PRESS RELEASE

Indonesia’s G20 Presidency Stresses the Urgency of Capital Adequacy Frameworks to Boost MDBs’ Role and Capacity

Washington DC, 11 October 2022 – Indonesia’s G20 Presidency and the Center for Global Development organized a joint conference with the theme of “Boosting Multilateral Development Banks’ (MDBs’) Role and Capacity in Development Finance” on 11 October 2022 in Washington DC. The conference aimed to facilitate a discussion on the report of the Independent Review of Multilateral Development Banks’ Capital Adequacy Framework. On behalf of Indonesia’s G20 Presidency, Finance Minister Sri Mulyani provided a keynote speech at the conference.

The G20 Finance Ministers and Central Bank Governors (FMCBG) last year have agreed to launch the Independent Review of MDBs’ Capital Adequacy Frameworks with the objective to: (i) Provide credible and transparent benchmarks on how to evaluate MDB CAFs; (ii) Enable shareholders, MDBs and Credit Rating Agencies (CRAs) to develop a consistent understanding of MDBs’ capital adequacy frameworks; and (iii) Enable shareholders to consider potential adaptations to the current frameworks in order to maximise the MDBs’ financing capacity. The report then finalized on July 2022 with strong support from Indonesia Presidency. The conference’s discussion highlighted the report’s recommendations and engaged adiscussion with representatives of internal (G20) and external stakeholders (such as MDBs, Credit Rating Agencies (CRAs), private sector investors).

"We believe the capital adequacy framework is the right solution that can help optimize the MDBs’ balance sheet whether you’re going to talk about risk appetite, creative financing, (or) how you can utilize more callable capital, they all have the potential to be explored, nothing is actually off the table. The report shows that the freeing up of capital on MDBs' balance sheets, which have potential to unlock additional financing, is certainly quite a promising solution under the current situation. We are looking forward for these recommendations to be discussed which will also be very important input for our Indonesian Presidency, and for sure this is going to be communicated and will be adopted by the India Presidency next year,” said Sri Mulyani.

Over the course of this year, the world has seen elevating market volatility, bringing a severe threat to financial market stability and fiscal sustainability. These risks are particularly imminent for emerging and developing economies (EMDEs). The budget pressures have substantially escalated in most EMDEs in the last couple of years to contain the Covid-19 pandemic, to protect life and livelihood of vulnerable people, and provide support for economic recovery. As a result, those with already high levels of debt will face even higher mounting budget pressures as the cost of fund is surging in tandem with rising capital outflow and depreciating local currency.

Such bleak prospects and mounting risks have been confirmed by the IMF’s World Economic Outlook with one-third of the global economy poised to contract either this year or the next. The reliance of these countries on MDBs’ support becomes increasingly critical especially as global uncertainty and volatility persists. Therefore, there is an urgent need to increase MDBs’ resource capacity.
Masood Ahmed, President of the Center for Global Development remarked, “This is the moment where there has been a broad call for stepping up development financing through MDBs, and the call for that is partly a reflection of the increased need for following up on the sustainable development goals and financing related to that, as well as a special call that the financing of climate change related projects and global public goods requires not just an adaptation in the roles of these institutions so that they become more aligned with responding to the challenges of today, but also the ability to finance them.”

Indonesia has made a priority of its G20 Presidency to lead the group with the most diverse representation to ensure all voices are heard. The “recover together, recover stronger” spirit has become and remained more relevant than ever. Strong leadership and prompt collective actions are needed to maintain our global development objectives and to protect the livelihood of those who are jeopardized while also bringing the world back to strong, sustainable, balanced, and inclusive growth. MDBs play a critical role in that journey, not only through providing more financing but also in catalyzing private sector participation in development.

The “Boosting Multilateral Development Banks’ (MDBs’) Role and Capacity in Development Finance” Conference was attended by Roberta Casali, Vice President for Finance and Risk, ADB; Alejandro Olivo Villa, MD, Moody’s Managing Director, Regional Head for Sovereign Rating in Europe and the Americas; Karby Leggett, Managing Director, Global Head of Public Sector and Development Organization, Standard Chartered India G20 Finance Deputy/Deputy Director; and Lakshmi Shyam-Sunder, Vice President and Chief Risk Officer (CRO), World Bank – as panelists and moderated by Jung Byungsik, Co-Chair of the G20 International Financial Architecture working group.

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