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WEBINAR:

DECODING THE FUNDAMENTALS OF DEVELOPMENT FINANCE

International Financial Institutions: Who and what they are, how they operate

Natalia Toschi

Head of Funding, Treasury Services Division, IFAD

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Features of MDBs, DFIs and Vertical Funds

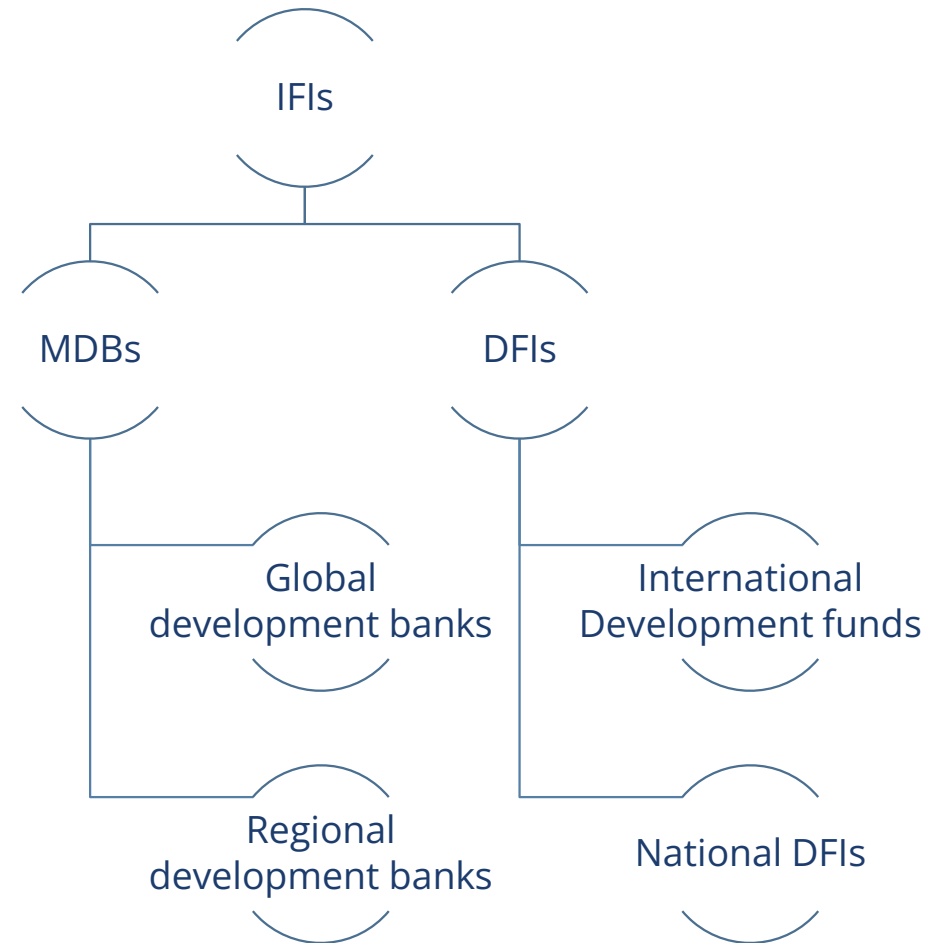
1. What is an IFI?
2. What is a vertical fund?
3. Membership structure
4. Clients
5. Size
6. Financial model
7. MDBs' reform and G20 recommendations

1. What are International Financial Institutions (IFIs)?

An **International Financial Institution (IFI)** is a financial institution that has been established by more than one country, and hence is subject to international law (as opposed to national law of one Government)

The two important types of IFIs are:

- **Multilateral Development Banks (MDBs)**
- **Development Finance Institutions (DFIs)**



What is a Multilateral Development Bank (MDB)?

Multilateral: they are established by several sovereign states that are the shareholders of the bank

Development: with the mission to fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens

Banks: they borrow money to lend money and make margin to cover admin costs



The big 7 MDBs



International Bank for Reconstruction and Development
(World bank group) (**IBRD**), 1944



International Finance Corporation
(World bank group) (**IFC**), 1946



European Investment Bank (EIB), 1958



Inter-American Development Bank Group (IDB), 1959



African Development Bank (AfDB), 1964



Asian Development Bank (ADB), 1966



European Bank for Reconstruction and Development (EBRD), 1991

But there are many others:

Central American Bank for Economic Integration (CABEI), 1960

CAF - Development Bank of Latin America (CAF), 1970

Islamic Development Bank (IsDB), 1973

China Development Bank (CDB), 1994

New Development Bank (NDB), 2014

Asian Infrastructure Investment Bank (AIIB), 2016



What are International Development Finance Institutions (IDFIs)?

International: they are established by several sovereign states that are the shareholders of the bank

Development: with the mission to fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens

Finance Institutions: that provide financial support primarily in highly concessional loan and grant form

Some important international DFIs are:



International Development Association
(World Bank Group) (**IDA**),
1960



African Development Fund (AfDF),
1972



Asian Development Fund (AsDF),
1966



International Fund for Agricultural Development (IFAD), 1977



OPEC Fund for International Development,
1976

What about National Development Finance Institutions (NDFIs)?

National DFIs: majority-owned by national governments or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms.

Some important national DFIs are:



**Kreditanstalt
für
Wiederaufbau,**
Germany (**KfW**),
1948



**Agence
Française de
Développement,**
France (**AFD**),
1998



FinDEV,
Canada, 2018



Swedfund,
Sweden, 1979

But there are many others:

OeEB (Austria)

BIO (Belgium)

BMI-SBI (Belgium)

IFU (Denmark)

Finnfund (Finland))

CDP/SIMEST (Italy)

FMO (Netherlands)

Norfund (Norway)

SOFID (Portugal)

COFIDES (Spain)

SIFEM (Switzerland)

CDC Group (United Kingdom)

OPIC (United States)

KEY MESSAGE 1:

The essence of MDBs and DFIs

- MDBs and DFIs provide financing for a broad range of development topics.
- MDBs and DFIs do not have a profit-making mission.
- MDBs and some national DFIs are “banks” which provide primarily loans and have to make enough income to finance their ongoing operations.
- International DFIs are institutions that require periodic injection of capital from Members as they are “loss making” by design because they provide primarily highly concessional loans and grants.

2. What is a vertical fund?

“**Vertical funds**” are development financing mechanisms confined to single development domains with mixed funding sources.

Some vertical funds are:



**The Global
Environmental
Facility (GEF),
1991**



**The
Adaptation
Fund (AF), 2001**



**The Green
Climate Fund
(GCF), 2010**



**The Global
Fund to fight
AIDS,
tuberculosis
(TB) and
malaria, 2002**



**The Global
Alliance for
Vaccination
and
Immunization
(GAVI), 2000**

The entities are funded by the public and private sectors. The operating model is typically relying on accredited entities and delivery partners who work directly with developing countries for project design and implementation.

KEY MESSAGE 2:

Vertical Funds

- Vertical funds are focused on **one specific development topic** and operate through accreditation-models and implementing agencies

3. Members of MDBs and DFIs are shareholders and have voting rights

MDB	Largest shareholder	2nd largest shareholder	3rd largest shareholder	4th largest shareholder	5th largest shareholder
AfDB	Nigeria	US	Egypt	Japan	South Africa
AsDB	Japan, US		China	India	Australia
EBRD	US	France, Germany, Italy, Japan, UK			
EIB	Germany, France, Italy, UK				Spain
IADB	US	Argentina, Brazil		Mexico	Japan
IDA	US	Japan	UK	Germany	France
IBRD	US	Japan	China	Germany	France, UK
IFAD	US	Italy	Germany, Japan		Netherlands

Source: A guide to multilateral development banks, ODI, 2018

KEY MESSAGE 3:

Vertical Funds

- Members of MDBs and DFIs are **sovereign states**. No private entity or individual can be a member or shareholder of an MDB/DFI.

4. Who are the clients?

	Sovereign States	Private Sector
IBRD	X	
IFC		X
EIB	X	X
IDB	X	
IDB-Invest		X
EBRD		X
IDA	X	X
AfDB	X	X
ADB	X	X
IFAD	X	X
GEF	X	X
GCF	X	X
AF	X	X
KfW		X
AFD		X

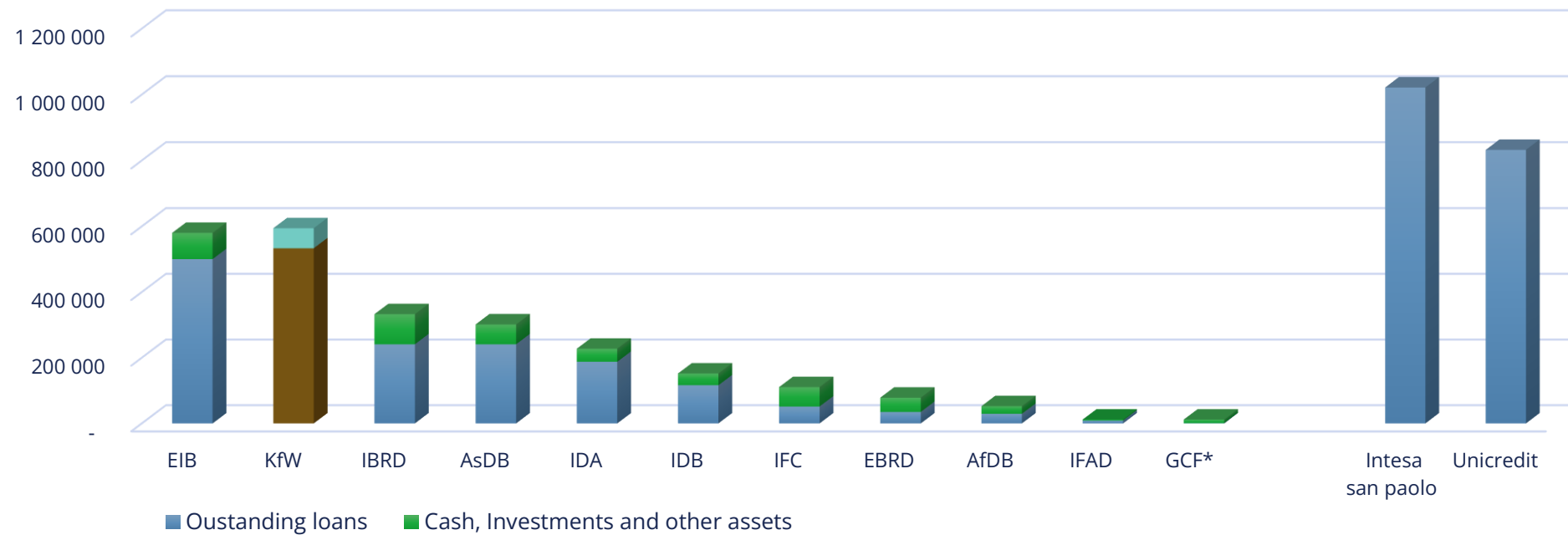
KEY MESSAGE 4:

Global clients

- MDBs and DFIs provide assistance to the public and private sectors

5. How large are these institutions?

MDBs', DFIs' and Vertical Funds' total assets compared to commercial banks (USD million)



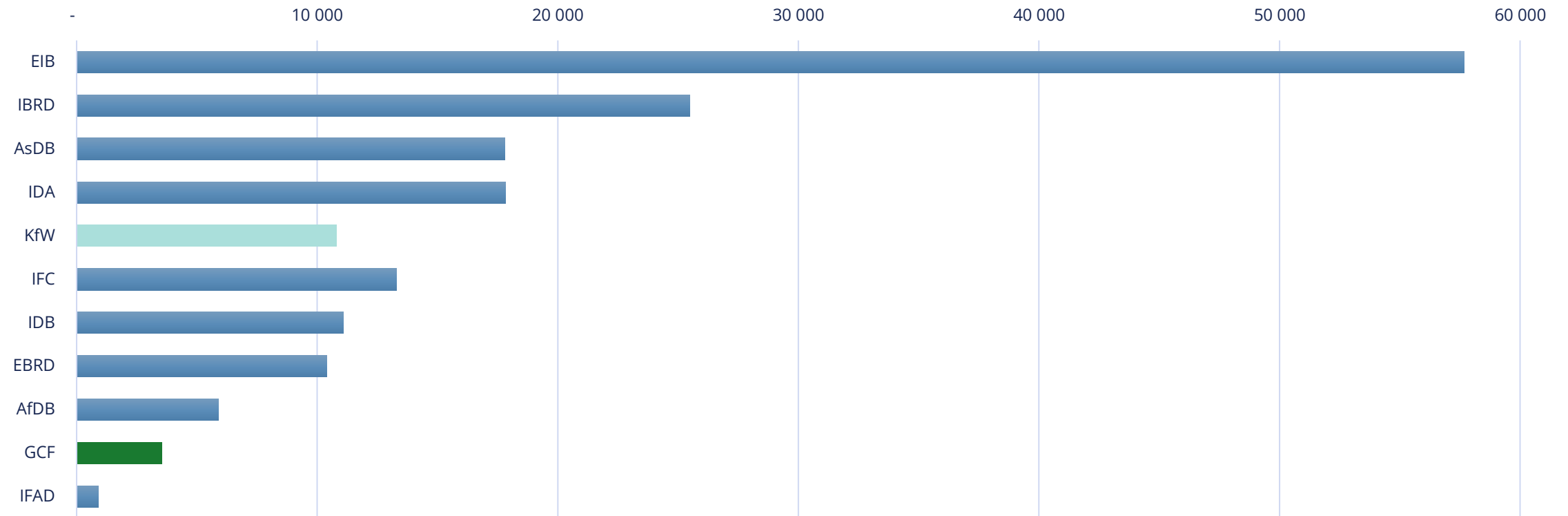
MDBs are large institutions that however do not compare with large multinational commercial groups

Source: MDBs' and commercial banks' financial statements December 2023 (and June 2023 for WB group)

*2022

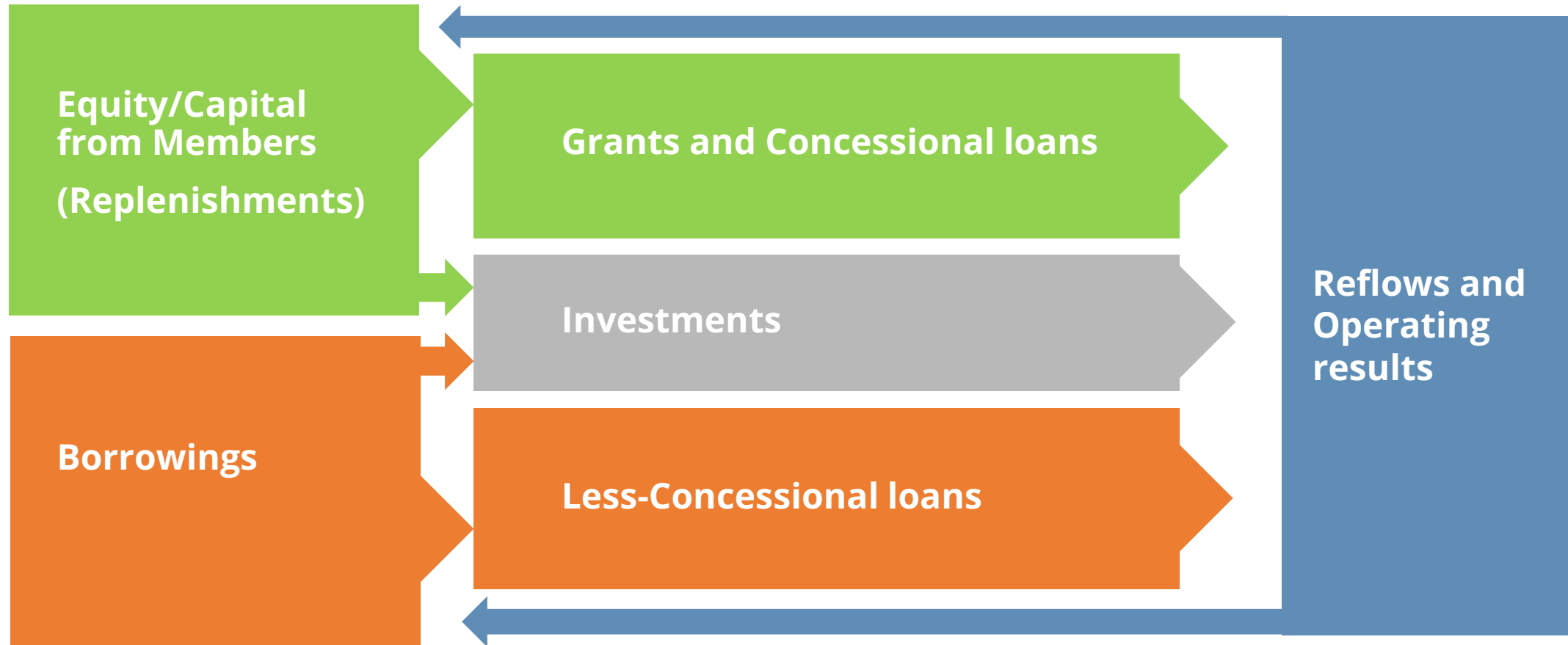
How large are these institutions?

MDBs', DFIs' and Vertical Funds' annual disbursements (US\$million)



Source: MDBs' and DFIs' financial statements December 2023 (and June 2023 for WB group)

6. How is an MDB's/DFI's/financial model?



Where do MDBs borrow from?

	IFAD	IDA	IBRD	AfDB	AsDB	EBRD	IADB
S&P rating	AA+	AAA	AAA	AAA	AAA	AAA	AAA
Fitch rating	AA+	AAA	AAA	AAA	AAA	AAA	AAA
Moody's rating	NA	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa

	Country/Region	Foreign Currency Long Term			
		Moody's	S&P	Fitch	R&I
21)	Australia	Aaa	AAAu	AAA	AAA
22)	Canada	Aaa	AAA	AA+	NR
23)	Luxembourg	Aaa	AAA	AAA	NR
24)	New Zealand	Aaa	AA+	AA	NR
25)	Norway	Aaa	AAA	AAA	AAA
26)	Singapore	Aaa	AAAu	AAA	AAA
27)	Sweden	Aaa	AAAu	AAA	AAA
28)	United States	Aaa	AA+u	AAA	AAA

	Country/Region	Foreign Currency Long Term			
		Moody's	S&P	Fitch	R&I
21)	Croatia	Ba1	BBB-	BBB	BBB
22)	Italy	Baa3u	BBBu	BBB	BBB+
23)	Peru	Baa1	BBB+	BBB	NR
24)	Hungary	Baa2	BBB	BBB	BBB+
25)	Portugal	Baa2	BBBu	BBB	BBB
26)	Kazakhstan	(P)Baa2	BBB-	BBB	NR
27)	Philippines	Baa2	BBB+	BBB	BBB+
28)	Indonesia	Baa2	BBB	BBB	BBB+
29)	Bulgaria	Baa1	BBB	BBB	NR
30)	Russia	Baa3	BBB-	BBB	NR

Source: IDA and AfDF websites and bloomberg

New funding mechanisms

Hybrid capital: an innovative form of capital which increases sustainable lending capacity

Equity content of 100% by Fitch, Moody's and S&P, and 100% equity under the IFRS accounting rules

Perpetual with fixed rate coupon of 5.75% payable annually with a reset mechanism

AfDB has the option to redeem all of the notes on the first reset date and every reset date thereafter

KEY MESSAGE 5:

Size and financial model

- MDBs/DFIs/Vertical Funds can be sizable institutions but smaller than large commercial banks
- MDBs and National DFIs use their ratings to source cheap financing from capital markets to on-lend
- International DFIs need capital injection to provide HC loans and grants

7. MDBs' reform and G20 recommendations (2022)

Boosting MDBs' investing capacity.
An Independent Review of Multilateral
Development Banks' Capital Adequacy
Frameworks.

G20 Recommendations

Recommendation 1: Redefine the Approach to Risk Appetite in **Capital Adequacy Frameworks**

Recommendation 2: Incorporate Uplift from **Callable Capital** into MDB Capital Adequacy Frameworks

Recommendation 3: Implement **Innovations** to Strengthen MDB Capital Adequacy and Lending Headroom

Recommendation 4: Assess **CRA Methodologies** and engagement

Recommendation 5: Improve the **Enabling Environment** for Capital Adequacy Governance

KEY MESSAGE 6:

G20 report on MDBs

- Increase lending by becoming less depended on credit rating agencies, more risk takers



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