

Indonesia G20 Presidency publishes the G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks



At the 3rd G20 Finance Ministers and Central Bank Governors (FMCBG) meeting in Bali on 15-16 July, the G20 welcomed the report on the Independent Review of Multilateral Development Banks' (MDBs') Capital Adequacy Frameworks (CAFs). Minister Sri Mulyani Indrawati, chairing the G20 FMCBG meeting with Governor Perry Warjiyo, said "MDBs have a critical role in providing affordable financing to support economic recovery and to help achieve Sustainable Development Goals (SDGs) in a post-pandemic context". (Full version here: <https://g20.org/wp-content/uploads/2022/07/CAF-Review-Report.pdf>).

In July 2021, under the Italian Presidency, G20 Finance Ministers and Central Bank Governors agreed to launch the Independent Review of MDBs' CAFs. The Review was conducted during the Indonesia G20 Presidency by a Panel, led by Dr Frannie Léautier as Expert Chair and composed of 13 Experts, designated by the G20 International Financial Architecture Working Group.

The Presidency, reflecting G20 members' comments, conveyed its high appreciation to the Panel in finalizing the Review, the key objectives of which were to:

- Provide credible and transparent benchmarks on how to evaluate MDB CAFs;
- Enable shareholders, MDBs, and CRAs to develop a consistent understanding of MDB's capital adequacy frameworks;
- Enable shareholders to consider potential adaptations to the current frameworks to maximize the MDBs' financing capacity.

The Report sets out a package of recommendations aimed at unlocking additional resources to maximize MDB development impact, while persevering their credit ratings and preferred creditor treatment:

1. Redefine the Approach to Risk Appetite in Capital Adequacy Frameworks
2. Incorporate Uplift from Callable Capital into MDB Capital Adequacy Frameworks
3. Implement Innovations to Strengthen MDB Capital Adequacy and Lending Headroom
4. Assess CRA Methodologies and engagement
5. Improve the Enabling Environment for Capital Adequacy Governance

In Bali, the G20 reiterated their support to the work of the Independent Panel and committed to further discuss the Panel's report. Under Indonesian Presidency, the G20 will continue its work by developing a roadmap for the implementation of the recommendations to find consensus among the members. This will be carried out in consultation with MDBs, and other relevant stakeholders, in full respect of MDBs' own governing arrangements. ***