Attracting non-regional member countries can improve shareholder capital. Shareholder support is reflected through the capital subscriptions of its non-borrowing members and the record of its borrowing members in meeting their debt-service obligations.

Another financial factor affecting the willingness of MDBs to bring in non-regional high-income members is favorable regulatory treatment and tax exemptions by the latter ([Humphrey, 2022](#)) for bond issues on their capital markets (like the largest markets of the EU, US, and Japan).

Legacy regional development banks (except the AfDB) always had the highest investment grade ratings due to their high-income founding members. For regional MDBs, non-regional high-income shareholders can push credit ratings up. Extraordinary shareholder support can improve the stand-alone MDB rating by up to 3 notches ([Fitch, 2023b](#); [S&P, 2023](#)). In addition, members with high governance standards provide a strong enterprise profile to the MDB, which is also favorable for credit ratings.

MDB shareholders also could contribute callable capital. The rating of MDBs improves if the callable capital is provided by a country with a high credit rating — a high-income, non-borrower country. As a result, MDBs with significant high-income country shareholdings are rated "AAA". The AIIB has been granted a "AAA" rating since its launch in 2016. By contrast,

the NDB, which launched at the same time but without any AAA-rated shareholders, only obtained an “AA+” rating.

The advantage of shareholders like China and India (for BDEAC, BOAD, and EADB) is that they bring access to new sources of finance, such as export credit lines. CAF includes Spain and Portugal, and CABEL includes Spain, South Korea, and Taiwan. These countries provide financial support through capital and credit lines.

Challenges

Non-borrower high-income shareholders might have their own views on development and operations that might differ from those of the regional MDBs. This could include demanding stricter environmental, social, gender or procurement policies, and lending restrictions to avoid financial problems.

In addition, high-income non-borrower members usually prefer the funding to go to financial management and capacity building, rather than to projects with a direct impact on the economy (especially infrastructure). For example, at the end of 2022, 66% of CAF’s loan portfolio consisted of social and other infrastructure and energy financing, while in the case of the EBRD, municipal infrastructure and energy sector loans comprised 36% of the portfolio (EBRD, 2023; CAF, 2023).

This can be resolved by introducing various classes of shares to new members, with different levels of participation in the decision-making process. Non-borrowing countries contribute capital, but in a subordinate position.

↓ Table 3. Attracting new non-regional states to share capital

Opportunities	Challenges and risks
<p>MDBs</p> <ul style="list-style-type: none"> Strong impact on credit rating upgrade Favorable regulatory treatment and tax exemptions for bond issues New sources of funding More favorable funding terms 	<p>Shareholders</p> <ul style="list-style-type: none"> Emergence of external influence on the region <p>MDBs</p> <ul style="list-style-type: none"> Stricter policies in the areas of ESG, procurement, etc. Less flexibility in decision-making
<p>Non-regional shareholder countries tend to open access to their capital markets and help upgrade ratings</p>	<p>Non-regional countries tend to enter MDB capital for their own interests</p>

Cases

In legacy RDBs, high-income non-regional members are always non-borrowers. They helped the MDB to gain higher credit ratings and access to capital markets, as well as providing financing through special funds. For example, in the ADB (Erquiaga, 2016), high-income non-regional members provide financial assistance to developing member countries, which is financed through capital resources and trust funds. Funding for operations comes from borrowings on the capital markets, paid-in capital provided by shareholders, and accumulated

retained income (reserves). Trust funds are financed by contributions from developed member countries. This financial model is pretty much the same for all legacy RDBs.

The AfDB is the only legacy RDB that was founded solely by regional countries, without high-income members. The first 17 non-regional member countries joined in 1982, and by 1985, the AfDB received “AAA” ratings from Moody’s and Fitch, and a “AA” rating from S&P. The AfDB gained access to international capital markets, and in 1987 had its first large general capital increase of \$14 billion. Currently, G7 countries hold 27% of AfDB shares; African members hold 60%.

The EBRD has only high-income non-borrower countries as regional members. Originally, the EBRD operated in Central and Eastern Europe, providing financing to former communist countries. Now its region of operations has expanded to 36 countries on five continents. In the IDB, the 22 non-borrowing countries (Canada, China, Israel, Japan, the Republic of Korea, the United States, and 16 European countries) are non-regional. They provide capital and have proportional voting power. For the ADB, non-regional countries are all non-borrowers and involve high-income EU states, the UK, Turkey, Canada, and the USA.



The AIIB was founded by 57 members (37 regional and 20 non-regional) in 2015. Among the non-regionals (also non-borrowers) were Austria, Germany, Luxembourg, the Netherlands, Norway, and the UK. Technically, all members can borrow funds from the AIIB.

Its original 57 members have now grown to 109 (52 regional with voting power of 73% and 57 non-regional), with new non-borrower members including Canada, Spain, and Hong Kong, China. As of now, AIIB includes all sovereigns in the world that are rated triple A by Fitch, S&P, and Moody’s, and has a stand-alone credit profile of “AAA”. At the end of 2023, shareholders’ equity increased to \$21.4 billion from the original \$17.7 billion in 2016; loans increased to \$21.9 billion from \$10 billion in 2016 (AIIB, 2017; AIIB 2023).



CAF has two non-borrower European countries. Spain joined in 2002, Portugal in 2009. Both of them are subscribed to “Serie C” (class C) shares, which are reserved for governments and public and private institutions from non-member countries, and have less power in electing directors and board members.

Spain subscribed to \$0.2 billion in callable capital (CAF, 2001), and has provided a total of \$0.75 billion paid-in capital. Portugal joined by subscription of €15 million of capital and €60 million of callable capital (CAF, 2009).

Membership of the two European countries was based on already existing financial, trade, cultural, and investment ties with CAF. These include lines of credit to finance Spanish trade and investments in the region, as well as participation in CAF’s A/B loan program, which aimed to attract external resources for projects in its shareholder countries. As for Portugal, Latin America had an increasing importance for its foreign policy and economic internationalization.

Out of the 15 member countries, seven are non-regional members (Mexico, Taiwan, Argentina, Republic of Colombia, Spain, Cuba, and Republic of Korea).

Taiwan is one of CABEL's first non-regional members (since 1992) and its largest shareholder. It has subscribed \$776 million, representing an 11.4% shareholding⁴ with shares B and C. The participation of Taiwan strengthened its equity base and allowed CABEL to issue and place bonds for the first time in the international market in 1997. By the end of 2023, CABEL had placed 25 bond issues in the Taiwanese capital market, reaching a total of \$3.17 billion.

The Republic of Korea joined CABEL in 2019 and has subscribed \$630.0 million, representing a 7.6% shareholding. Spain joined in 2005 and has subscribed \$280.0 million, representing a 4.2% shareholding, on the basis of already existing financial and investment ties with CABEL member countries.

Mexico joined CABEL in 1992 and has subscribed \$306.0 million, representing a 5.0% shareholding. Mexico has also been the main market for CABEL bond placements, comprising 19.2% (25 issues, \$2.9 billion since 2007) of CABEL's transactions on international capital markets.

Extraordinary support in the form of callable capital from CABEL's highly rated shareholders improved CABEL's stand-alone credit profile from AA- to AA according to S&P Global Ratings (S&P, 2023). Currently, eligible callable capital comes from Taiwan (AA+) at \$582 million and the Republic of Korea (AA) at \$473 million.

CABEL's financial risk profile was strengthened, supported by an improvement in its risk-adjusted capital (RAC) ratio from 10% in 2015 to 14% in 2022. As of October 2023, the RAC ratio improved to 17.9%, thanks to eligible callable capital from Taiwan and the Republic of Korea.

⁴ Here and hereafter in this section – the current capital subscription.

4 Non-Sovereign Shareholders' Participation

Features

Increasing MDB capital through sovereign contributions has limitations. Alternative options could be to open up MDB shareholding for institutional investors such as commercial banks, pension funds, insurance companies, and other financial institutions.

This idea may seem rather unorthodox and unnecessary for high-capitalized MDBs. The experience of a number of regional and sub-regional MDBs shows that it is possible to expand capital through private investors (AFC, Afreximbank, BDEAC, CAF, BOAD, EADB, EBRD, ICD, TDB).

The TDB is a good example of non-sovereign investors' participation in MDB capital, with 21 institutional members (pension, insurance, development funds, and banks) owning 23% of subscribed shares and 37% in paid-in capital as of end-2023.

The BOAD, EADB, and TDB offer 'B-Class shares' with less voting power for development finance institutions, other publicly owned institutions, and private financial institutions. CAF provides an opportunity for legal entities or persons to subscribe for shares, including B-Class shares for full members and C-Class shares for associate members. Thirteen private banks currently participate in CAF's capital with a share of about 0.05%.

A capital increase model involving institutional investors, particularly commercial banks, could prove an effective strategy for MDBs with high profitability. The MDBs should be commercially attractive to private investors. MDBs' business model with institutional investors is typically placed in trade finance (e.g., in the TDB more than 60%, in the Afreximbank more than 50%) or in banking finance and investment securities (e.g., in the AFC more than 50%), which does not always coincide with the development agenda.

The involvement of institutional investors can have a number of positive effects beyond capital increases, including improvements in the governance and accountability of MDBs. Conversely, there are potential drawbacks to consider, such as the risk of dilution of governance and credit ratings downgrades. Furthermore, there is a trade-off between development objectives and profit motives.

Opportunities

Attraction of institutional investors potentially allows expansion of the capital of MDBs. In the context of the constantly growing financing needs of EMDCs, increased capital creates opportunities and helps to meet them better by lending expansion.

This option of raising capital does not place an additional burden on the budgets of developing countries. Shareholders, as dividend-oriented private investors, will be required to contribute in paid-in capital rather than callable capital.

Additional issuance of non-voting shares may involve a simpler procedure than voting shares.

Attraction of institutional investors could also improve the efficiency of MDBs. It is possible to expect a shift to higher standards of corporate and management reporting, improved quality of business processes, and increased accountability of the Management Board.

The interest of institutional investors in participation in MDBs' capital also could be high. Acquisition of MDBs' shares could be a good alternative way to diversify capital into quasi-sovereign financial instruments with lower risk compared to national governments.

The profit motive is important, in the case of high return on MDB capital. Other motives could be the desire to increase the degree of participation in the development agenda of the region of operations of a particular MDB; to accelerate their own social capital by increasing assets related to the ESG agenda. Another motive may be the interest of institutional investors in gaining access to sovereign and quasi-sovereign investment projects.

Challenges

Opening up the capital of MDBs for entry of non-sovereign shareholders raises concerns, mostly about governance and operational trade-offs. An increased number of shareholders could dilute effective governance of the MDBs by existing shareholders. Governments could gain additional influence through the participation in the capital of MDBs of large banks, pension and insurance funds that are owned by these governments.

Increasing the pool of shareholders could affect the operational model of the MDB. Investors from the private sector could shift MDBs away from a development agenda towards a profit-driven business model, as institutional investors are interested in return on their capital. The consequence could be a concentration of the portfolio in more profitable sectors (e.g., mining, oil refining) versus more socially and environmentally important ones.

This can be addressed by offering non-voting preferential shares to institutional investors. This would reduce any concerns that investors would influence the MDB's policies and steer it away from the priorities of government shareholders.

For development-oriented MDBs, attracting private investors could be problematic. The ROE of the major MDBs has historically been very steady but low, averaging 2.2–3.8% over the past decade, or 5.4–6% for those focused on private sector lending (e.g., IFC, EBRD). High-yield-oriented MDBs have 10–14% ROEs (TDB, Afreximbank, AFC).

The dilution of capital among many shareholders with low credit ratings has created downgrade risks. Moody's changed the outlook of the Afreximbank to negative from stable in January 2024 (Moody's 2024). Moody's assessment was affected by the bank's already high leverage and shareholders' limited capacity to provide extraordinary support.

If existing shareholders know that the MDB plans to get shareholders' capital from private investors, they may be less inclined to increase the MDB's capital. CRAs could interpret this as lack of support and this could negatively affect ratings.

↓ Table 4. Attracting institutional (non-sovereign) investors to share capital

Opportunities	Challenges and risks
<p>Shareholders</p> <p>Reduced burden on the budgets of the shareholder countries. Broad potential for raising capital</p> <p>MDBs</p> <p>Make contributions to paid-in capital</p> <p>Simpler procedure for entry (usually another class of shares)</p> <p>Improving the quality of accountability</p>	<p>Shareholders</p> <p>Management dilution for existing shareholders</p> <p>Risk of shifting the agenda towards a business model and profit maximisation</p> <p>MDBs</p> <p>Risk of credit ratings downgrade</p>
<p>Institutional investors contribute paid-in capital rather than callable capital</p>	<p>Institutional investors are interested in high profitability of MDBs' business and receipt of dividends</p>

Cases



Eastern and Southern African Trade and Development Bank

Thanks to institutional investors, the TDB brings in additional capital for greater operational capacity, while leaving overall governance authority in the hands of sovereign members.

The TDB has 18 institutional investors, of which 14 are regional pension and insurance funds as well as banks. The TDB originally had two types of shares: Class-A shares for sovereign shareholders and Class-B shares for institutional shareholders.

Class-B shares were created in the end of 2012 to channel new forms of capital into the bank, in particular reserves held by African financial institutions such as banks and pension funds. ROE before the launch of Class-B shares in 2008–2012 averaged around 11% per annum. As of end-2023, Class-B shares accounted for \$294.3 million or 34.3% of paid-in capital (TDB, 2024).

The Class-B shareholders could only contribute to paid-in capital, while Class-A shareholders contributed paid-in as well as callable capital. Class-B shareholders are required to hold their shares for five years, after which they can sell to another institution.

Since 2022, TDB has expanded its share lineup by issuing Class-C shares, which have no voting rights. These shares, like Class-B shares, could only contribute to paid-in capital. Capital raised by Class-C should be directed to climate finance (TDB, 2023). As of end-2023, Class-C shares accounted for \$27.4 million or 3.2% of paid-up capital.

The TDB typically distributes approximately 24% of its annual net profit as dividends to all shareholders in equal shares, with the remainder going to retained earnings (59% of capital as of end-2023). The high level of TDB profitability ensured the attractiveness of investments. Approximately 50% of Class-B shares are share premium, as are portions of Class-A and Class-C shares. The total portion of the share premium is about 30% of paid-in capital (TDB, 2024).



African Export-Import Bank

The Afreximbank uses four types of shares to raise capital.

- Class “A” comprises African governments, central banks, African regional and sub-regional institutions.
- Class “B” consists of African private investors and financial institutions.
- Class “C” is made up of non-African financial institutions, export credit agencies, and private investors.
- Class “D” is a category created in December 2012, under which any person or entity can be allotted shares.

An important factor in the rapid increase of capital from private investors was the increase in paid-in capital from member states. This capital increase signaled to institutional investors a marked improvement in Afreximbank’s financial strength, increasing its attractiveness as an investment destination. The \$500 million approved capital increase by member countries starting 2014 was equivalent to about 70% of Afreximbank’s existing shareholder equity, and reflected the high level of willingness to support the institution. In 2016, shareholders approved the raising of an additional \$1 billion in equity to support the bank’s loan book expansion, a medium-term strategy.

The bank successfully raised an over \$160 million equity offering using depositary receipts issued through the Stock Exchange of Mauritius and backed by Class D shares. This led to a shareholders’ capital increase of \$1.8 billion from 2014 to 2022 by preferred (premium) shares. The capital increase had no impact on the bank’s ratings. A large number of shareholders with low or no international ratings causes the rating agencies to rate the strength of Afreximbank’s member support at “Low”. Besides, the broadly diversified shareholder base reduces linkages among members. On the other hand, rating agencies point out that “shareholders have a strong track record of capital contribution on an ongoing basis, which we reflect in a strong score for shareholders’ willingness to support the institution” (Moody’s, 2024). The equity capital build-up allows the bank to maintain high ratings for the region.



Africa Finance Corporation

The AFC is a multilateral development finance institution, founded in 2007 with anchor investment from the Central Bank of Nigeria (CBN) along with 17 (privately owned) institutional investors, including commercial banks and private equity funds (AFC, 2022).

The AFC is majority-owned by different investors, most of which are African states and private investors who own 60% of the corporation. A further 40% is owned by the CBN. The AFC’s double-digit profitability has ensured high interest from private investors. From 2007 (date of foundation) to 2023, the share premium capital inflow amounted to almost \$424 million, more than 21% of shareholders’ capital.

Another way the AFC raised capital was by issuing share warrants (convertible shares with call options) in 2020, for an aggregate amount of \$200 million. Share warrants are convertible

into ordinary shares of the Corporation, if the warrants are not redeemed before maturity at the option of the AFC. Payment of returns on warrants (dividends) are at the sole discretion of the AFC.

In contrast to the previous examples, the rating agencies assess the possibility of shareholder support at a higher level. The AFC's non-contractual support is assessed as "Medium". Rating agencies believe that the CBN, the AFC's largest shareholder, would provide support to the AFC if needed, although it has no obligation to do so.

5 MDBs' Participation

Features

The larger high-rated MDBs could participate in the capital of smaller regional and sub-regional MDBs. MDBs can derive meaningful positive effects from such cooperation.

Global high-rated MDBs are an invaluable source of support for the smaller MDBs' credit ratings. This would have a positive direct impact on the indicators that CRAs use to assess the creditworthiness of MDBs, as well as their access to low-cost credit lines.

Smaller MDBs generally receive strong financial and operational support from global high-rated MDBs. This allows them to expand their lending activity and become more efficient banks by contributing to operational policy and administration, loan standards, and financial policy.

In turn, global MDBs could expand their presence in certain regions through the regional and sub-regional MDBs. Local knowledge of these MDBs provides a logical conduit for global MDBs to reach out to end-customers.

It is worth noting that the AfDB, BADEA, and EIB (all of which are rated as triple-A MDBs) have become investors in smaller MDBs. For example, the AfDB's share in EADB shareholder capital equals 8.2% ([EADB, 2023](#)), in the TDB 4.3% ([TDB, 2023](#)).

The potential for vertical MDB cooperation could lead to broader benefits, including the saving of resources for the two parties. For instance, the AfDB and BOAD have extensive financial cooperation. In 2021, they signed a memorandum of understanding, defining a strategic partnership framework for co-financing regional PPP infrastructure projects in Africa ([BOAD, 2021](#)).

Peer MDBs (such as two regional MDBs) theoretically could exchange shares. There is no precedent for it, because regional MDBs are usually in need of additional capitalization. At the same time, a share swap could have significant effects for shareholders and for the bank itself, for example, by creating opportunities for economic cooperation between the remote regions where MDBs operate.

Opportunities

A key benefit of a global or sub-regional MDB's participation in the capital of a regional MDB is to increase the financing capacity of the recipient. This result can be called the baseline, like other methods of increasing MDBs' capital that have been considered.

MDBs' cooperation is not limited to capital participation. Cooperation can also take place through loans, equity, and risk participation ([OPEC Fund, 2022](#)). MDBs could mobilize debt capital from global MDBs' shareholders. For instance, in 2023 the TDB closed notable funding transactions, including loans from various multilateral institutions, with \$25 million from the OPEC Fund, \$50 million from BADEA, and \$100 million from the AfDB ([TDB, 2023](#)).

Global MDBs as shareholders with AAA-ratings provide strong support for the credit rating of regional MDBs. This is especially important when the shareholders of the regional bank

are mostly developing countries with low credit ratings. CRAs view such support positively by revising ratings upward, which reduces the cost of MDB debt financing.

Regional MDBs could get an opportunity to strengthen their dialogue and positioning in the global community. In 2022, the EIB increased its participation in the BOAD's capital. Besides direct effects, such as support for the bank's capitalization, there were also indirect effects. In particular, the capital participation was intended to support the BOAD in strengthening cooperation with international financial institutions (EIB, 2022).

Positive influence on policies and standards is a significant feature of this option for raising MDBs' shareholders' capital. Global MDBs are interested in developing best practices in the institutions in which they invest in order to improve the latter's performance. Particularly through technical assistance, the AfDB helps the EADB and the BOAD.

MDBs' participation in capital could promote trade and other economic cooperation between regions. First, this may concern peer MDBs that exchange their shares: the regions may be of mutual interest to the shareholder countries for the development of economic ties. Second is the unequal status of MDBs. For example, in 2018, BADEA became the TDB's 12th institutional shareholder, with an investment of \$10 million. This investment built on a four-year partnership with BADEA, during which a total of \$55 million in lines of credit were extended by BADEA to promote trade between Arab countries and the TDB's member-states, as well as infrastructure project finance activities throughout the region (TDB, 2018).

Another advantage may be that the investing MDB could gain access to the regional expertise of the regional bank, including access to high-quality projects and analytical expertise in the region.

Challenges

The option of increasing shareholders' capital implies insignificant challenges for the MDBs and their shareholders. Opportunities clearly prevail.

One challenge is increased dependence on a strong donor and its financial position. This is a weak risk, given the high credit rating of the investing MDBs.

One can assume potential influence of investing MDBs on the formation of the loan portfolio in the direction of projects of interest to the investor.

Another challenge may be a decrease in shareholders' motivation to develop the regional MDB and secure its further capitalization, due to the emergence of a strong investor. This could reduce support from current shareholders.

The solution to these challenges may be to issue Class B shares for other MDBs. This could help to separate new shareholders from current shareholders in voting rights.

In the case of peer MDBs, a risk may be the financial difficulties of the partner bank. These risks have a higher chance of occurring due to the potentially weak financial position of developing countries that are shareholders of the MDBs. This could eventually lead to a deterioration in the MDB's rating position.

↓ Table 5. Attracting large MDBs to share capital

Opportunities	Challenges and risks
<p>MDBs</p> <ul style="list-style-type: none"> Access to cheaper funding Credit ratings support Positive impact on policies and standards <p>Shareholders</p> <ul style="list-style-type: none"> Extensive financial cooperation 	<p>Shareholders and MDBs</p> <ul style="list-style-type: none"> Potentially strong impact on domestic policy and loan portfolio <p>MDBs</p> <ul style="list-style-type: none"> Weakening shareholder incentives to expand support and capitalization
<p>Strategic support from larger MDBs – credit lines, technical assistance, improved policies, standards, etc.</p>	<p>The ability of large MDBs to have a significant impact once they become part of the capital of an MDB</p>

Cases



Eastern and Southern African Trade and Development Bank

The AfDB is the largest investor in the TDB’s capital among other MDBs. The TDB had the following MDB stakes in Class B shares in 2023: AfDB – 17.87%; OPEC Fund for International Development – 8.72%; Arab Bank for Economic Development in Africa – 3.36%. In addition, the AfDB owns Class-A shares (3.7% in Class-B structure) and Class-C shares (23.29% in Class-C structure) in TDB capital. The total AfDB paid-in capital contribution amounted at \$90.4 million (TDB, 2024).

Between 2020 and 2023, the OPEC Fund raised the largest amount of investments in TDB capital among MDBs, increased from \$20.8 million to \$31.2 million. The OPEC Fund and the TDB have been partners since 2009, with joint projects of \$200 million through loans, equity, and risk participation. In 2022, the OPEC Fund and the TDB deepened their cooperation, with the OPEC Fund’s latest commitment of debt and equity totaling \$40 million. Their partnership supported the TDB’s capitalization and increased its financing capacity (OPEC Fund, 2022).



East African Development Bank

The AfDB provides strong support for the EADB’s credit rating through capital replenishment. It is important to point out the limited ability of the EADB’s shareholders to provide support, given the low ratings of the four main shareholders – Kenya (B3 negative), Rwanda (B2 stable), Tanzania (B2 positive), and Uganda (B2 negative) (Kenyan News, 2023).

As of the end of 2022, the AfDB held \$16.7 million of its Class B shares in EADB capital, which equaled 8.17% of total capital (EADB, 2023).

In 2015, Moody’s upgraded the long-term issuer rating of the EADB to Baa3 from Ba1. One of main reasons was a significant improvement in the EADB’s capital buffer due to a material

increase in paid-in capital by its shareholders. As a result the EADB's capital position has significantly improved. As of end-2014, total usable equity capital (excluding callable capital) more than fully covered the investment portfolio, representing 192% of the sum of gross loans outstanding and equity operations, compared to 33% in 2007. This was one of the highest (equity to assets) ratios in Moody's MDB rating universe ([EADB, 2015a](#)).

The AfDB played a major role in this. In 2013, the AfDB invested equity of \$24 million in the EADB to strengthen the latter's balance sheet and improve its international credit rating. Moreover, in 2015 the AfDB provided over \$40 million to the EADB under lines of credit and provided technical assistance to support EADB capacity development under the Fund for Africa Private Sector Assistance (FAPA) program. AfDB lines of credit have been utilized to support a range of EADB lending operations. FAPA funds have contributed to significant development of the EADB's policies and procedures, and enhancement of EADB operations ([EADB, 2015b](#)).

In 2023, Moody's affirmed the EADB's credit rating at Baa3 (medium grade) and maintained its stable outlook ([Kenyan News, 2023](#)).



The BOAD has two classes of shareholders. Class A is held by regional shareholders. Non-regional shareholders, including individual countries, national development banks, and MDBs, hold Class B; they held 6.27% of the BOAD's capital at the end of 2022. Shareholders of this category included the AfDB and the EIB ([BOAD, 2023](#)). The EIB increased the BOAD's capital in 2022 ([EIB, 2022](#)). The AfDB has plans to do it ([BOAD, 2022](#)). In 2023, BADEA joined the BOAD's capital ([African Business, 2023](#)).

In 2022, the EIB's share in BOAD's equity capital increased from 0.4% to almost 1%. The purpose was to increase its financing of projects in infrastructure, energy, agriculture and food security, real estate, and education and health, as well as transversal investments in Micro, Small, and Medium Enterprises.

The EIB's capital increase should also support its external credit rating by raising the share of highly rated equity investors. Furthermore, the EIB's involvement has had a significant impact on other shareholders who are also considering an increase in their commitment, and it is expected to put in place enhanced cooperation with other involved international financial institutions, EU member states, and local shareholders. It is anticipated that the EIB will also have a positive influence on the policy and integrity standards of the BOAD ([EIB, 2022](#)).

In addition, the completion in 2022 of the AfDB's technical assistance made it possible to update Environmental and Social Standards and gender-related documents of the BOAD.

6 Rechannelling SDRs to the MDBs' Capital

Rechannelling the Special Drawing Rights (SDRs) is an option for MDBs' capital increase currently under active development under the aegis of the G20 and IMF. On May 2024, the IMF expanded permitted use of SDRs by authorizing their use in the acquisition of hybrid capital issued by prescribed holders (official entities approved by the IMF to hold SDRs), adding to the seven currently authorized financial operations which are (i) the settlement of obligations, (ii) loans, (iii) pledges, (iv) transfers as a security for performance of financial obligations, (v) swaps, (vi) forward operations, and (vii) donations (IMF, 2024).

The AfDB and IDB have developed a joint proposal under which member countries may channel SDRs as hybrid capital contributions to help expand their lending capacity. These two MDBs (prescribed holders of SDRs) have designed the technical and operational features of their proposed instrument in consultation with the IMF. Their proposal envisages a mechanism that would allow channeling SDRs to MDBs in the form of loans with perpetual maturity that meet rating agency criteria and accounting standards for their classification as equity (a form of hybrid capital with features of subordinated debt which can be used to absorb losses).

A hybrid capital instrument is a financial instrument with perpetual maturity that has both equity and debt properties (see [Box 1](#)). According to the AfDB, injection of additional funds to its capital raises the financing capacity of this institution with a multiplier estimated at 3 to 4 (AfDB, 2022).

Box 1. Details of the AfDB/IDB Proposal on SDR Channeling

The AfDB/IDB channeling proposal envisages the issuance of an SDR-denominated and settled hybrid capital instrument. The instrument would constitute subordinated debt that can be accounted as equity on the MDBs' balance sheet based on applicable accounting standards, internal risk capital models, and the methodology of major credit rating agencies. Under the proposal, hybrid capital would be structured as a perpetual SDR-denominated loan issued to IMF members (contributors) with strong external positions.

The hybrid capital instrument would be callable under some conditions, would be junior to other debt, and its interest could be canceled in tail scenarios of portfolio losses. The hybrid capital instruments would rank junior to subordinated and unsubordinated debt of the MDB, but it would be senior to the paid-in capital provided by shareholders. It would pay the SDR interest rate plus potentially a spread to compensate contributors for incurred SDR interest charges on their allocation (IMF, 2024)

Rechannelling the SDRs to MDBs' capital may help to mobilize SDRs currently held by the G7 member countries. The hybrid capital proposal may provide MDBs with a higher multiplier depending on the exact terms of lending of SDRs by donors.

The SDR is allocated by the IMF to its member countries in proportion to their quotas in the IMF and constitutes a fraction of their official foreign reserves ([Table 6](#)). SDRs' allocation across countries tends to be inverse to countries' development needs. Larger quotas are held by advanced economies, which are the least likely to need them.

↓ Table 6. SDR holdings as of end-2023, in SDRs

	SDR Holdings	% of total
United States	124,097,709,175	18.8
Germany	40,113,914,956	6.1
China	39,946,925,644	6.0
United Kingdom	30,780,809,902	4.7
Russian Federation	17,421,666,973	2.6
Saudi Arabia	15,619,920,727	2.4
Brazil	14,301,703,463	2.2
India	13,688,312,583	2.1
European Central Bank	1,713,793,358	0.3
Bank for International Settlements	1,491,253,353	0.2
Kazakhstan	1,472,391,477	0.2
G7 states	263,072,490,127	39.8
BRICS+ states	112,779,391,076	17.1

Notes: BRICS+ states include new members Saudi Arabia, Iran, UAE, Egypt, Ethiopia.

Source: EDB estimations based on IMF data (<https://www.imf.org/external/np/fin/tad/extsdr1.aspx>).

We propose that SDRs could be used to provide capital injections not only to global but also to regional and sub-regional MDBs. For that purpose, it will be both crucial and fair to expand the IMF list of SDR-prescribed holders (Table 7). The list currently includes only 13 development and other multilateral institutions, most of which are MDBs managed by advanced economies. This list does not include smaller MDBs established and controlled by emerging markets and developing countries.

The AfDB/IDB proposal incorporates experience from the design of the Resilience and Sustainability Trust (RST) and the Poverty Reduction and Growth Trust (PRGT), including regarding mechanisms to ensure reserve asset status under applicable statistical guidelines of the claims resulting from SDR channeling.

The known examples of rechanneling SDRs to finance global development are the RST and the PRGT (IMF, 2023). The RST focuses on long-term structural issues, such as climate change and pandemic preparedness. The PRGT is the IMF's main vehicle for providing concessional financing to low-income countries. The RST and PRGT attract voluntary contributions from IMF members. The IMF expects PRGT lending commitments to reach almost SDR 13 billion in 2023–2024, bringing cumulative lending in 2020–2024 to almost SDR 29 billion. The RST is in the early stages of its functioning.

↓ Table 7. IMF prescribed holders and year of approval of prescribed holder status

Central banks (4)	
European Central Bank	November 15, 2000
Bank of Central African States	February 26, 1982
Central Bank of West African States	June 29, 1981
Eastern Caribbean Central Bank	May 17, 1984
Intergovernmental monetary institutions (3)	
Bank for International Settlements	January 21, 1974
Andean Reserve Fund	April 18, 1980
Arab Monetary Fund	August 26, 1980
Development and other multilateral institutions (13)	
African Development Bank	June 25, 1986
African Development Fund	June 25, 1986
Caribbean Development Bank	February 21, 2023
Asian Development Bank	October 15, 1982
International Bank for Reconstruction and Development	December 23, 1980
Development Bank of Latin America	February 21, 2023
European Bank for Reconstruction and Development	February 21, 2023
European Investment Bank	February 21, 2023
Inter-American Development Bank	February 21, 2023
International Development Association	December 23, 1980
Islamic Development Bank	April 5, 1982
Nordic Investment Bank	April 18, 1980
International Fund for Agricultural Development	April 18, 1980

Source: IMF, 2024.

7 Public Perpetual Subordinated Debt

Issuance of perpetual debt by MDBs, available to private investors (including via a stock exchange placement), might be on the table. This report aims at triggering an expert discussion on this currently non-conventional approach.

Perpetual subordinated debt (also known as “perps”) is a type of a high-risk bond usually without a certain maturity date. Perpetual subordinated debt has features of an ordinary bond with fixed interest paid throughout an indefinite period. *De facto*, perpetual bonds in the majority of cases have a maturity date, which is usually more than 10 years.

They rank lower in priority to other debts in the case of default. This determines increased risks for investors, associated with less protection in case of default and low liquidity on the market. The yield of perpetual subordinated bonds is thus somewhat higher than the yield on general bonds. Perpetual bonds are interesting for passive investors and for banks that need funds to build their capital base.

Box 2. Cases

On January 2024 the AfDB successfully launched its first sustainable US dollar-denominated 750 million perpetual subordinated hybrid capital notes. This hybrid capital transaction has a coupon of 5.75% until August 2034 ([AfDB, 2024](#)).

There is also the example of Afreximbank’s issuing depositary receipts (DRs), which might be of help. This issuance was backed by the Class D shares, which can be held by any person and are structured to be freely transferrable. In 2017, DRs of Afreximbank started trading on the Stock Exchange of Mauritius and the bank successfully raised over \$170 million in equity ([Afreximbank, 2017](#)). By end-2023, Class D shares represented 3.14% of the bank’s shareholding ([Afreximbank, 2024](#)), amounting to about \$190 million.

According to the Basel III standard, the perpetual subordinated bonds could form part of Additional Tier 1 Capital when specific criteria are met, such as absence of a maturity date, a deferred coupon, conditions for writing off the debt and converting it into equity, etc. In practice, it is often included in Tier 2 Capital as supplementary capital ([Basel, 2006](#)). The legal framework for issuing perpetual subordinated bonds in the MDBs’ countries of operations will need to be established and procedures approved by financial regulators.

Issuing public perpetual debt, available both to institutional investors and the general public, could strengthen ties between a development bank and citizens of its member states. Apart from market returns, the public might be interested in being involved in the MDB mission of financing development projects, the ESG/climate agenda, etc.

A perpetual bond facility could be a contractual commitment from a group of highly rated shareholders to buy perpetual bonds in the event of MDB stress. However, it would remain an unfunded commitment unless utilized based on predefined triggers linked to financial distress ([Humphrey et al., 2024](#)).

↓ Table 8. Potential benefits, drawbacks and hurdles for issuance of perpetual subordinated debt

Opportunities	Challenges and risks
<p>MDBs</p> <ul style="list-style-type: none">Increasing the capital base when other sources have been exhaustedPotentially unlimited source of capital not linked to countries' budgetary resourcesForging new links with citizens and organizations of member states <p>Shareholders</p> <ul style="list-style-type: none">Can help reallocate capital structure (this can be a disadvantage)	<p>MDBs</p> <ul style="list-style-type: none">Market return, which is higher than the cost of attracting share investorsNeed to obtain regulatory approval for issue on the exchangeInclusion in Tier 2 capital (may be a form of Tier 1 capital under certain conditions)
<hr/> <p>Private investors may be interested in the credibility of MDBs and the uniqueness of their project activities (development projects, ESG factors)</p>	<hr/> <p>MDBs may face significant regulatory hurdles due to the specific nature of the instrument</p>

III. OPTIMIZATION OF CAPITAL ADEQUACY FRAMEWORK

Capital adequacy compares the risk capital of a financial institution to its assets. An MDB, like any financial institution, should have an “adequate” amount of capital to absorb losses in case borrowers stop repaying loans or if the market value of liquid assets falls. Unlike other financial institutions, MDBs are not regulated and shareholders have sole authority over MDB capital adequacy policy. MDB Capital Adequacy Frameworks are not based on well-understood regulatory recommendations, such as the Basel Committee on Banking Supervision’s guidelines for commercial banks (G20, 2022).

Capital adequacy policy is aligned with objectives to address global and regional challenges. The Capital Adequacy Framework recommendations concern making better use of capital; they may constitute ways for effecting greater lending in the short term, while MDBs negotiate capital injections with shareholders and other potential investors (Vinokurov et al., 2024). Capital Adequacy Framework implementation has the potential to unlock up to \$357 billion in additional lending to be deployed by the major MDBs in the coming decade (G20, 2024).

Using portfolio risk insurance or unfunded risk transfer enables MDBs to sell part of their risk exposure, which would free up room on their balance sheets to boost investment capacity. The TDB is a shining example of a DFI doing this well, stretching its capital and managing risk as it does so. At the end of 2020, 29% of the TDB’s loan portfolio was insured. It’s notable that the TDB utilizes insurance products in relation to the callable capital of its lowest-rated shareholders to help improve its overall credit rating (Attridge, 2023).

The level of capital required to support an MDB’s assets is directly related to the level of risk associated with those assets. However, there are strategies that can be employed to reduce the overall level of risk.

Risk appetite adjustment. Recalibrating MDBs’ risk appetite may allow prudent extension of capital utilization ratios while retaining high ratings. A comprehensive dialogue with CRAs can provide the necessary insight to ensure an accurate assessment of the MDB’s capital position.

The recent update of the ADB Capital Adequacy Framework demonstrated the magnitude of the additional lending capacity that might be enabled. By optimizing its prudential level of capitalization, the ADB could unlock \$100 billion in additional lending capacity over the next decade.

Risk transfer options to the private sector. By contracting, an MDB can free up capital to expand its operations, as it guarantees that it will cover part of its portfolio. The viability of this approach is contingent upon the capacity to generate sufficient additional operations in a timely manner to compensate for the elevated cost of the guarantee.

One way to make this option more cost-efficient is to bring in a development partner who can help reduce the risk to the private guarantor, as illustrated by the arrangement between the AfDB and the UK’s Foreign, Commonwealth and Development Office to enable additional lending to climate resilience and renewable energy projects.

Risk transfer options among MDBs. The ability to exchange exposures between MDBs via Exposure Exchange Agreements (EEA) allows MDBs to mitigate concentration risks

(single name or geography concentration) and free up capital for additional lending in their respective regions. Exposure exchanges are highly commendable balance sheet optimization initiatives, but not directly linked to CAF recommendations.

The first EEA transactions among MDBs, signed in 2015 by the AfDB, the IDB, and the World Bank, introduced a risk management instrument capable of producing a significant impact on the optimization of capital utilization. EEAs signed between the AsDB and the IDB further demonstrated the potential to increase MDBs' financial capacity and the collective efficiency of MDBs towards implementing their development mandates.

Integrating a prudent share of callable capital into capital adequacy metrics.

The methodology for implementation and the scope of impact are still under consideration. MDB collaboration and joint outreach to CRAs will be key to determining the potential impact, which is related to the creditworthiness of shareholders' callable capital.

In addition to the CAF recommendations, there are some measures that go beyond them. One such measure is the restriction of budget support operations by MDBs. It would be prudent to establish a quantitative limit on the proportion of budget support loans in MDB portfolios (box 3).

Box 3. Back to Basics: Restricting Budget Support Operations by MDBs

MDBs have started to play a distinctive role in providing budget support. The share of MDBs' budget support operations in their sovereign loan portfolios has rapidly increased. These operations aim at helping their member-states weather budget and Balance of Payments crises. The sheer volume of MDBs' budget support, in particular during the COVID-19 crisis, has become so large that it prompted a proposal to include them conceptually in an "enlarged Global Financial Safety Net (GFSN)" (Vinokurov, Levenkov, 2021; Vinokurov, Levenkov, Vasilyev, 2022).

The GFSN architecture implies that financing budget gaps is a core business for the IMF and Regional Financing Arrangements. Simply put, this is somebody else's business. In order to free up MDBs' resources to provide more non-sovereign loans and more loans for infrastructure, it would make sense to set a quantitative limit on the share of budget support loans in MDB portfolios. That would also contribute to alleviating pressure on shareholders to recapitalize.

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RESEARCH AT THE EDB WEBSITE



Macroeconomic Outlook (RU/EN)

Macroeconomic Outlook 2024–2026

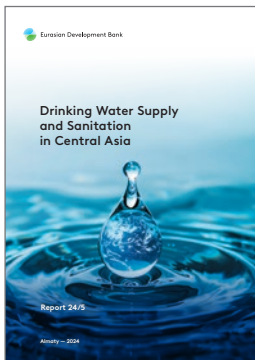
The EDB forecasts that the aggregate GDP of the Bank's member countries will grow by more than 3% in 2024. The economic growth rates of the Eurasian region will be higher than the global average



Report 24/6 (RU/EN)

The Eurasian Transport Network

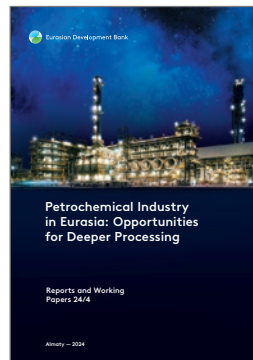
The report examines ten system elements of the Eurasian transport framework concept. Among them are the formation of a transport crossroads in Central Asia, priorities for intraregional transport connectivity, an impetus for realizing the agro-industrial potential of the countries of the region, and improvement of soft infrastructure.



Report 24/5 (RU/EN)

Drinking Water Supply and Sanitation in Central Asia

In Central Asia, 10 million people do not have access to safe drinking water. Given the priority importance of drinking water for public health and the scale of the challenges, a comprehensive approach is required in the region. A new EDB report presents a set of practical steps that shape such an approach.



Report 24/4 (RU/EN)

Petrochemical industry in Eurasia: Opportunities for Deeper Processing

The analytical report uses a balance approach to assess the production and export potential of the petrochemical complex of the Eurasian region (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Uzbekistan) in the perspective up to 2035.



Report 24/3 (RU/EN)

Infrastructure in Eurasia: short-term and medium-term trends

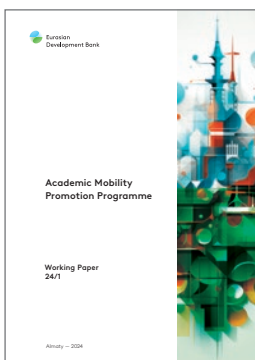
The EDB's report highlights ten important short- and medium-term investment and institutional trends in the region's energy, transportation, logistics, water supply and telecommunications sectors.



Report 24/2 (RU/EN)

Economic Cooperation in Eurasia: Practical Solutions

The EDB's report "Economic Cooperation in Eurasia: Practical Solutions" contains a "menu" of pragmatic applied solutions that can be enabled relatively fast and with flexible configurations among participating countries aimed at fostering mutually beneficial economic cooperation among Eurasian countries.



Report 24/1 (RU/EN)

Academic Mobility Promotion Programme

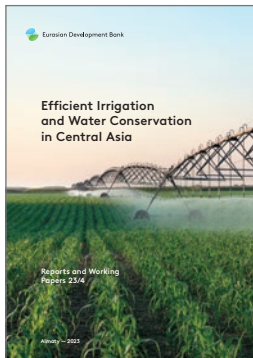
The EDB's working paper "Academic Mobility Promotion Programme" contains a comprehensive analysis of problems and specific practical solutions to ensure the sustainable growth of interuniversity relations and educational exchanges across the Eurasian region (the EAEU and CIS countries).



Report 23/5 (RU/EN)

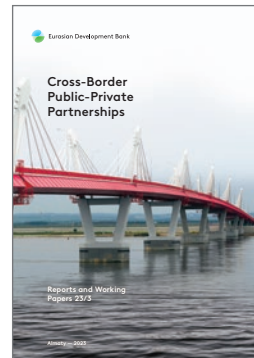
EDB Monitoring of Mutual Investments — 2023

Eurasian countries' FDI stock reached \$48.8 billion by mid-2023, following a 5.4% increase in 2022 and with continued growth in 2023.



Report 23/4
(RU/EN)
Efficient Irrigation and Water Conservation in Central Asia

A new EDB study outlines ten practical steps for preserving irrigated land potential and promoting water conservation. The list includes four recommendations for adoption at the regional level and six at the national level.



Report 23/3
(RU/EN)
Cross-Border Public-Private Partnerships

The report outlines the criteria and scope of cross-border PPP projects, evaluates their potential for fostering cross-border infrastructure development in the EAEU, Central Asia, and the South Caucasus, and suggests guidelines for the successful implementation of cross-border PPPs in the region.



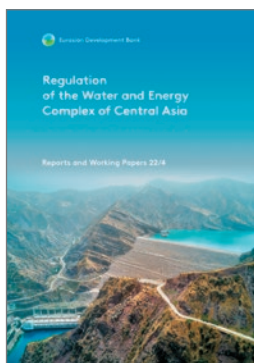
Report 23/2
(RU/EN)
Global Green Agenda in the Eurasian Region. Eurasian Region on the Global Green Agenda

The report provides a comprehensive analysis of the challenges and prospects for low-carbon transition in Eurasia, covering EAEU countries, Tajikistan, and Uzbekistan.



Report 23/1
(RU/EN)
Food Security and Agro-Industrial Potential of the Eurasian Region

Based on the balance approach, the report analyses the production, resource, and export potential of the agro-industrial complexes of the EAEU countries, Tajikistan, and Uzbekistan for the period until 2035.



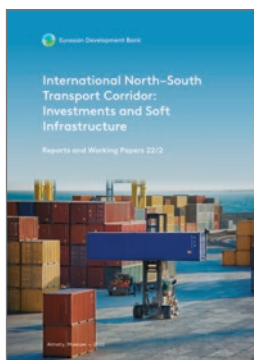
Report 22/4
(RU/EN)
Regulation of the Water and Energy Complex of Central Asia

The report scrutinises historical data and international experience to suggest five institutional solutions for effective regulation and development of Central Asia's water and energy complex that would benefit all countries of the region.



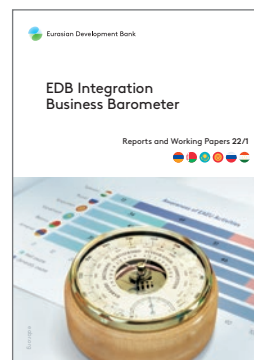
Report 22/3
(RU/EN)
The Economy of Central Asia: A Fresh Perspective

The report provides a renewed perspective on Central Asia as a large, dynamic and promising economic region and analyses its current structural changes and major growth areas.



Report 22/2
(RU/EN)
International North-South Transport Corridor: Investments and Soft Infrastructure

The study assesses the investment potential of the INSTC, identifies barriers to its development and provides recommendations on how to eliminate them.



Report 22/1
(RU/EN)
EDB Integration Business Barometer

About 73% of companies feel positive about the EAEU and say it makes doing business easier.



Eurasian Development Bank

**RESEARCH DEPARTMENT
EURASIAN DEVELOPMENT BANK**

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