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# Multilateral Development Banks: How They Work and Where They Are Headed

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## Abstract

Amid the transformation of the global economy, multilateral development banks (MDBs) are becoming a key pillar of national development. Their role extends far beyond traditional lending, forming the foundation for long-term growth. This report provides a comprehensive analysis of MDBs — from their history and mandates to the geography of their operations, equity capital structure, and credit ratings. Particular attention is paid to MDB performance indicators, including total assets and capital, investment activity, and financing in local currencies. The report also examines the prospects for the development of the MDB system and answers key questions: Which sectors will become priorities for MDB investment? How many multilateral development banks will there be in 10 years? What mechanisms will allow MDBs to expand their lending volumes?

**Keywords:** MDBs, development banks, international organizations, finance, investment, developing countries, capital.

**JEL:** F33, F36, F65, G15, G24, P33, P45.

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# INTRODUCTORY REMARKS BY THE EURASIAN DEVELOPMENT BANK'S CHAIRMAN OF THE MANAGEMENT BOARD

The global financial system is at a point of heightened uncertainty. The world in which we operate has become more complex, faster-paced, and more fragmented — and this requires international financial institutions to develop new approaches and demonstrate greater adaptability.

First and foremost, a large number of challenges persist in the global economy. Sovereign debt is rising, placing additional pressure on national financial systems and limiting room for maneuver. The adoption of technological solutions is uneven, and the impact of their use is far from always reaching the expected scale.

A fundamental structural challenge persists: developing economies continue to face limited access to long-term and affordable financing. This directly affects their ability to ensure sustainable economic growth and development.

Multilateral development banks are therefore particularly important for developing countries. The banks invest approximately \$200 billion annually. They also serve as key providers of technical assistance, applied research, and advisory services to governments. Their contribution to shaping public policy and implementing reforms around the world cannot be overstated.



**\$ 200 billion**  
is invested annually by MDBs

At the same time, the MDB system itself faces serious internal challenges. Its foundations were laid nearly 80 years ago at the Bretton Woods Conference with the aim of promoting economic growth and combating poverty. Since then, the network of banks has expanded to include dozens of institutions worldwide. Despite the results achieved, its effectiveness does not always meet modern requirements. Instead of coordination, we often see competition. The capital base is stagnating, and organizational structures and processes are becoming excessively bureaucratic.

**About 80 years**  
ago, the foundations were laid for the MDB  
system at the Bretton Woods Conference

The fundamental issue is that IDB investment volumes are not demonstrating the necessary growth momentum. Over the past 25 years, the share of their assets relative to global GDP has declined from 2.0% to 1.8%. To respond effectively to global challenges, it is necessary that assets and investments grow faster than the global economy, while maintaining the financial stability of institutions. This has already become a topic of discussion at the G20 level. Clearly, a rethinking of these issues and a search for new operating models are required.

**From 2.0 to 1.8%**  
the share of IFI assets declined  
relative to global GDP

In this report, we set out a number of key questions: What are the goals and mandates of multilateral development banks today? How is the existing architecture of the MDB system structured? What are the MDBs' capabilities? What resources and portfolios do they have at their disposal? What challenges do they face in the current reality? What are their prospects for development? The answers to these questions are of fundamental importance for understanding the future of the global financial architecture and sustainable development.

Nikolai Podguzov,  
Chairman of the Management Board  
Eurasian Development Bank

# INTRODUCTION

Multilateral development banks (MDBs) occupy a central place in the global financial architecture of sustainable development. Amid mounting global challenges, including climate change, infrastructure deficits, and the need to achieve the Sustainable Development Goals (SDGs), academic and expert literature is increasingly focusing on scaling up the banks' operations, enhancing efficiency, and mobilizing additional resources.

One of the key areas of research is **assessing the required level of investment** and ways to secure it. A report by the G20 Independent Expert Group ([G20 IEG, 2023](#)) emphasizes the need to nearly triple MDB financing by 2030 compared to 2019 levels. This conclusion formed the basis for subsequent G20 initiatives to reform the MDB system ([G20, 2024](#)). Building on this, [Gallagher et al. \(2024\)](#) point out that MDBs lack a systematic approach to determining capital needs for achieving the SDGs and climate goals, which limits strategic planning and efficient resource allocation.

The studies also focus on **sources for increasing the financial capacity of MDBs**. In particular, [Vinokurov et al. \(2024\)](#) examine various mechanisms for raising equity capital. [Munir and Gallagher \(2018\)](#) analyze the potential for expanding lending without increasing capital, including scenarios involving a credit rating downgrade. These studies demonstrate the existence

of both institutional and market constraints affecting the ability of MDBs to scale their operations.

At the same time, significant attention is paid to issues of **operational efficiency**. [Bains et al. \(2024\)](#) identify a number of factors hindering the effectiveness of MDBs, including fragmented standards, insufficient coordination, and underfunding of project preparation. Proposed solutions include harmonizing environmental and social standards, developing country platforms, and strengthening inter-bank cooperation.

Given the limited willingness of shareholder countries to increase capital contributions, **optimizing the balance sheets of multilateral development banks** and introducing **financial innovations** have become key reform priorities. The [G20 Capital Adequacy Report \(2022\)](#) proposes a set of measures aimed at expanding lending without increasing capital. These include more comprehensive recognition of callable capital, the use of hybrid instruments, the transfer of risks to the private sector, and expanded access to liquidity. These approaches were further developed in subsequent initiatives and practices of the MDBs, including the Global Risk and Finance Forum (GRaFF) and the Emerging Markets Risk Database (GEMs).

The literature pays particular attention to **callable capital** as a unique element of MDBs' financial structure. [Humphrey et al. \(2024\)](#) emphasize that a more accurate reflection of this instrument in capital adequacy assessments could significantly increase banks' lending capacity. However, this approach requires coordinated action by shareholders and increased transparency in the procedures for its use. A number of leading MDBs have conducted reviews of triggers and procedures for drawing on call capital ([IBRD \(2024\)](#); [IDB \(2024\)](#)).

Hybrid capital is viewed as a promising tool for expanding the financial capabilities of MDBs ([Humphrey et al. \(2023\)](#)). It combines the characteristics of debt and equity, allowing for increased lending while maintaining credit ratings. Additional innovations, such as "sustainable future bonds," are aimed at attracting central bank reserve assets and demonstrate the potential to mobilize significant additional resources ([Zucker-Marques, Gallagher \(2024\)](#)).

Another important area of research is **expanding financing in local currencies**. The current hard currency dominance creates currency risks for borrowers, particularly in infrastructure projects. The literature ([Bonizzi et al., 2024](#); [Horrocks et al., 2025](#)) highlights key barriers, including high hedging costs, lack of expertise, limited instruments, and institutional constraints. Proposed solutions ([G20/GIF/IMF \(2025\)](#); [Horrocks et al., 2025](#);

[CPI, 2024](#); [IGC, 2023](#)) encompass both financial (development of hedging instruments, mobilization of resources in local currency) and non-financial measures (localization of supply chains, development of capital markets).

Significant attention is paid to **the mobilization of private capital** ([MDB Task Force on Mobilization, 2025](#)). The traditional MDB model, based on raising funds through bond issuance, is gradually being supplemented by instruments for the direct involvement of private investors. The [OECD \(2022\)](#) and [Gregory \(2023\)](#) identify a wide range of such instruments, including syndicated lending, guarantees, blended finance, and securitization. At the same time, the need to transition from the "originate-and-hold" model to the "originate-to-share" model, which involves risk sharing among market participants, is emphasized ([Humphrey, McHugh, 2026](#)).

A serious constraint on the expansion of MDBs' activities remains the lack of **well-prepared projects** ([Bains et al., 2024](#)). Despite the establishment of technical assistance mechanisms, the problem remains a pressing issue. [Schneidewind and Prizzon \(2024\)](#) note the need for systemic changes in approaches to project preparation, including the strengthening of national institutions and donor coordination.

Issues related to **cooperation** among international development banks occupy a prominent place in academic discourse. Despite recognition of its importance, research points to the existence of institutional barriers (Prizzon et al. (2024); Lee, Cardenas, 2021), including a lack of incentives, differences in mandates, and high transaction costs. Country platforms are considered a key coordination mechanism (Gilmour et al., 2024; Bains et al., 2024), formed on the basis of national priorities and aimed at coordinating the actions of various development institutions.

Additionally, the literature (Bhattacharya et al., 2018; Prizzon et al., 2024; Bains et al., 2024; Vinokurov et al., 2026) highlights the potential of other forms of cooperation, including joint financing of projects, standardization approaches, and the creation of joint investment platforms. It is also noted that a certain degree of competition among MDBs can foster innovation and improve efficiency, preventing the monopolization of development approaches.

**Corporate governance** of MDBs is also an important area of research. Studies by the African Development Bank Group (2018), Delikanli et al. (2018), and Prizzon et al. (2022) analyze existing governance models and propose ways to improve them. Key issues include improving compliance with international standards, optimizing the work of boards of directors, and recruiting independent members.

Overall, the current literature demonstrates a comprehensive approach to reforming MDBs, covering financial, institutional, and operational aspects. Despite significant progress in developing new instruments and mechanisms, key challenges — capital constraints, insufficient coordination, and a shortage of projects — remain relevant. This points to the need for further research and practical steps to transform MDBs into more flexible and effective development institutions.

At the same time, the topic of MDBs remains insufficiently explored in terms of **the system's architecture** and long-term development trajectories. There is a lack of research providing a comprehensive understanding of the global MDB system.

Among the overview studies, several key sources stand out. The ODI report (Faure et al., 2015) offers a comparative analysis of 14 institutions, including their mandates, structures, and instruments. S&P Global's annual reports (2024) contain comparable data on approximately 30 organizations with credit ratings, including an analysis of their financial stability. The CEB report (2025), prepared as part of the GRaFF initiative with the participation of the EBRD and the World Bank Group, aims to standardize data and enhance transparency, including regarding capital adequacy assessments.

This study aims to fill that gap. It covers 37 MDBs — from global to subregional — and includes the systematization of a vast dataset, comparative and dynamic analysis, as well as an assessment of key trends in their development.

The Eurasian Development Bank (EDB) has been consistently strengthening its analytical role in this area. In 2024, a database on non-sovereign financing in the Eurasian region was created, covering more than 2,300 transactions since 2008. In 2026, the launch of an open knowledge platform on MDBs is planned, bringing together research, educational materials, and the results of expert events aimed at deepening understanding of their role and transformation.

This report comprises 20 chapters and provides a comprehensive analysis of multilateral development banks — from their history and mandates to the geography of their operations, equity capital structure, and credit ratings. Particular attention is paid to key performance indicators, including asset and capital volumes, investment activity, and the scale of financing in local currencies. The concluding chapter presents the authors' view on the prospects for the development of the MDB system