



Task Force 06

STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE

Measuring and Managing Client-Orientation of MDBs for Better and Bigger Impact

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Abstract

The G20 New Delhi Leaders' Declaration set the goal of pursuing reforms for better, bigger and more effective Multilateral Development Banks (MDBs), which provided a much-needed impetus for discussion on how the long-standing MDB system needs to be improved for more impact. The core of this discussion is built upon the challenges that the reforms aim to address. The ODI survey conducted in 2022 showed that there are considerable differences in perception of effectiveness between the MDB officials administering development aid and recipient countries, with the latter often considering MDBs to be slower and less effective (Prizzon et al. 2022). Some of the key issues identified in the literature on MDB activity can be grouped into a larger matter of the need for a more client-oriented focus. This underlines the need for better partnership between IFIs and clients (sovereign and non-sovereign borrowers and beneficiaries). As of recently the G20 focus falls predominantly on expanding capital to allow for larger resource mobilization and wider lending capacity. Nevertheless, the question remains on the effectiveness and quality of current lending, in terms of meeting client countries' needs, particularly when and how it is required. In the pursuit of quantitative growth of capital resources, qualitative growth and improvement of operational models managed through more comprehensive metrics should not be neglected. This leads to the question of how to better assess and manage the way that MDBs are meeting the beneficiary countries' needs and ensuring longer lasting sustainable change as per their mandate, while utilizing increased resources more efficiently.



Diagnosis of the Issue

One cannot manage what one cannot measure

In the G20 New Delhi Leader's Declaration MDBs have been recognised as an important player in providing finance to a plethora of development initiatives, due to their unique role in the global financial system and their capacity to provide concessional finance for important development initiatives. However, international financial institutions (IFIs), specifically MDBs, are becoming more frequently criticized for their inefficient and lethargic business models that lack focus on forging and developing more equitable partnerships between client countries (recipients, beneficiaries) and MDBs. This means that the global call for the significant expansion of MDB financing will not repair patches in the MDB operational models that undermine development initiatives and socio-economic development in recipient countries.

The partnership between a development institution and client (beneficiary) is the focal point of any development initiative. However, in the process of project design, approval and launch, monitoring and evaluation, development institutions can lose track of the longer-term and sustainable change that development initiatives are supposed to catalyze. This deviation and existing rigid administrative procedures have led to more criticism towards IFIs. The 2022 ODI survey among MDB officials and government representatives from beneficiary countries highlighted the disparities in the perception of certain aspects of development finance, technical assistance, and policymaking (Prizzon et al. 2022). These inconsistencies lead to limited development results, a greater dissatisfaction of MDB clients.

Considering the global efforts to reform MDBs for greater impact, there is a need to critically review the metrics used by MDBs to assess their effectiveness. MDBs generally



operate with two types of indicators – financial and non-financial targets. The latter is related to assessing the effects and impact created by these financial institutions, while the former is focused on financial results (not profit). However, open sources suggest that there are no metrics to measure operational effectiveness in terms of speed and relevance, national buy-in, effectiveness of cooperation, nor the long-term nature of outcomes and impact. The G20 can endorse a set of new indicators and metrics for MDBs to measure and increase the overall client satisfaction with partnership.

Increasing pressure on government budgets, global conflicts and the pandemic have slowed economic growth and highlighted the fragility of progress made towards the Sustainable Development Goals (SDGs). Against this grim backdrop, smarter and more comprehensive key metrics that can help MDBs advance partnerships for greater impact in the last decade of 2030 Agenda for Sustainable Development.

The ODI survey from 2022 shows that more client countries' representatives consider the flexibility, predictability and low rates of loans offered by MDBs to be more important for socio-economic development than the volumes in which development aid is being provided (Prizzon et al. 2022). This may suggest that there is a deep and systemic need for better operational efficiency and concessional finance. This also highlights that the global push for MDB reform for greater capital capacity does not entirely coincide with the client countries' needs. The same goes for resource mobilization from the private sector – this is a direction taken by MDBs that ranks as one of the least important contributions that development finance can make to long-term socio-economic development of client countries.

The following issues can be identified as those that feed into a lack of client-orientation of development finance offered by MDBs:

- Speed – delivering aid when it is needed. Currently, application processing takes



too long, and by the time the development aid is approved, clients' needs might have already changed.

- Relevance – delivery aid for specific needs and for specific contexts. Recipients of delivery aid underline the importance of contextual support, where there is a clear understanding of the development priorities and current state. MDBs adopt a one size fits all approach.
- Lack of localisation - this is seen in such MDB approaches, such as providing standardized technical assistance and advice, that is not adapted to a country's situation and policy advice with little consideration for the clients' culture and context, limited use of local contractors and the absence of country offices in the case of some MDBs.
- Lack of a long-term strategic approach (especially for TA and policy advice) – this can be clearly seen in the difference of perception of the importance of long-term impact of technical cooperation after the project/programme is completed as seen by the client government officials and MDB officials.
- Measurability for effective impact, especially in terms of long-term change and sustainability. The transition from MDGs to SDGs among other things implied the emergence of planning based on the coalescing of interests and local resources around particular issues.
- Lack of synchronization with national development institutions and other international organizations and MDBs. There are no visible and disclosed metrics for cooperation efforts (IFIs should be encouraged to cooperate and not compete, as cooperation increases the effectiveness, scale and reach of impact)



The G20 Role

Considering that, the G20 is mandated with, among other things, being the premier discussion platform for international economic cooperation and strengthening global architecture and governance, MDBs have remained an important subject of discussion in the G20 agenda. Over the past years the G20 have made continuous effort to assess the activity of IFIs, including MDBs, and put forward proposals on their reform (Dash et al. 2023). At large, these proposals mentioned in the Leaders Declarations adopted in years 2020-2023, call upon IFIs to provide more accessible financing in bigger volumes and optimised their activity to foster and finance inclusive sustainable development.

In the New Delhi Leaders' Declaration signed in 2023, G20 countries 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 maximize their impact in addressing a wide range of global challenges while being consistent with their mandate and commitment to accelerate progress towards Sustainable Development Goals (SDGs)”. Comprehensive efforts and actions cannot be entirely effective if there is little or no emphasis on ameliorating the quality of partnerships between MDBs and their clients (borrowers and beneficiaries) by assessing and improving operational approaches. Considering that the G20 is engaged in addressing issues that require collective action and coordination at the global level, as well as unifying countries and IFIs, G20 involvement in increasing the effectiveness of partnerships between client countries and MDBs is a logical continuation of mandate.



Recommendations to the G20

The G20 has actively engaged in supporting the discussion on improving the effectiveness of IFIs globally and provided a multilateral platform to promote this agenda. Considering that, the G20 include the largest global economies that hold significant shares in MDBs, it can encourage dialogue on the quality of partnership with MDBs, as well as catalyse and disperse innovative approaches for effective partnership with clients within the Financial Architecture Reform Working Group. While capital adequacy and concessional and climate-financing targets are a main focus of the reform dialogue, the quality side of MDB activity, such as effective partnerships and client-orientation remain neglected in the agenda.

Therefore, to address the quality component in the IFI reform, the G20 can gather the member and invited non-member states from various regions to voice the issues they encounter as “clients” of MDBs. The Financial Architecture Reform Working Group can offer a platform for dialogue and consultation between the MDBs in implementing new metrics and indicators to improve the way MDBs partner with clients. Furthermore, it can help MDBs discuss and analyze the challenges they encounter when implementing innovations to consequently provide recommendations.

Measuring for bigger and better MDB impact

Putting the client first in development partnerships can allow for more transformative change. According to open sources on MDBs’ official sites, only a few MDBs publish data on client feedback on effectiveness and impact, and if they do, usually the data is collected through surveys. While survey data may provide important insights into the overall perception of a MDBs activity as per clients, it may lack a degree of objectivity



and quantitative base which may mean subjective evaluations. In the case that the surveys are not conducted anonymously, participants may feel inclined to be overly optimistic while providing feedback in the aim of maintaining good relations with the MDB.

The G20 should promote best practices in client-orientation, transparency, and accountability in IFIs to ensure that the reforms lead to more efficiency and better partnerships for bigger impact. The G20 can suggest that MDBs introduce a set of more objective metrics to measure, track and manage client-orientation in the partnership with clients. The following groups of metrics are aimed at reflecting quantitative and qualitative shifts in four key areas affecting MDB client-orientation in international development:

1. Responsiveness metrics for improved delivery

MDBs are large supranational entities that possess a complex and time-consuming decision-making process. Irrespective of measures to decentralize these procedures, client countries still become subject to long waiting time for development aid delivery. For example, in 2017 the World Bank Group estimated that it took just over two years to complete the cycle from concept note to first disbursement of the development loan (World Bank Group 2017). This period was much lower than the target indicator that the WB set. In the WB Corporate Scorecards reports after 2017 the target was abolished and the WB ceased to publish this data. Instead, it opted for client opinion surveys on satisfaction. The G20 can endorse indicators to help quantify and track the operational success or lack thereof in delivering development aid to client countries:

- speed of delivery: aggregate and decomposed indicators at various project stages.

This indicator can serve a myriad of purposes for MDBs. Firstly, it will help MDBs gain an understanding of the lengthiness of the process as seen by the



client. Secondly, as a time series, MDBs can analyze what can change the overall process period. And thirdly, in its decomposed form, MDBs can clearly identify bottlenecks in the project process that can be targeted in reforms aimed at increasing the speed at which MDBs deliver development aid.

- flexibility: the time taken to amend approved MDB decisions in the process of project realization, especially in reacting to changing circumstances.
- relevance to country agenda: the coverage of national priorities and strategic goals by the client country portfolio of an MDB.

2. Localisation metrics for deeper economic effect

Development and growth are catalyzed directly through the respective outputs, outcomes and impact of a respective project. MDBs have significant potential in indirectly facilitating wider-reaching development in client countries through greater efforts to localize the project realization by attracting national contractors and supporting local businesses to ensure that locals are involved in shaping their development initiatives. More involvement by the client-countries' economic agents can also lead to a greater degree of ownership and heightened domestic interest in longer-lasting results, as well as a better understanding of the local context by the respective MDB.

For this reason, the G20 can call upon MDBs to introduce an internal localisation rating for projects that allows them to rank and track the degree of localisation of the development implementation of a project. The aim of such a rating is to foster a healthy balance between the use of international and national contractors and stimulate national stakeholder involvement. This approach can take the form of positive affirmation ranking systems, such as the Broad-Based Black Economic Empowerment (B-BBEE) levels enforced in South Africa, to provide wide reaching equitable business opportunities to



locals in client countries under the auspices of project realization. This would allow MDBs to track and manage the broader positive socio-economic impact for the beneficiary country being created as a spillover effect from project realization.

The ranking should be built on several pillars aimed at measuring the different possible aspects of direct and indirect local empowerment catalyzed by contracting for project implementation:

- A. Ownership by locals: businesses being contracted are owned by nationals of the client country (completely or partially).
- B. Management by locals: businesses being contracted are managed by nationals of the client country (completely or partially).
- C. Implementation by locals: teams being contracted consist of nationals of the client country (completely or partially).
- D. Supplies by locals: goods being provided for project implementation are manufactured in the client country. By tracking these metrics, MDBs can evaluate and quantify the economic effects for local businesses and the national economy created by more actively involving economic agents from the client countries.

3. Adaptation metrics for sustainable development

Lina Xie et al. (2023) find that the majority of MDB climate finance projects are positively correlated with greenhouse emissions but not with their vulnerability to climate risks. MDBs face a trade-off between performance criteria and need-based criteria, which poses a limitation when considering vulnerability as a factor in investment decisions. The G20 should call upon MDBs to utilize the United Nations Multidimensional Vulnerability Index for better aid allocation.

Climate action and prosperity should be complementary. There is often a time lag



between the implementation of policies and their impact on the economy. The G20 should suggest adopting a climate policy uncertainty index that measures the uncertainty surrounding climate change policies and regulations. The indexes can guide MDBs in tailoring their financial instruments to better support clients in climate-resilient investments and mitigate the risks associated with policy uncertainty.

4. Coordination metrics for effective partnership

The need for better cooperation and coordination has been an integral part of the MDB reform discourse. Many MDB within their country-specific models draw up coordination matrices, however, there are few visible mechanisms that promote better coordination with other development partners. The G20 show push for MDBs to introduce metrics aimed at benchmarking the focus on cooperation with other development institutions, like other IFIs, international organizations and national development banks and agencies.

The G20 can promote the following metrics:

- development coordination indicator: the share of co-financed development initiatives with other IFI in the overall client-country's portfolio.
- synergy indicator: the share of co-financed development initiatives with other international organizations in the overall client-country's portfolio.
- local coordination indicator: the share of projects realized in tandem with national development banks and/or national development agencies in the overall client-country's portfolio.



Scenario of Outcomes

The introduction of a wider set of metrics for better client-orientation in the activity of MDBs is set to give more structure to the way MDBs partner with their clients.

Considering the G20 focus on increasing capital resources of MDBs to fill the finance gap, the risk remains that more resources do not mean more efficiency and more impact. By including these indicators in the overall evaluation system, MDBs will be inclined to analyze and assess their work, implement reforms and, ultimately, improve the effectiveness of partnership with their client countries.

- MDBs will possess a body of quantitative data that can be used to analyze client-orientation of their business models;
- MDBs will gain a better understanding of the causes of slow delivery and how to speed it up;
- MDBs will be able to use the metrics to make more informed investment decisions, especially in climate finance;
- MDBs will be able to evaluate and rank projects according to the effects that their realization catalyzes for local businesses and the wider socio-economic development agenda;
- MDBs will expand their capacity to benchmark themselves against other MDBs.

Implementing these metrics will provide MDBs with a data-driven instruments to evaluate, manage and, ultimately, improve the client-orientation of their activity, improving client-country buy-in, and thus MDBs will implement more effective projects and generate bigger impact.

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