Multilateral development banks – Strategic actors in the new economy?

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Abstract: *The paper addresses the role of multilateral development banks in the new economic paradigm, built in the context of multiple crises with global impact. Multilateral development banks, in their capacity as promoters of governments' policies are "invited/expected" to play a key role in the new geopolitical architecture, holding a competitive advantage in the provision of finance, which is linked to the design and implementation of structural reforms and programs of strengthening institutions controlled by governments. The paper aims to represent a signal regarding the strategic component and the synergies that multilateral development banks can determine. It highlights the tools that multilateral development banks have for selecting, monitoring and supporting programs and projects with regional and global impact. The paper describes the state of knowledge and reviews the specialised literature in the field of multilateral development banks, describes intervention channels and financing products of multilateral development banks, and discusses their impact on a European and regional level. The concluding remarks address the strategic role of multilateral development banks, their contribution to sustainable development goals and outline directions for future research.*

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Introduction

The multitude of crises that began in 2008, their variety, specificity and even overlap (financial crisis, sovereign debt crisis in Greece, health crisis, production and distribution chain crisis, energy crisis, climate crisis, geopolitical crisis, crisis of some US banking institutions and Switzerland) have caused fundamental changes in the governance of the financial industry, economies and society.

Within the financial industry, amid regulatory dynamics, new governance involved the emergence of new institutions, as well as new roles and responsibilities for existing organisations. The high degree of indebtedness at the global level, the ageing of the population, the increasing role of technologies, and the emphasis on sustainable development, by greening the financial – banking systems and supporting the transition to the "green" economy, represent challenges that must be accommodated in the new policy design.

In the context of the post-global financial crisis, low interest rates and the availability of financial resources allowed their significant allocation, through banking systems and capital markets. The distribution and orientation of financial resources to investments towards certain sectors that will train other resources and industries that contribute to the economic growth are key aspects that are part of any strategic analysis.

The paper addresses the complex issue of multilateral development banks (MDBs), actors that are part of the global financial ecosystem and that have significant financial resources at their disposal. Analyses can be made regarding the response of multilateral banks in the context of the post-global financial crisis, within the health crisis, as well as, the changes made to the mechanisms, instruments, objectives that these institutions have from their stakeholders. However, one fundamental question is of interest for the orientation of new policies, for governments, academia, authorities, and regulators:

RQ: How and what must there be adjusted/completed, so that the multilateral development banks determine synergies and contribute significantly to ensuring sustainable economic growth in the new economy?

It is a question that requires research, analysis, the answer being complex and the impact being even more complex to measure. This paper investigates the issue of multilateral development banks, their role and mechanisms, and creates the framework for answering this question.

The issue of MDBs cannot be addressed without highlighting some landmarks of the context. The new distribution and production chains, to represent added value chains, must be anchored in the new geopolitical and economic realities. Concepts such as "nearshoring" (with an emphasis on geographical proximity and access by different means of transport), "friendshoring," reflecting a geopolitical perspective, and a security perspective, are included in the strategic assessment of the relocation, resettlement, and development of new value chains.

Global infrastructures (financial, economic, telecommunication, transport) are composed of regional infrastructures, which must integrate multilateral collaboration mechanisms. Relevant literature, as well as studies based on empirical analyses, emphasise the foundations of the new economy, in which regions play an increasingly prominent role.

In the new geopolitical context, the regional policy can also be approached from the perspective of the authorities' use of available resources, and economic and financial policy instruments with the aim of stimulating investments, creating new jobs and improving living conditions in a certain region. Such economic policy instruments cover a wide area, ranging from those of a general nature, such as the legal framework intended to support development, to the economic regulations related to specific measures, such as, state aid granted to companies, with the aim of reducing the gaps between the Member States of the European Union.

Similarly, grants and subsidies may be appropriately attached to projects or programs financed by MDBs, to the extent that this is an effective way of correcting externalities or public good characteristics associated with ongoing projects. MDBs offer governments and authorities a competitive advantage in providing financing, correlated with the design and implementation of structural reforms and institution-building programs adopted by governments.

The research highlights, in the first part, landmarks of the relevant literature on the issue of MDBs. The MDBs' intervention channels and financing products are presented in the second part and the discussions regarding their impact at the regional level are reflected in the third part of the paper. The fourth part summarises the authors' concluding remarks regarding the strategic role of MDBs, their contribution to sustainable development goals and outlines directions for future research.

1. State of knowledge and review of specialised literature

Amid growing concern about climate risk, criticism of the MDBs for lack of transparency and failure to prioritise social, environmental and governance issues has begun to surface in recent years (Dinu & Bunea, 2022; Wang, 2019). Thus, efforts have been made to address these issues through a greater focus on environmental protection issues, with MDBs working to improve their climate risk management systems. In such a context, the European Investment Bank has committed to gradually reduce investments in fossil fuels, going as far as eliminating these investments, and the European Bank for

Reconstruction and Development has given up coal financing since 2018. However, none of the major development banks is fully aligned with the Paris Agreement, with some of these banks continuing to finance coal projects.

There is a large volume of literature on the quality of MDBs as policy vehicles for stimulating economic growth, particularly in developing economies. MDBs' offer consisting of grants and loans in priority sectors, provision of technical support, policy advice and product knowledge shapes MDBs' lending volumes, strategies and operations. One of MDBs' strengths lies in combining the functions of financing at below-market rates, technical assistance and political advice, research and convening power (Gurria & Volcker, 2001). In most cases, the financial terms and conditions of MDBs loans are more favourable than those on which many governments could borrow from international or domestic capital markets (Prizzon et al., 2022). To be eligible for funding from the MDB, an operation must meet the eligibility criteria and policies of the respective MDB (Engen & Prizzon, 2018).

Most MDB operations are concentrated in the economic infrastructure (Faure et al., 2015). According to BenYishay and Tunstall (2011), the development of infrastructure encourages economic growth, private enterprise and employment. The provision of electricity, efficient transport systems, a clean water supply, access to sanitation and modern telecommunications improve the health and well-being of the poor and enable them to better engage in the economy. Other authors have concluded that infrastructure services make a substantial contribution to GDP, generally exceeding the cost of providing (Esfahani & Ramirez, 2003). To promote development, MDBs must act as catalysts for those government policies that promote sustainable growth, emphasising innovation and private sector investment in processes that, over time, generate productivity gains that raise the living standards (Chersan et al., 2020; Stern, 2001). MDBs can also provide longer-term, higher-risk investments needed to support structural change in economies where commercial banks or capital markets would avoid financing, while mobilising public and private resources (Broccolini et al., 2021). Due to their global or regional affiliation and expertise in areas such as climate change, mitigation and global health, MDBs are taken into consideration for funding of global public goods (Kharas, 2010).

The use of subsidised interest could be justified to support the creation of new enterprises, with the condition that the subsidies are granted transparently and used for the intended purposes (Scott, 2007). If development banks channel subsidised loans to companies with a greater ability to repay their loans, then the private banks may become reluctant to respond to smaller, higher-risk companies that are relatively more affected by credit market failures (Colombo et al., 2012; Dinu & Bunea, 2020). Grants and subsidies, which are generally conditional, may be attached to projects or programs financed by the MDBs. Conditional lending is a tool through which reforming governments can publicly commit to adopting policies and measures, thus sending a signal to the private sector that the reform program is credible. In addition, conditional loans can also help finance the costs of reforms and their adjustments, helping to strengthen political support for reforms (Stern, 2001). The mix of grants and loans is usually determined by the country's level of debt risk rather than by the client country (IMF, 2018); thus, the allocation will be in the form of grants to countries at high risk of debt crisis or already in debt distress; half subsidies and half credits for countries with a moderate risk of debt crisis and loans for countries with a low risk of difficulties.

2. Intervention channels and financing products of the multilateral development banks

Before highlighting the specificity of the mechanisms and instruments available to the multilateral development banks (MDBs), it is appropriate to correlate a particularly relevant indicator, the degree of indebtedness with the volume of loans granted, in accordance with the references of the specialised literature. We will use a set of questions to reflect the strategic component of this correlation.

RQs: Can states/governments still go into debt? Is the accumulation of new debts sustainable for governments, the non-financial private sector, non-financial corporations, for the population? Who will pay the debts? Will these debts be restructured? How can the financial resources of governments, multilateral banks, and institutional investors be redirected to bring long-term value?

Fig. 1 reflects the evolution of indebtedness in the period 2000–2022, for a selection

	General government			Private non-financial sector (a + b)			Non-financial corporations (a)			Households (b)		
	2000	2008	Q3–2022	2000	2008	Q3–2022	2000	2008	Q3–2022	2000	2008	Q3–2022
United States	48.6	66.1	112.6	135.4	168.8	153.9	64.3	72.5	78.8	71.1	n. a.	n. a.
United Kingdom	37.7	50.8	100.8	135.3	184.8	154.0	70.7	90.0	69.5	64.6	n. a.	n. a.
Japan	114.6	145.1	228.3	187.5	163.8	184.7	117.7	103.5	116.8	69.8	n. a.	n. a.
China	22.9	27.1	76.2	109.3	111.9	219.7	n. a.	93.9	158.2	n. a.	n. a.	55.6
Euro area	69.2	69.8	93.1	126	157.2	167.4	76.8	96.5	109.1	49.2	55.6	85.9
France	58.8	68.8	113.4	137.7	164.2	230.6	104.3	116.2	164.1	34.2	85.9	113.0
Germany	59.3	65.8	66.6	140.6	129.9	129.2	69.4	70.1	73.4	71.2	113.0	130.5
Italy	108.9	106.2	147.2	79.3	116.5	112.2	56.6	77.5	69.6	22.6	130.5	154.4
Spain	57.8	39.7	115.4	117.9	214.2	151.7	72.5	131.6	97.4	45.4	154.4	n. a.
Netherlands	52.2	54.7	49.0	219.7	234.7	241.3	130.1	123.2	144.1	89.6	n. a.	76.8
Austria	66.1	68.7	82.8	127.8	142.5	148.3	83.0	90.5	98.2	45.3	76.8	96.9
Portugal	54.2	75.6	120.1	142.8	206.3	158.1	83.9	117.4	95.4	58.8	96.9	n. a.
Belgium	109.6	93.2	106.2	146.2	192.1	199.9	105.4	142.2	139.3	40.8	n. a.	53.9
Aggregate	n. a.	55.6	85.9	113.0	130.5	154.4	n. a.	76.8	96.9	n. a.	53.9	57.5

Fig. 1: **Credit volumes, 2000–2022, as % of GDP**

Source: Bank for International Settlements [as cited in Larosière and Cahen (2023)]

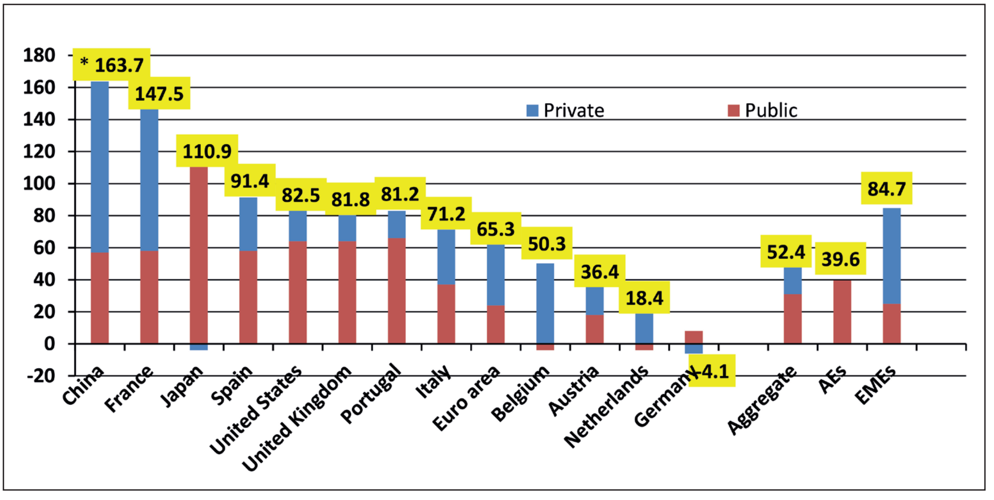

Fig. 2: **Change in global debt between 2008 and 2022 (%)**

Note:*Global.

Source: Bank for International Settlements [as cited in Larosière and Cahen (2023)]

of countries. The "Aggregate" category is included, which regroups 45 advanced and emerging economies.

According to the Bank of International Settlements, there was a significant increase in the degree of indebtedness between 2008 and 2022, as shown in Fig. 2. The financial crises were based on excessive indebtedness, which created vulnerabilities regarding the ability to repay, the orientation of financial resources, the financial support granted to savings/new projects. Between 2008 and 2022, the overall public debt, as percentage of GDP, increased by 30.3 ppts, from 55.6% in 2008 to 85.9% of GDP in 2022. The increase in indebtedness in all categories (public and private) was significant even before the health crisis.

In this global context of indebtedness, combined with that of multiple overlapping crises, the design for projects to determine synergies at the level of some regions, the co-interest of private resources, alongside the allocation of financial resources through public programs, the long-term orientation including the sustainability component, represent benchmarks for the new financial architecture. MDBs can mobilise investors with additional resources through banking syndicates and other financial mechanisms. The relevant literature and empirical studies reflect a transformation of globalisation with a regional focus and footprint, which impacts the production chains, distribution and financing mechanisms. While globalisation (the process of international integration) promotes the integration of world economies, regionalisation (the process of forming regions) tends to oppose integration and bring division. Regionalisation and regionalism (the tendency to create regional institutions and arrangements) find their expression in the economic and security fields, including the convergent motivations towards both forms of integration (economic and political/security) (Kacowicz, 1998; Laryea, 2013).

Through the process of "proximity globalisation," governments and companies want their suppliers of products and raw materials as close as possible to their factories in the same country or region. And in this new economic conjuncture, the financing needs of governments are mainly covered by the MDB through financing products and programs adopted by the beneficiary countries or imposed by the beneficiaries. Funding from the MDB is also supported by the research, policy advice and technical assistance to accompany project and program implementation. The shareholders of MDBs with global and regional exposure have increasingly analysed the purpose, effectiveness and demand for the offer of these institutions in order to respond as effectively as possible to the realities of the new economy.

MDBs use a wide range of financing instruments: loans, lines of credit, grants, technical assistance and equity financing. Loans are the most common financing instrument used by MDBs, followed by technical assistance, guarantees and equity financing (Faure et al., 2015). In 2020, MDBs reported a total of 16,100 million USD in climate adaptation finance commitments, of which 13,327 million USD, or 83%, is committed to low- and middle-income economies.

Tab. 1: MDBs adaptation finance by type of instrument, 2020 (USD million)

Instrument type	For low-income and middle-income economies	For high-income economies	Total
Equity	240	189	428
Grant	2,017	1	2,018
Guarantee	249	39	288
Investment loan	8,212	2,142	10,354
Line of credit	59	14	72
Policy-based financing	2,328	363	2,690
Results-based financing	27	27	54
Other instruments	196	–	196
Total	**13,327**	**2,773**	**16,100**

Source: MIGA.org (2020; p. 19)

The reported data correspond to the incremental costs of the components, sub-components or elements of the supported projects, being considered inputs to an adaptation process and are intended to reduce vulnerability to climate change. Tab. 1 details MDBs' adaptation financing by type of instrument (year 2020). Tab. 1 shows that the MDBs reported that 64% of the total financing for climate change adaptation was committed through investment loans.

From the perspective of the economic sectors financed by the MDBs, it is aligned with the goal of economic and social development of the targeted geographical areas, with the financing directed to the economic infrastructure that predominates.

Tab. 2 presents the financing of the MDBs adaptation by economic sectors, in which 26% of channelled financing is identified mainly to the energy sector, transport and other built environments and infrastructure, followed by 23% to transversal operations.

Regionally-oriented MDBs contribute to the support of countries, projects, and economic sectors in the respective geographical area.

In its capacity as MDB, the African Development Bank (AFDB) stimulates sustainable, inclusive economic development and social progress in the 54 African regional member countries, thereby contributing to poverty reduction. Funding mechanisms focus on commercially viable companies and projects in key sectors for development as follow.

Agriculture and agro-industries. AFDB addresses the potential of agriculture as an imperative for Africa by investing in large agribusiness firms. The impact of the financing contributes to favouring the emergence of locally owned agricultural processing industries and strategic partnerships for the financing of stakeholders in the value chain.

Financial institutions. AFDB supports and develops financial intermediaries, combining financial assistance and expertise to achieve

Tab. 2: MDB adaptation finance by sector, 2020 (USD million)

Sector group	For low-income and middle-income economies	For high-income economies	Total
Coastal and riverine infrastructure	432	–	432
Crop and food production	960	3	963
Cross-cutting sectors	3,529	205	3,734
Energy, transport, and other built environment and infrastructure	3,430	818	4,248
Financial services	923	1	925
Industry, manufacturing and trade	145	–	145
Information and communications technology	218	6	225
Institutional capacity support or technical assistance	1,186	813	1,999
Other agricultural and ecological resources	587	139	727
Water and wastewater systems	1,916	787	2,703
Total	**13,327**	**2,773**	**16,100**

Source: MIGA.org (2020; p. 21)

the expansion and deepening of African financial systems, easier access to financial services and facilitating trade growth for local SMEs.

Industry and services. AFDB's industrialisation objectives are to support the global trade integration and regional value chains, increase co-financing and mobilise private sector investment, foster the emergence of regional players, create sustainable jobs and increase productivity.

Education and health. The bank invests in health systems that provide access to quality services for all and in health industries that stimulate economic growth, technological innovation and job creation.

Infrastructure (energy, information and communication technology, transport, water and sanitation). AFDB supports the energy sector, from grid-connected projects to utilities, to decentralised energy solutions, such as domestic solar systems and mini-grids. A special emphasis is placed on large projects, on urban and semi-urban water supply and sewage infrastructure. Also, MDBs offer concessional financing [concessional or preferential loan is credit offered on terms that are considerably more favourable than those obtained under market conditions. The International Monetary Fund (IMF) calculates the level of concessionality as the difference between the nominal value of the loan and the amount of the discounted value of the payments that the debtor will make in the future in order to pay the debt, expressed as a percentage of the nominal value], i.e., financing from public institutions (e.g., from the European Union or the European Investment Bank – EIB program) and from private institutions (e.g., from philanthropic organisations – NGOs). Blended financing is provided by the MDB through vehicles that combine commercial and concessional financing. An example of a mixed financing facility is the Natural Capital Financing Facility (NCFF), a financial instrument established by the EIB and the European Commission, which supports projects within the European Union on biodiversity and climate adaptation through customised loans and investments, supported by specific guarantee structures within the EU. The NCFF combines the two components: the financing facility with values between 2 and 15 million euros and the technical assistance facility that can offer each project a grant of up to a maximum of 1 million euros for the preparation, implementation and monitoring of project results. Starting with 2023, the NCFF program has been replaced by the InvestEU program, which supports sustainable investment, innovation and job creation in Europe; it aims to trigger additional investment of more than 372 billion euros between 2021 and 2027.

In their financing offer, the MDBs and in particular, the EIB, in its capacity as investment bank of the European Union, combines traditional financing products. EIB offers a mix of financing products, with a certain degree of sophistication, involving promotional development banks (e.g., Kreditanstalt für Wiederaufbau – KfW, which is Germany's leading development bank), investment funds, bank syndications, as well as mezzanine, senior and/or equity financing. Tab. 3 outlines the products offered by MDBs and their respective features, according to the nature of the funding source (commercial, intermediary and direct funding).

The selection of specific instruments for the optimal exploitation of financial resources and know-how held by the MDB, in the dynamic context of multiple crises, are aspects that require analysis and research. The MDB contributes to reducing the risk of transactions, so that other sources of capital (mostly private) can be attracted to the financial support of some projects. From the perspective of commercial banks, investors/shareholders emphasise value maximisation, with their funding coming from private or public markets, based on higher expectations of profitability. MDBs have development mandates that allow them to have some flexibility in pricing the financing they offer, sources and costs of financing. MDBs are financed by member countries, which hold shares, as well as through capital markets, through bond issues. Since the MDBs benefit from the sovereign support of the member countries, they also implicitly benefit from the credit rating of the respective countries, which results in low financing costs. The MDB must evaluate what is the best way to capitalise on its own resources, contribute to the mobilisation of alternative sources of financing, by reducing the risks of projects, by improving the structure of loans, through subordinated tranches of capital, guarantees (Uzsoki, 2017).

In the analysis carried out, the financing products of the MDB European Investment Bank (EIB) are representative for the European region. 90% of the bank's financing is directed

Tab. 3: Funding sources and their respective features

Commercial funding	Intermediated funding		Direct financing		
	Equity funds	Indirect debt	Hybrids	Equity	Debt
Financing from: – Public development banks (e.g., from KFW or EIB); – Private financial institutions (e.g., from local banks or equity funds)	Portfolio structure whereby a fund manager raises capital from investors and/or financial institutions (such as the EIB) that are subsequently invested in projects	On lending to end borrower by a local bank or other intermediary finance that was originally provided (long term) by a different financial institution such as EIB	Financing that combines debt and equity features	Capital injection from investors in return for ownership share (based on a due diligence process and assessment of growth potential)	Loans from a bank and other financial institution (similar to a mortgage or a car loan)
	Fund manager responsible for pipeline development and due diligence	Lending decision and financial risk remain with the intermediary institutions	Mezzanine financing*, as an example, gives lender ability to convert to equity at later stage (pre-defined criteria, typically at default)	No gradual repayment, investors will receive capital losses/gains at sale (possible regular dividend for mature companies)	Repayments consist of 1 variable or fixed rate and 2 principals (amortising gradually or bullet payment at end)
	Strategy and return expectations determined with investors ahead of capital commitment	Contractual relationship only between end borrower and intermediary (albeit gets informed about on-lending structure)		Risk of performance sits until sale (can lose money and are ranking bellow debt provider; it is a „patient form of capital).	Interest margin decided by the bank, depend on project's risk profile, tenor (length of loan) and potential security (collateral, e.g. property or equipment); the "negative pledge" clauses in MDB loans restrict collateral but do not make it impossible to find

Note: *Mezzanine financing is a hybrid of debt financing and equity financing that gives the lender the right to convert the debt into an equity stake in the company in the event of default, generally after being paid by the venture capital firms and other senior creditors. In terms of risk, it exists between senior debt and equity. Mezzanine debt increases the value of subordinated debt and allows greater flexibility in dealing with bondholders.

Source: www.eib.org

towards promoting sustainable growth and job creation in Member States, based on loans, guarantees, financing or investments through equity capital and consulting services, as follows.

Loans. The EIB lends to the public and private sectors, supporting small companies through local banks, including loans to innovative start-ups. Mid-cap companies (MidCaps) can receive direct support for R&D investment. An EIB-financed project goes through seven major stages: proposal, evaluation, approval, signature, payments, monitoring and repayment; the bank, also provides information on the procurement of works, goods and services required for the projects being financed. The EIB finances projects in most sectors and covers up to 50% of the total cost of a project. Loans start, as appropriate, from 25 million euros, although in some cases, the EIB can lend smaller amounts. Another way to provide loans is through the financing ceilings made available to local commercial banks by the MDB. For example, on the Romanian banking market, at the end of 2022, the Austrian bank Raiffeisen Bank (Romanian branch) concluded a synthetic securitisation transaction (synthetic securitisations are an important tool for efficient capital management and help to increase the financing capacity through risk transfer, especially in the market context, characterised by an increased uncertainty and high-risk premiums; the structure of the securitisation allows the bank to release most of the volume of own funds and eligible debts allocated to the securitised portfolio and thus strengthen its ability to finance economic activity) with the EIB Group in the amount of 523 million lei (106 million euros), with a comparatively low interest with other similar financings, through which it will support the increase of access to financing for small and medium-sized companies, as well as those with medium capitalisation in Romania. The purpose of the transaction was to contribute to increasing access to financing and strengthening the resilience of small and medium-sized companies (SMEs), as well as, those with medium capitalisation (MidCaps) in Romania. The synthetic securitisation transaction was structured on a portfolio of non-retail loans, worth 1.52 billion lei (308 million euros). The securitised portfolio remains on the bank's balance sheet and is divided into three synthetic risk tranches: (i) a senior tranche, (ii) a mezzanine tranche and (iii) a junior tranche. In the transaction, the credit risk of the mezzanine tranche is fully transferred to the European Investment Fund (EIF), while the credit risk of the senior and junior tranches is assumed by the bank. The transaction provides for a three-year recovery period, during which amortised exposures in the securitised portfolio can be replaced with new eligible exposures. The majority shareholder of the European Investment Fund (EIF) is the EIB. Together, these two organisations constitute the EIB Group. Within the Investment Plan for Europe proposed by the European Commission, the EIB Group is part of a more general strategy aimed at covering the considerable investment deficit, thus relieving investors of some of the risks inherent in the projects.

Another project that benefited from structured financing from a MDB is the construction of the Atinkou and Azito power plants in the Republic of Côte d'Ivoire. The financing was granted in June 2019 by the AFDB, through two senior loans, amounting to 150 million euros, to strengthen the power grid in Côte d'Ivoire. The first loan of 100 million euros was granted for the construction of the Atinkou power plant, a gas combined cycle thermal plant with an electricity generation capacity of 390 megawatts (MW). The project was developed in two phases by delivering a 255 MW combined cycle gas turbine and a 135 MW steam turbine plant. The other senior loan of 50 million euros was granted for the expansion of electricity generation capacity at the Azito combined cycle gas thermal power plant, increasing the total additional generation capacity by 253 MW. The project will provide affordable electricity to the neighbouring countries.

Equity financing. The EIB provides financing mainly by investing or co-investing with infrastructure-focused investment funds. In some cases, the bank also offers direct quasi-equity financing to support innovative companies seeking financing for growth. For example, starting with 2020, the EU's InnovFin Artificial Intelligence/Blockchain Technology pilot program invests in venture capital funds whose strategies target AI/BT activities, as well as, co-investing alongside equity funds, in companies operating in these sectors.

Guarantees. The EIB offers guarantees that cover the risks of projects, depending on their size. The Citadele project, approved at the EIB level in November 2022, supports, through a guarantee structure worthing 190.8 million euros, a portfolio of loans to SMEs and Mid-Caps. This supports the extension of lending to the Estonian company Citadele in the sector of SMEs and medium-sized enterprises, including with a focus on projects with climate action content.

Counselling services. In order to realise the investment projects, the EIB offers consulting services that cover all stages of the project cycle. The services are available to public and private project promoters, supporting project development and public authorities, thus improving access to finance. The bank conducts market and sector studies to understand the needs of different industries and regions, helps clients to design their strategy and hone their skills by sharing their know-how and experience.

The MDBs also have the role of facilitating the improvement of management and consolidation of the absorption of European structural and investment funds, for the realisation of the agenda of structural reforms and investments in the public sector. An example of this is the Slovenia EU funds 2012–2020 Program of 500 million euros, signed in November 2015 by the EIB with the Republic of Slovenia to co-finance priority projects, supported by EU funds in the 2014–2020 programming period. The EIB loan, in accordance with the Partnership Agreement and the Europe 2020 Strategy, covers the national co-financing contribution for the projects, part of the loan to be dedicated to easing the financial burden of Slovenia, one of the countries along the Western Balkan Route, the more affected by the wave of refugees. The EIB funds will also support investments in the areas of transport, energy, environment, health, research and development infrastructure, nature protection, social infrastructure, improving training and access to jobs, urban regeneration and water.

MDBs also participates in syndicated loans (syndicated loan, also known as a syndicated bank facility, is a financing provided by a group of lenders – called a syndicate – who work together to provide funds to a single borrower). The main purpose of syndicated lending is to share the risk of default of a borrower among several lenders or banks, or institutional investors) when the market cannot provide financing due to the high risks. It is expected that MDB will contribute to reducing the cost of loans, including through informational advantages and the monitoring systems. MDBs can reduce the investment risk by facilitating the long-term financial flows (at the expense of short-term ones) and by taking a subordinated loan position.

3. Discussions on the impact of multilateral development banks at the European regional level

In 2021, the MDBs started a review of the methodology for tracking adaptation finance to climate change. This review, with a focus on adaptation and building resilience to climate change, converges with the objectives of the Paris Agreement. The vision includes a more granular breakdown of the types of eligible activities, clear criteria to be met and additional guidance to aid interpretation, which helps improve the quality of climate finance data.

Tab. 4 shows the total climate financing granted in 2020 by the main MDBs, globally. It follows that about 58% of the climate financing granted (about 38 billion USD) was directed to middle and low-income countries, and the rest of the funding (about 28 billion USD) was directed to high-income countries.

Tab. 4: Total MDB climate finance, 2020 (USD million)

MDB	For low-income and middle-income economies	For high-income economies	Total
African Development Bank (AFDB)	2,062	33	2,095
Asian Development Bank (ADB)	5,310	15	5,326
Asian Infrastructure Investment Bank (AIIB)	1,115	84	1,199
European Bank for Reconstruction and Development (EBRD)	2,283	547	3,859
European Investment Bank (EIB)	3,230	24,628	27,858
Inter-American Development Bank Group (IDBG)	2,498	934	3,431
Islamic Development Bank (IsDB)	259	2	261
World Bank Group (WBG)	21,252	764	22,016
Total	**38,009**	**28,036**	**66,045**

Source: MIGA.org (2020; p. 12)

On the European regional level, the two existing MDBs are representative: The European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). The EIB has positioned itself as the main financing institution regarding the climate transition, at the level of the European region. In general, the financing granted by the EIB involves projects or programs of a certain scope. EBRD also tackles smaller investments: subsovereigns, municipal infrastructure and trade facilitation in smaller cities (Ji, 2017; Robinson & Bain, 2011). As for the EBRD, from a strategic perspective, green finance will represent more than 50% of its total annual investments by 2025. In the period 2021–2025, the EBRD supports the transformation of economies by reducing carbon emissions and increasing resilience.

In turn, the EIB provides financing for projects that contribute to the achievement of EU objectives, both inside and outside the European Union. As a bank of the European Union, approximately 90% of the bank's funding is directed towards promoting sustainable growth and job creation in the Member States. This includes support for regional policies, such as those in the Baltic and Danube areas. EIB projects contribute to at least one of four public policy objectives: innovation and skills, financing for small and medium-sized enterprises, infrastructure and the environment. A big part of the EIB's funding supports the two cross-cutting objectives of cohesion, which address economic and social disparities in the European Union and climate action. The EIB will gradually increase the share of its financing dedicated to climate action and environmental sustainability, so that it exceeds 50% of its operations in 2025. From 2021, the EIB fulfils an objective that includes both, climate finance and environmental sustainability financing.

The EIB Group offers loans and other financial mechanisms that complement and stimulate the absorption of EU grants to support the cohesion projects. They aim to address social inequalities by providing employment and education opportunities, access to infrastructure and public services, healthy and sustainable environment. Between 2014 and 2020, in the EU cohesion regions, the EIB Group supported a total investment volume of approx. 630 billion euros, mobilising additional cohesion funds and playing an important role in supporting the limitation of the economic consequences of the COVID pandemic. This tool is also used in the situation generated by the consequences of the crisis in Ukraine and the long-term implications of the change in the geopolitical situation,

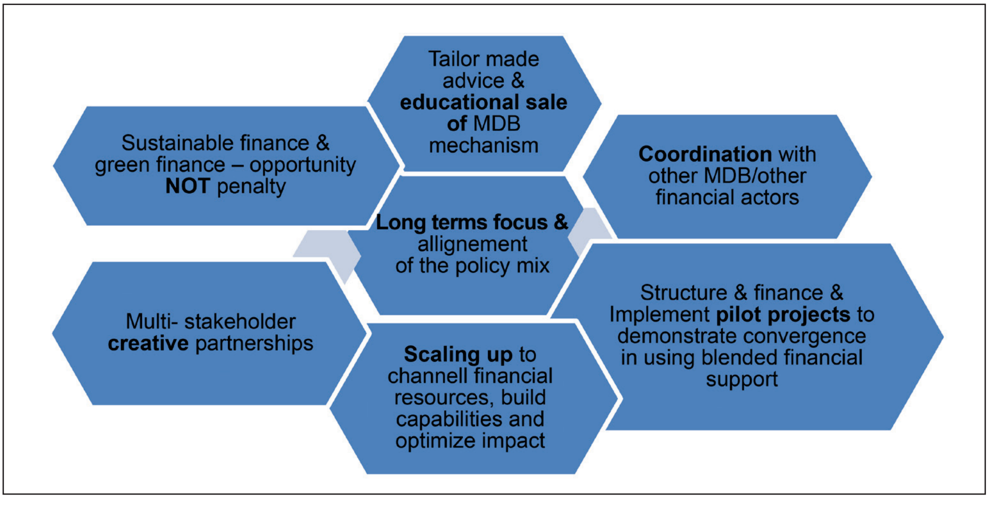

Fig. 3: **Strategic elements for improving the financial support offered by the multilateral development banks**

Source: own

in particular, the accelerated decarbonisation of EU economy.

The crises of the last 15 years constitute an important source of learning. The financial-banking governance framework was significantly enriched, both at the macro and micro levels. The examples used regarding the mechanisms for supporting specific projects by multilateral development banks reflect their connection with the real economy and the integration of ESG (environment, social and governance) components. The financial structures developed by the multilateral development banks can bring added value if they are accompanied by some key elements, according to Fig. 3.

Through Fig. 3, our research provides support for a framework to answer the question formulated at the beginning of the paper, regarding the measures, adjustments needed to improve the support offered by MDBs, to determine synergies and contribute significantly to ensuring sustainable economic growth in the new economy.

With reference to the question in the title of the article, multilateral development banks represent strategic actors that have a particularly important role in the new economy.

Conclusions

Multilateral development banks must be supported and encouraged to develop tools and mechanisms for targeting financial resources for sustainable development. The strategic component of the activity of these financial players includes the opportunity for financial support of infrastructures (transportation, communications, digital, energy). The key elements reflected in Fig. 3 require the continuation of the research for the development, both at individual and aggregate level, of roadmaps, for obtaining favourable effects and for the development of a metric, which allows the evaluation, analysis and reflection of the impact of the use mechanisms and instruments specific to the multilateral development banks.

Against the background of profound changes at the level of economies and societies, multilateral development banks must provide policy guidance to governments, so that the anti-cyclical support they benefit from has synergistic effects, contributes to the mobilisation of new investors, to the development of co-operation platforms – investments, with long-term orientation and impact.

From the perspective of maximising the impact of use of the financial resources owned by each state, of the economic and financial policy instruments with the aim of stimulating investments, both at the level of the European Union and at the level of each Member State, it is necessary to coordinate efforts at the national, regional, multilateral level, building the capacities and reaction capabilities in an unfavourable context.

The mix of public and private banking business models, reflected by the participation of multilateral development banks, savings banks, investment banks, export credit agencies, alongside institutional investors, investment funds, pension funds, funds of private equity, can support the harmonisation of the interests of all stakeholders.

A special emphasis is placed on financing the transition to a low-carbon economy, as it is the only way to avoid catastrophic damage caused by climate change, a context in which multilateral development banks remain strategic contributors.

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