



Reforms in Multilateral Development Banks

For Prelims: [Multilateral Development Banks](#), [World War II](#), [World Bank Group](#), [Asian Development Bank](#), African Development Bank, [Asian Infrastructure Investment Bank](#)

For Mains: Key Challenges Related to MDBs and Reforms.

Source: HT

Why in News?

Recently, the **UN Secretary-General**, highlighted that reforming [multilateral development banks \(MDBs\)](#) will be a major focus at this year's **Summit of the Future**, occurring during the [UN General Assembly](#) in September 2024.

What are Multilateral Development Banks?

- **About:** MDBs are **international financial institutions** that provide financing and professional advice for economic and social development projects in developing countries.
 - They are formed and capitalised by **multiple countries** through pooled resources and shared representation on their boards.
 - They originated in the aftermath of [World War II](#) to rebuild war-ravaged nations and stabilise the global financial system.
- **Objective:** Unlike commercial banks, MDBs do not seek to maximise profits for their shareholders.
 - Instead, they prioritise development goals, such as ending extreme poverty and reducing economic inequality.
 - They often lend at low or no interest or provide grants to fund projects in **infrastructure, energy, education, [environmental sustainability](#)**, and other areas that promote development.
- **Major MDBs:** [World Bank Group](#), [Asian Development Bank](#), **African Development Bank**, **European Bank for Reconstruction and Development**, and the **Inter-American Development Bank**.

What are the Key Challenges Related to MDBs?

- **Resource Constraints:** MDBs are often constrained by the amount of capital they have available to lend. This can **limit their ability to finance large-scale development projects**, especially in the face of growing needs.
- **Keeping Pace with Global Challenges:** The world faces new and complex challenges like [climate change](#), **pandemics, and technological disruption**.
 - MDBs have not fully adapted these growing challenges in their strategies and approaches to effectively address these issues.
- **Decision-Making:** The current voting structure in some MDBs gives more power to developed countries.
 - Developing nations are **pushing for a greater say in decision-making** to reflect their

needs and priorities.

- Concerns exist about the **transparency of MDB decision-making processes** and the need for stronger accountability mechanisms to prevent corruption and mismanagement.
- For example, the **United States holds a considerable 15.85%** of the voting power in the World Bank, granting it substantial influence over the institution's decisions.
- **One-Size Fits All Approach:** One-size-fits-all lending conditions from MDBs, such as **uniform interest rates or repayment schedules**, are challenging for countries of the global south due to their diverse economic structures and **financial capabilities**.

What Reforms are Necessary in Multilateral Development Banks?

- **Financing Climate Action:** MDBs can play a crucial role in mobilising resources for climate change mitigation and adaptation projects in developing countries.
 - This could involve creating **dedicated climate finance facilities, offering [green bonds](#)**, and developing innovative risk-sharing instruments for renewable energy projects.
- **Knowledge Sharing & [South-South Cooperation](#):** Encouraging MDBs to facilitate knowledge exchange between developing countries.
 - This could involve **connecting countries facing similar challenges** and fostering collaboration on successful development strategies.
- **Graduation Strategies:** As middle-income countries develop, creating clear pathways for them to **"graduate" from concessional loans** to market-rate financing from private sources.
 - This frees up MDB resources for low-income countries that still need significant support.
- **Social and Environmental Safeguards:** Strengthening safeguards to ensure MDB-funded projects **avoid negative social or environmental impacts** and promote **inclusive sustainable development**.

Which are the Key MDBs India is Affiliated With?

- **World Bank Group:** India is a member of **four of the five constituents** of the World Bank Group viz., **International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA)**.
 - India is not a member of **ICSID (International Centre for Settlement of Investment Disputes)**.
 - World Bank assistance in India started in **1948** when funding for the **Agricultural Machinery Project** was approved.
- **[Asian Development Bank \(ADB\)](#):** India is a founding member of ADB and the bank's fourth-largest shareholder.
 - Since commencing operations in 1986, ADB has aligned its operations in the country to the government's developing priorities.
 - This approach will be pursued through the forthcoming country partnership strategy, 2023–2027.
- **[Asian Infrastructure Investment Bank \(AIIB\)](#):** India is a founding member of the Asian Infrastructure Investment Bank (AIIB) with the **second-highest voting share after China**.
 - It is headquartered in Beijing.
- **[New Development Bank \(NDB\)](#):** India, the founding member of NDB, is the second-largest recipient of NDB's financial support at USD 7.5 billion after China.
 - It was established in 2015 by the **[BRICS countries \(Brazil, Russia, India, China and South Africa\)](#)**.

Drishti Mains Question:

Discuss the role of Multilateral Development Banks (MDBs) in promoting sustainable development and inclusive growth globally. How can MDBs effectively address the growing climate challenges?

UPSC Civil Services Examination Previous Year's Question (PYQs)

Prelims:

Q. With reference to Asian Infrastructure Investment Bank (AIIB), consider the following statements: (2019)

1. AIIB has more than 80 member nations.
2. India is the largest shareholder in AIIB.
3. AIIB does not have any members from outside Asia.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (a)

Mains:

Q. India has recently signed to become a founding member of New Development Bank (NDB) and also the Asian Infrastructure Bank (AIIB). How will the role of the two Banks be different? Discuss the strategic significance of these two Banks for India. (2012)

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