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**G20 Roadmap for the Implementation of the
Recommendations of the
G20 Independent Review of Multilateral Development
Banks' Capital Adequacy Frameworks**

July 2023



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Executive Summary

The G20 Roadmap for the implementation of the recommendations of the G20 Independent Review of Multilateral Development Banks (MDBs) Capital Adequacy Frameworks (CAF) has been developed based on the mandate from Leaders in Bali in November 2022 and updates from MDBs in Spring 2023. The roadmap provides a stocktake of the status of implementation of CAF recommendations by each MDB as reported by the Banks, as well as forward-looking G20 guidance on how to pace up the implementation of the recommendations which are voluntary and subject to each MDB's governance framework and internal mandates.

The Roadmap presents a good progress in the implementation of the CAF recommendations. Many recommendations, including those relating to adapting definitions of risk appetite, financial innovation and engagement with Credit Rating Agencies (CRAs), have shown initial progress. There is unanimous support across the MDB ecosystem for GEMS 2.0 and its timely launch as a standalone entity. Some recommendations such as incorporating a prudent share of callable capital into capital adequacy metrics have not been implemented by MDBs. Despite considerable lending headroom being expected from raising hybrid capital, the cost effectiveness of this option and its impact on the pricing of MDBs' loans vis-à-vis the increased volume of financing that it can unlock, as well as the credit rating assigned to the hybrid instruments by CRAs, also needs to be better assessed, particularly if hybrid capital is to be sourced from capital markets. Initial CAF measures, including those under implementation and consideration, could yield an estimated additional lending headroom of approximately \$200 billion¹ over the next decade. This figure is illustrative of the order of magnitude, needs to be analysed further and the aggregate will be updated as MDBs take additional measures over time, given more could be done.

In view of the above, forward-looking guidance by the G20 to accelerate implementation of these recommendations includes:

- MDBs to reflect further on the possibility of additional measures on risk-appetite to extend the capital utilization ratios to the extent possible within sound banking principles while retaining MDBs' high ratings, and through extensive dialogue with CRAs including on consideration of PCT in rating methodologies.
- MDBs and shareholders to clarify the processes and procedures for the MDBs making calls on callable capital and shareholders' response to them, so as to add a degree of certainty towards CRAs with the current feature of callable capital. MDBs and shareholders to also engage in a dialogue to align their methodologies and undertake

¹ Refer to Table 2 that provides estimated additional headroom created by initial implementation of CAF recommendations, based on MDBs' replies to the G20 template on CAF review implementation.



a coordinated analysis to explore the possibility to integrate a prudent share of their callable capital into their internal capital adequacy metrics.

- MDBs should explore additional risk transfer options to the private sector and among peers while remaining within their individual mandate (geographical, sectoral, etc.)
- MDBs' management can strengthen the ability of their boards to effectively set parameters of capital adequacy policies by proposing to their board members key material, information and potential training on best practices regarding capital adequacy policies management.
- MDBs to assess the need to relocate specific numeric leverage targets from their statutes based on details regarding their projected lending limit, where relevant, and whilst respecting their unique institutional set-up, mandates and governance.
- MDBs should explore with their boards the steps needed to issue hybrid capital to the private sector, interested shareholders, and other development partners, with the amounts and composition of that issuance. The G20 also encourages shareholders who are actively exploring SDRs channelling to MDBs to finalise their assessment of the feasibility of the option in cooperation with MDBs, while respecting national legal frameworks. Efforts may also be taken by relevant national authorities to address issues including the reserve asset status of SDR loans and the potential role expected from other shareholders through liquidity support.

The Roadmap also encourages MDBs to collaborate and develop systemic approaches towards implementation of CAF recommendations, wherever possible. In this regard, some of the areas where the G20 would encourage MDBs to partner with each other are as follows:

- MDBs considering hybrid capital issuance should collaborate on the design of hybrid capital for market investors and communication with market participants, including CRAs, to improve their understanding of MDBs as an asset class, and lower costs for all MDBs.
- MDBs to organise regular outreach to CRAs and encourage steps by rating agencies to strengthen their MDB evaluation methodologies and to provide guidelines on their rating methodologies for key recommendations (inter alia, sovereign guarantees, hybrid capital issuance, callable capital).
- MDBs to work together with CRAs to consider the treatment of risk weights for ESG assets, including using data from GEMS 2.0.
- MDBs to work together towards establishing a yearly capital benchmarking report presenting key elements & data in a comparable format with harmonized definitions. The G20 encourages coordination on this recommendation.
- MDBs to work together for transforming GEMs into a stand-alone entity by early 2024 to support improved knowledge for MDBs, private investors and CRAs.

The present Roadmap is the first exercise carried out by the G20 with the support of MDBs to monitor the progress in the implementation of CAF recommendations and the G20 guidance encapsulated in the Roadmap provides an opportunity for MDBs to recalibrate their current approach to the recommendations, wherever needed, and accelerate the implementation process of this multiyear effort. Going forward, it is recommended that the discussions on the Roadmap should evolve into a rolling exercise that allows for regular review of the progress of implementation of CAF recommendations, including through engaging with MDBs, subject experts and shareholders; as well as necessary realignment of approach that MDBs may adopt for enhancing the efficiencies that can be gained through these recommendations.

Background

1. The G20 Independent Panel for Review of Multilateral Development Banks (MDBs) Capital Adequacy Framework (CAF) was set up under the 2021 G20 Italian Presidency and was mandated to *'provide credible and transparent benchmarks on how to evaluate MDB CAF; enable shareholders, MDBs and Credit Rating Agencies (CRAs) to develop a consistent understanding; and enable shareholders to consider potential adaptations to maximise the MDBs' financing capacity'*.
2. The Panel published their Report in July 2022 under the G20 Indonesian Presidency which contained 17 recommendations spread over 5 broad areas, namely,
 - Adapt approach to defining risk tolerance
 - Give more credit to callable capital
 - Expand uses of financial innovations
 - Improve credit rating agency assessment of MDB financial strength
 - Increase access to MDB data and analysis
3. Following this, G20 Leaders, during the November 2022 Bali Summit, called for development of a roadmap for the implementation of the recommendations of the G20 Independent Review of MDBs' CAF.
4. Taking forward the mandate given by the G20 Leaders in Bali, the Finance Ministers and Central Bank Governors' during their meeting in February 2023 tasked the International Financial Architecture Working Group to work with the MDBs to develop a G20 Roadmap based on updates from MDBs in Spring 2023 and looked forward to receiving the roadmap during their third meeting in July 2023.

Objective of the Roadmap

5. The CAF recommendations provide an opportunity to the MDB ecosystem to explore mechanisms to make use of their existing resources more effectively in order to address the increasing demand on the MDBs' lending resources. **The Roadmap provides a forward momentum to the MDB CAF agenda by fulfilling the following two objectives:**
 - Stocktake of the status of implementation of CAF recommendations based on the updates from various MDBs.
 - Provide forward-looking G20 guidance on how to pace up the implementation of the recommendations subject to each MDB's governance structure and mandate.

6. For achieving the aforementioned objectives, the G20 Indian Presidency and IFA WG co-chairs organised discussions with MDBs during the IFA meeting in March, including a workshop with Credit rating Agencies, and shared thereafter a template with MDBs (Annex 1), in order for them to deliver a harmonised update on the state of implementation of CAF Review recommendations in Spring 2023. This template touched upon the progress made on the recommendations, the complexities in meeting them and the way forward for further implementation.
7. All the MDBs - the AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB and the World Bank Group (WBG) - completed this template which provided a snapshot of the state of work, the common pathways to implementation among MDBs as well as discrepancies in the preferred measures from the perspective of the individual MDBs.

State of Play of the implementation of CAF recommendations

8. Based on the updates shared by the respective MDBs through their templates, and notwithstanding the fact that all MDBs have varied starting points in respect of each recommendation, the MDBs have been grouped into four categories across each of the 17 recommendations, namely:
 - Recommendations under implementation already (*Note: most of these measures were implemented prior to CAF recommendations but in some cases could be further reinforced through CAF wider recommendations*)
 - Recommendations that shall be largely implemented in the short term (2023/2024)
 - Recommendations that MDBs are preparing to implement in the longer term (beyond 2024)
 - Recommendations not largely considered by MDBs or mainly applicable to the G20 and other stakeholders (including credit rating agencies)
9. On the basis of the aforementioned classification, the current state of play with respect to MDB CAF recommendation, according to the MDBs, is as follows:

Table 1: Update by MDBs on the implementation of the CAF recommendations²

Under Implementation	To be implemented in the short term (2023/2024)	Preparing to be implemented in the long term (Beyond 2024)	Not largely considered by MDBs ³
1a Shift risk appetite definition toward shareholder-defined limits.			
AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB, WBG			
1b Ensure frameworks account for MDB-specific features.			
AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, WBG	NDB		
1c Relocate specific numeric leverage targets from MDB statutes.			
	AfDB, ADB, AIIB ⁴ , EBRD, IDB, WBG ⁵	EIB ⁶	, IsDB, NDB
2a Incorporate a prudent share of callable capital into the calculation of capital adequacy.			
IDB, EBRD, WBG ⁷	IsDB ⁸		EIB, ADB, AIIB, AfDB, NDB
3a Endorse MDB consideration of non-voting capital classes (paid-in equity or hybrid) to contribute to available capital.			
	AfDB, WBG, ADB	EBRD, IDB, NDB,	AIIB, EIB, IsDB
3b Introduce & scale portfolio risk transfers to the private sector, including through outright shares, insurance and securitization. <i>Note: mostly implemented in a different way through portfolio risk transfers between MDBs and risk transfers to private sector.</i>			
AfDB, ADB, AIIB, IDB, EBRD, WBG	IsDB, NDB	EIB	
3c Encourage shareholder guarantees on loans related to crosscutting priorities.			
AfDB, ADB, EBRD, EIB, IDB, WBG	AIIB, IsDB	NDB	

² Subject to approval by shareholders and respective MDB Boards.

³ Or mainly applicable to the G20 and other stakeholders (including credit rating agencies).

⁴ Article 12 of the AIIB's Articles of Agreement has the requirement that the total financing by the Bank in its ordinary operations shall not exceed its unimpaired subscribed capital (available capital + callable capital). AoA also has the language to allow an extension to 2.5 times subscribed capital via a vote of the Board of Governors.

⁵ Status modifications approved by the board for the WBG and under preparation for governors' approval. Status modifications approved by the board and governors for EBRD.

⁶ EIB is currently discussing with shareholders on a possible amendment of its statute with respect to the gearing ratio.

⁷ In the case of IBRD, the recent change in equity-loan ratio has increased the reliance on callable capital to maintain AAA rating. It should be noted that IBRD does not have IDB's policy of automatically being able to raise capital through price increases if they fall near/into the zone where they require the callable capital uplift to retain the AAA issuer credit rating.

⁸ IsDB has informed that they will include callable capital in leverage ratio and not capital adequacy.



Under Implementation	To be implemented in the short term (2023/2024)	Preparing to be implemented in the long term (Beyond 2024)	Not largely considered by MDBs ³
3d Support collective shareholders commitments of pools of additional callable capital.			
	AfDB	WBG	ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB
3e Support adaptation of MIGA's products & reinsurance capability to transfer portfolio level risk from MDB balance sheets.			
		AfDB, EBRD, IDB, NDB	ADB, EIB, AIIB, IsDB
3f Consider ways to provide MDBs access to central bank liquidity.			
EIB, IsDB ⁹		IDB	AfDB, ADB, AIIB, WBG, EBRD, NDB
4a Strengthen communication with credit rating agencies.			
AfDB, EBRD, EIB, AIIB, IDB, IsDB, NDB, WBG, ADB			
4b Encourage steps by rating agencies to strengthen their MDB evaluation methodologies.			
	AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB, WBG		
4c Take proactive approach to incorporation of ESG factors in rating methodologies.			
WBG	AIIB, EIB, IDB, IsDB, NDB	EBRD	AfDB, ADB,
5a Strengthen the ability of shareholder boards to effectively set parameters of capital adequacy policies and overseeing their implementation.			
WBG, EBRD, EIB, AIIB	, IDB, IsDB, NDB		ADB, AfDB,
5b Establish yearly capital benchmarking report presenting key elements & data in comparable format with harmonized definitions. Support regular reviews of capital resources.			
EIB	AfDB, ADB, AIIB, EBRD, IDB, IsDB, NDB, WBG		
5c Establish enhanced dialogue and cooperation on capital adequacy and risk management.			
EIB, EBRD	AfDB, ADB, AIIB, IDB, IsDB, NDB, WBG		
5d Transform GEMs into stand-alone entity to support improved knowledge for MDBs, private investors and CRAs.			
	AfDB, ADB, AIIB, EBRD, EIB, IDB, IsDB, NDB, WBG		

⁹ IsDB has developed a detailed lender of last resort liquidity line product with a major central Bank, which is yet to be operational.



G20 key takeaways from the current state of play as reported by the MDBs

10. **There has been initial progress on many of the CAF recommendations** MDBs have shown a willingness to consider the recommendations in detail and some early action on adapting definitions of risk tolerance, financial innovation and engagement with Credit Rating Agencies (CRAs) has already demonstrated the potential of the G20 CAF report recommendations to unlock billions of dollars in additional finance. Unanimous support is also there across the MDB ecosystem for GEMS 2.0 and its timely launch as a standalone entity by early 2024. However, not all MDBs have implemented these recommendations equally, and some still face challenges, notably because of differences in their governance framework.
11. **Considerable uptake across the MDB ecosystem for a large number of CAF recommendations is encouraging:** The World Bank's efforts in reviewing its policy minimum Equity to Loan ratio as well as increasing the cap on shareholder guarantees and pilot on hybrid capital will generate capacity for significant additional financing. ADB has also made significant progress on recalibrating shareholders' risk appetite as it also explores further use of financial innovation. While the AfDB substantially increased its lending capacity by pioneering risk transfer transactions and revising its capital adequacy model, the bank is also working on establishing a hybrid capital issuance scheme with a pilot to be launched by the end of 2023. Furthermore, a hybrid capital-based option for rechannelling SDRs to MDBs is being pioneered by AfDB and IDB. ADB has also shown interest in pursuing this option. IBRD Board has approved and is preparing for Governor's voting on a resolution to remove the statutory lending limit from the Articles. EBRD governors approved at the May 2023 Annual Meeting to relocate the bank statutory capital ratio from the Articles establishing the bank to a Board level policy in line with the CAF recommendations, and EBRD is also exploring ways to expand the use of financial innovations. IsDB, IDB and NDB have also shown a proactive interest in implementing CAF recommendations. IsDB has shown keen interest in financial innovations. IDB has also enhanced its engagement with CRAs and committed to a 14% increase of its sustainable lending capacity by 2024. NDB is actively engaging with peer MDBs for potential Exposure Exchange Agreements (EEAs). AIIB, despite not being presently constrained by capital adequacy limits, has in light of best practice amended the parameterization of its internal weighted average credit rating (WACR) methodology which should allow the Bank, together with the development of guarantee schemes towards peer MDBs, to lend in important additional volumes to lowest-rated members.

- 12. Implementation of some of the CAF recommendations has been slow:** Some recommendations have not been considered by a number of MDBs including recommendation on incorporating a prudent share of callable capital into capital adequacy frameworks which in many cases requires shareholder approval. Despite considerable lending headroom being expected from raising hybrid capital, the cost effectiveness of this option and its impact on the pricing of the MDBs' loans vis-à-vis the increased volume of financing that it can unlock, need further assessment. The credit rating assigned to the hybrid instruments by some Credit Rating Agencies also needs to be better assessed. The recommendation on providing MDBs access to central bank liquidity does not seem feasible across all MDBs as many MDBs have found its implementation to be outside their purview and mainly dependent on shareholders' interest and relevant central banks' mandates. It is important that MDBs and shareholders maintain the momentum on implementing the recommendations considered feasible in the coming years.
- 13. The applicability and impact of CAF recommendations vary across MDBs based on their portfolio, balance sheets and governance structure.** Private sector focused MDBs do not benefit as much from the Preferred Creditor Treatment, and also do not face significant issues with concentration in their portfolios. Further, implementing risk transfer innovations is easier for market priced private sector portfolios, than for sovereign loans. MDBs that have significant headroom in the context of their capital adequacy metrics might be less inclined to consider recommendations such as hybrid capital in the short term to increase their lending. Instruments such as temporary callable capital or access to central bank liquidity have been used by some MDBs (EIB, IsDB) within their governance frameworks and specific institutional environment, but the feasibility of a wider applicability to other MDBs must be carefully considered and depends also on the relevant central banks' mandates and decisions.
- 14. There is more to do particularly on the cross-cutting recommendations.** There are several recommendations, such as efforts to align methodologies across MDBs, carry out regular benchmarking, and coordinate more closely with the CRAs, where cross-MDB, cross-shareholder coordination is needed.
- 15. Preliminary estimated figures of additional lending capacity from MDBs represent approximately \$200 billion + over 10 years (Table 2), this figure being illustrative of the order of magnitude and needs to be analysed further¹⁰:** Financial impact across MDBs through implementing the CAF recommendations can at best be approximated

¹⁰ This is in case all the measures that are currently in the category of already implemented/ to be implemented later do get fully implemented. However, due to the different methodologies and expected leverage effects used to present the figures, as well as the uncertainty on the future board support to implement the whole package of reforms, this figure remains illustrative and needs to be further clarified by MDBs before the upcoming G20 meetings.



at this stage. Some MDBs have shared the details of the probable lending headroom that will be created through implementing some of these recommendations, including:

- a. As regard to adjustment of risk appetite: IBRD estimates an additional lending headroom of \$4 billion per year over the next 10 years.
- b. Consideration of non-voting capital (hybrid capital that could be in the form of preferred equity or subordinated debt) by MDBs will result in varied estimates as per the issuance of the hybrid capital. For IBRD, the current expectation is 75-100% of hybrid capital issued to market investors will receive equity treatment. If 75% equity treatment, a \$1 billion of hybrid capital is estimated to increase IBRD lending capacity by a total of \$6 billion over 10 years. For ADB, potential \$3 billion hybrid capital issuance can increase annual lending capacity by \$1.5 billion. AfDB is expecting \$19 billion of additional headroom from hybrid capital, without specifying the amount to be issued. For EBRD, €1 billion of hybrid capital (assuming 75% equity treatment) could support additional lending capacity of €5 billion over 10 years.
- c. On recommendation on risk transfers to the private sector, in the case of ADB, existing non-sovereign risk transfer arrangements increase ADB's annual lending capacity by \$0.2 billion. For AfDB, risk transfer has led to \$2.3 billion of lending capacity. IDB sees a potential increase of \$10 billion over 10 years (subject to BSO amount, cost implications, how additional lending capacity is deployed). For NDB, USD 1 billion EEA could potentially lead to increase in lending capacity by USD 1.5 billion.
- d. On account of shareholder guarantees, For IBRD, an expanded bilateral shareholder guarantee program can provide up to \$5 billion of additional lending headroom if the guarantee is provided by highly rated shareholders. For ADB, financial guarantees currently under discussion could potentially increase lending capacity by \$2.3 billion per annum¹¹. For IDB, it could be \$10 billion over 10 years.

¹¹ ADB has developed innovative solutions that involve multiple sovereign shareholders to provide guarantees that aim at increasing lending levels in specific sectors like Education (IFFEd) and Climate (IF-CAP)



Table 2: Estimated additional lending capacity for MDBs' measures related to CAF review recommendations

	AfDB	AsDB	AiIB	EBRD	EIB	IDB	IsDB	NDB	WBG - IBRD
Measure	Hybrid capital issuance (4.5bn\$ approx.)	3 bn\$ hybrid capital issuance	Parameterization Optimization	1bn\$ hybrid capital issuance	<i>No estimated amount</i>	Hybrid capital issuance	<i>No estimated amount</i>	Portfolio risk transfers	1bn\$ hybrid capital issuance
Additional lending capacity - 10 years	19	15	15	5		10		1.5	6
Measure	Temporary pool of additional shareholders' capital	Portfolio risk transfers		Portfolio risk transfers		Portfolio risk transfers			Shareholders' guarantees
Additional lending capacity - 10 years	23	2		1.68		10			5
Measure		Shareholders' guarantees				Shareholders' guarantees			E/L ratio review
Additional lending capacity - 10 years		23				10			40
Measure						Liquidity backstop facilities			
Additional lending capacity - 10 years						10			
Measure									
Additional lending capacity - 10 years									
Total	42	40	15	7	0	40	0	1.5	51
Grand Total	196.5								

These estimations are based on MDBs' replies to the G20 template on CAF Review implementation and further clarifications from MDBs to IFA co-chairs in the following weeks. The total additional capacity, based on self-estimation provided by the MDBs, approximately reaches \$200 billion, considering some measures were not estimated by MDBs but still have the potential to bring additional lending capacities.

Way forward and next steps¹²

16. Based on the progress reported so far, the present session provides G20 guidance for the consideration of MDBs regarding implementation of the CAF recommendations. This guidance is voluntary in nature and subject to individual MDBs governance structures and mandates.

On the recommendations under implementation

- **On Recommendation 1a: Continue efforts for reviewing the risk-appetite of MDBs:** Despite the progress achieved, the G20 calls on MDBs to reflect further on the possibilities to suggest additional measures on risk-appetite to extend the capital utilization ratios to an appropriate extent within sound banking principles while retaining MDBs' high ratings and through extensive dialogue with CRAs including on consideration of PCT in rating methodologies.
- **On Recommendation 1b: Continue efforts to finetune the capital adequacy frameworks to better account for MDBs specific features.**
- **On Recommendation 2a: Encourages dialogue among MDBs and with shareholders to align their methodologies and undertake a coordinated analysis for integrating a prudent share of their callable capital into their internal capital adequacy metrics to provide clarity on the procedures, timelines and steps in the case of a call on Callable Capital, to help the conversation with CRAs:** As part of this process, and within the current feature of callable capital, the G20 encourages MDBs to engage among peers to align their methodologies in integrating a prudent share of their callable capital into their internal capital adequacy metrics. It will also be useful to deepen the dialogue with CRAs and shareholders for a better understanding on callable capital integration within internal ratios: it could lead to a document explaining to CRAs the precise way callable capital can be currently called. No major changes have yet been made in response to this recommendation. IDB is the only MDB accounting for Callable Capital (CC) significantly in its methodology.
- **On Recommendation 3b: MDBs should explore additional risk transfer options to the private sector and among peers while remaining with their individual mandate (geographical, sectoral, etc.):** Risk transfer agreements have already been concluded in the past years through synthetic exposure swaps between MDBs. Even though there is low

¹² Annexures 2 provides a synthesis of the measures implemented and the work still to do on each of them.



attractivity for private investors due to the initial pricing of MDBs arrangements, MDBs may continue exploring further the potential options of risk transfers to the private sector, such as the synthetic securitization schemes that have been recently implemented in a successful manner. Regarding risk transfer of sovereign portfolio to the private sector as well as considering the uncertainty and complexities involved such as potential dilution of preferred creditor treatment (PCT), MDBs may set a clear framework for these transfers with harmonized understanding among MDBs on the implications on PCT in case of default.

- **On recommendation 4a: Strengthen communication with credit rating agencies:** The G20 encourages MDBs to develop regular outreach to CRAs with the presence of shareholders which could highlight their support to MDBs activity. The G20 can also play an important role in facilitating continued dialogue between MDBs, shareholders, CRAs and other stakeholders to explore the possibility of developing common CRA principles for MDB rating methodologies, through the IFA WG, side events and other mechanisms.
- **On Recommendation 5a: Strengthening the ability of shareholder boards to effectively set parameters of capital adequacy policies:** MDB managements can facilitate by proposing to their board members key material, information and potential training on best practices regarding capital adequacy policies management, and shareholders shall consider whether it is appropriate to bring on independent expertise to supplement their work.

On recommendations projected to be implemented in the short-term

- **On Recommendation 1c: Relocate specific numeric leverage targets from MDB statutes:** As statutory lending limit are almost the same in most MDBs and have become less relevant, a G20 call could be useful. While recognizing that statutory lending limits do not constrain lending by all the MDBs, the G20 encourages MDBs to assess details regarding their projected lending limit, where relevant and whilst respecting their unique institutional set-up, mandates and governance. Depending on this individual analysis, then the relevant MDBs may consider preparing for the implementation of this recommendation, following the example of EBRD (decision of the Board of Governors at the May 2023 Annual Assembly) and WBG.
- **Encourage MDBs to establish leveraged guarantee platforms, and MDBs and shareholders to engage in dialogue to facilitate growth of the shareholders' guarantees on MDBs sovereign financing arrangements:** Shareholders' guarantees on MDBs' financing arrangements are projected to grow and is seen by both CRAs and MDBs as having a strong potential, subject to shareholder demand. It could also be good to

distinguish between targeted guarantees to cover specific exposure/loans and broader portfolio guarantee, including how it interacts with the Preferred Creditor Treatment when sovereign loans are concerned (developing a framework could be useful in that regard). For this recommendation to be implemented while providing visibility to MDBs, a dialogue between shareholders and MDBs is recommended to better determine the scale of their ambition, the clear limits to the use of this tool and its targets towards which priorities (geographical, sectoral, etc.). The G20 could also invite CRAs to establish guidelines on their view on the best use of this instrument, in collaboration with MDBs that already make use of targeted as well as portfolio guarantees such as EBRD and EIB, as some CRAs proposed during the March IFA workshop.

- On Recommendation 4b: Encourage steps by rating agencies to strengthen their MDB evaluation methodologies:** Given that there is considerable consensus on the need for MDBs to increase their cooperation with CRAs through extensive data sharing, the G20 urges CRAs to assess the possibilities to further clarify or modify their methodologies towards MDBs and entering in a dialogue among peers to explore potential commonalities in their methodologies, in order for MDBs to make the best use of their capital, while not jeopardizing the specificity and strength of each CRA methodology.
- On Recommendation 4c: Continuing exploring option for evaluating the risk weights of ESG-related assets on MDB balance sheets:** In order for MDBs lacking the resources to implement this policy, the G20 encourages MDBs to work together with CRAs to consider the treatment of risk weights for ESG assets, including using data from GEMS 2.0.
- On Recommendation 5b: Establish yearly capital benchmarking report presenting key elements & data in comparable format with harmonized definitions:** The G20 encourages MDBs to work together on this recommendation since it can provide a layer of credibility and can support informed judgement among shareholders, rating agencies and investors. MDBs may consider implementing this recommendation under the leadership of one of them and recalls the proposal from WBG and EBRD to take the lead on this topic.
- On Recommendation 5c: Establish enhanced dialogue and cooperation on capital adequacy and risk management:** The G20 encourages MDBs to follow on the initiative planned by some MDBs to reinforce dialogue between Chief Risk Officers and Chief Financial Officers in order to increase MDBs risk-assessment and identify potential headroom within shareholder-defined limits.

- **On Recommendation 5d: Transform GEMs into stand-alone entity to support improved knowledge for MDBs, private investors and CRAs:** There seems to be a strong support from the MDBs on transforming the Global Emerging Markets (GEMs) database into a suitably structured standalone entity, with a special focus on data sharing regarding Probability of Default (PD) and Loss-Given Default (LGD). While recalling the importance of data security and legal confidentiality, the G20 would recommend accelerating efforts regarding this recommendation in order to see tangible progress in 2023, then to pursue with the ambition to establish a standalone entity gathering extensive data as a tool for all the stakeholders involved in development finance and corporate finance in developing countries including private sector actors. Providing access to GEMs for regional and subregional banks could also be considered.

On the recommendations projected to be implemented in the longer-term

- **On Recommendation 3a: Endorse MDB consideration of non-voting capital classes (paid-in equity or hybrid) to contribute to available capital:** Hybrid capital remains a specific measure with strong potential on MDBs' additional lending capacity. Hybrid capital issuance could target both private investors and shareholders. However, given that some questions remain on this instrument, the G20 recommends additional consideration of factors such as:
 - MDBs to clarify the exact rights attached to hybrid capital subscription, ideally after consultations with potential investors. Focused discussions may be held with CRAs to determine the exact financial impact of hybrid capital (inter alia, potential increased cost of borrowing) together with the impact in terms of additional volume of financing, the reasonable level of hybrid capital issuance for the MDBs.
 - Agreement among shareholders on a potential cap and threshold for hybrid capital shareholders' subscription.
 - The G20 encourages shareholders who are actively exploring SDRs channelling to MDBs to finalise their assessment of the feasibility of the option in cooperation with MDBs. Efforts may also be taken to address issues including the reserve asset status of SDR loans and the potential role expected from other shareholders through liquidity support.
 - MDBs considering hybrid capital issuance should work together on the design of hybrid capital for market investors and communication with market participants, including CRAs, to improve the understanding of MDBs as an asset class, and lower costs for all MDBs.

On recommendations not largely considered by MDBs / mainly applicable to the G20 and other stakeholders

- On Recommendation 3d: Additional temporary callable capital should be used only on a temporary basis and also in exceptional situations:** While the additional capacity offered by additional temporary callable capital is recognized to a limited extent, the instrument must be further assessed in terms of interpretation by CRAs on the actual uplift in their rating and their consideration in terms of shareholders' support when the instrument ends and lending capacity decreases. The G20 recommends that MDBs may consider such schemes only on a temporary basis and also in exceptional situations.
- On Recommendation 3e: Depending upon the appetite of individual MDBs, each MDB may see whether they can support adaptation of MIGA's products & reinsurance capability to transfer portfolio level risk from MDB balance sheets:** There has been low interest from MDBs to increase exposure transfers to MIGA considering the risk-level required, the portfolio requirements from MIGA which involves transfer of comparable risk levels exposure (BBB and above) and portfolios of limited size and in part due to capital constraints from MIGA. However, additional work on that direction could be useful: while recognising the limited headroom from this measure, the G20 encourages MIGA to propose some options to be discussed in the IFA WG (a dedicated workshop could be organised).
- On Recommendation 3f: No further work to be pursued on ways to provide MDBs access to central bank liquidity:** On the CAF recommendation to provide access to Central Bank liquidity for shareholders, there has not been much uptake among many MDBs since it involves extensive changes in the various Central Banks' legislation. This may not always be possible to implement considering the mandates and independence of these institutions. Therefore, the G20 recommends no further action on this agenda unless and until individual MDBs intend to discuss with their shareholders and the relevant Central Banks on the feasibility of this recommendation, based on the characteristics of each MDB.

Next steps

17. The G20 calls on MDBs to increase their efforts to make progress in implementing the recommendations in a comprehensive manner while safeguarding MDBs' long-term financial sustainability and maintaining their current high credit ratings. MDBs should adopt a joint approach on recommendations such as hybrid capital, callable capital and GEMs 2.0, to improve efficacy of these actions and treatment by CRAs. The

implementation of CAF recommendations roadmap is a multi-year effort requiring all stakeholders to work in close co-ordination towards timely implementation so as to maximize the impact of the CAF recommendations. Since the publication of the recommendations, each MDB has developed unique approaches to implement the recommendations in a manner that is aligned with their respective mandates and governance structures. In the process there has been significant learnings that has emerged on the catalytic role of these recommendations along with the challenges involved in their implementation. Additionally, it is also clearly evident that each CAF recommendation has significantly varying impacts in creating additional lending headroom.

18. Through the stocktaking exercise and the forward guidance emerging from that, the present Roadmap provides an opportunity to the MDBs to share their individual experiences with CAF implementation, undertake necessary recalibrations on their ongoing work on CAF recommendations as well as work towards enhanced co-ordination so that MDBs develop a systemic approach to the CAF work. The G20 could continue to play a role in this multi-year effort, while respecting the respective mandate, governance structures and decision-making processes of MDBs.
19. To ensure that the impetus towards implementation is maintained, the progress of MDBs on the G20 guidance encapsulated in this roadmap could be monitored on a rolling basis including through engaging with MDBs, subject experts and shareholders. This can ensure that the Roadmap is constantly updated based on progress achieved, new challenges confronted and the new ideas emerging from the MDB ecosystem on how the CAF recommendations can be implemented in a smarter and effective manner.

Annexures 1: Implementation of CAF review recommendations

It is noted that all the questions may not be applicable to all MDBs and that MDBs governing bodies will decide ultimately which recommendation of the CAF Review each MDB can implement and to what extent they will do it.

Area	Recommendation	Comments
General		Which recommendation do you consider having already implemented (i.e., no plans to do additional work to implement these recommendations)?
		What high level guidance can the G20 provide to facilitate a cross MDB approach on specific recommendations where such an approach is warranted? What are the recommendations for which a cross MDB approach would be most valuable?
		Which recommendations need support from G20 and how do you expect G20 to provide support for implementing each recommendation?
		Are there other measures, apart from the CAF recommendations, that you are considering in order to expand your lending capacity?
1. Adapt approach to define risk tolerance	1a. Shift risk appetite definition toward shareholder-defined limits.	<p>Status :</p> <p>Comments :</p> <p>If already / to be implemented:</p> <p>How will you shift the risk appetite definition toward shareholder-defined limits? How are you considering this recommendation in conjunction with recommendations 1b and 2a?</p> <p>If not considered: why not ?</p> <p><u>Financial impact</u></p> <p>How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>
		Status :

Area	Recommendation	Comments
	<p>1b. Ensure frameworks account for MDB-specific features.</p>	<p>Comments : If already / to be implemented: - How do you incorporate adjustments (e.g. PCT and concentration risk) into your capital adequacy metrics? What is this based on? - How do you plan to implement this recommendation? Do you see this as the only action (or set of actions) you will take to implement this recommendation? What kind of analytical study have you conducted to implement this recommendation, and did you share it with shareholders? - What is unique to the MDB concerned and how much does it vary with the other MDBs? - Which difficulties have you identified to implement it and how could they be overcome ? If not considered: why not ?</p> <p>Financial impact : How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p>Impact on the rating</p> <p>Expected Timeline and milestones over the next 3 years :</p>
	<p>1c. Relocate specific numeric leverage targets from MDB statutes.</p>	<p>Status :</p> <p>Comments : If already / to be implemented: - Which ratio would you remove / modify ? What could be the potential implications? - Does it require to modify the Articles of agreement ? Which changes should be made?</p> <p>Financial impact : How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p>Impact on the rating</p> <p>Expected Timeline and milestones over the next 3 years :</p>
		<p>Status :</p>

Area	Recommendation	Comments
2. Give more credit to callable capital	2a. Incorporate a prudent share of callable capital into the calculation of capital adequacy.	<p>Comments : If already / to be implemented: - How do you plan to implement this recommendation, and does your planned implementation rely on your existing callable capital stock or new resources from shareholders? Do you see this as the only action (or set of actions) you will take to implement this recommendation? - Do you intend to include the whole or a share of callable capital in the ratio calculation? What are the difficulties to overcome? - Does it require to modify the Articles of agreement ? If not considered: why not ?</p> <p>Financial impact : How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p>Impact on the rating</p> <p>Expected Timeline and milestones over the next 3 years :</p>
3. Expand uses of financial innovations	General	<p>Comments :- What are the pros and cons of the financial innovation measures that you have been implementing ? Have you been collaborating with any of the other MDBs to implement any financial innovations? If yes, kindly elaborate. If no, please indicate the reasons preventing you from doing so.</p> <p>Status :</p>

Area	Recommendation	Comments
	<p>3a. Endorse MDB consideration of non-voting capital classes (paid-in equity or hybrid) to contribute to available capital.</p>	<p>Comments : If already / to be implemented: - How do you plan to implement this recommendation? Do you see this as the only action (or set of actions) you will take to implement this recommendation and, if not, what additional actions do you expect to take in the future? - What kind of actors are interested to contribute to this non-voting capital (foundations, private sector, etc.) ? - What would prevent you to implement it and how to overcome this? Will it have any impact on the terms of borrowing for MDB client countries? If not considered: why not ?</p> <p><u>Impact on the rating</u></p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>3b. Introduce & scale portfolio risk transfers to the private sector, including through outright shares, insurance and securitization.</p>	<p>Status :</p> <p>Comments : If already / to be implemented: -What Risk Transfer instruments/approaches are you using already and what is their size? What impact are they having on different risks? Do you see this as the only action (or set of actions) you will take to implement this recommendation and, if not, what additional actions do you expect to take in the future? If not considered: why not ?</p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create? What headroom do you expect to gain on risk-weighted ratios and nominal ratios?</p> <p><u>Impact on the rating</u></p>



Area	Recommendation	Comments
		<p><u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>3c. Encourage shareholder guarantees on loans related to crosscutting priorities.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: - How do you plan to implement those guarantees (through a specific facility, more systematic use of guarantees) ? -What volume of shareholder guarantees are you using currently, reasoning behind it (single borrower concentration, portfolio risk etc)? Do you use both targeted and portfolio based guarantees? If not considered: why not ? <u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create? <u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>3d. Support collective shareholders commitments of pools of additional callable capital.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: - What benefit could you expect from this measure if implemented? If not considered: why not ? <u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create? <u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>3e. Support adaptation of MIGA's products & reinsurance capability to transfer portfolio level risk from MDB balance sheets.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: For MIGA only: What have you and MIGA shareholders concluded in terms of the feasibility and desirability of implementing this recommendation? How do you plan to work with other MDBs in</p>

Area	Recommendation	Comments
		<p>this regard, and what interest have other MDBs shown in working with MIGA in this area If not considered: why not ?</p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline :</u></p>
	<p>3f. Consider ways to provide MDBs access to central bank liquidity.</p>	<p><u>Status :</u></p> <p><u>Comments :</u> If already / to be implemented: What benefits could you expect from this measure, if implemented? What support could the G20 offer to facilitate its implementation? Have there been any discussions with shareholders on this issue? If not considered: why not ?</p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>
<p>4. Improve credit rating agency assessment of MDB financial strength</p>	<p>4a. Strengthen communication with credit rating agencies.</p>	<p><u>Status :</u></p> <p><u>Comments :</u> If already / to be implemented: - How do you communicate with CRAs ? Who participates in meetings between the MDB and the CRAs ? - How could the G20 precisely help improve this communication and improve the analysis of CRAs ? If not considered: why not ?</p>

Area	Recommendation	Comments
		<p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>4b. Encourage steps by rating agencies to strengthen their MDB evaluation methodologies.</p>	<p><u>Status :</u></p> <p><u>Comments :</u> If already / to be implemented: - Which parameters do you identify to enhance the CRAs' analysis of MDBs financial strength? Are there particular methodologies or parameters from the CRAs that are an undue constraint compared to others? - Are you intending to reconsider the risk associated to your portfolio, especially in respect of the PCT? -How would you expect MDBs or the G20 to act to foster these changes in CRAs' methodologies? Is there merit in exploring the possibility of harmonising the rating methodologies of CRAs? -What benefit could you expect from this measure if implemented? If not considered: why not ?</p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>4c. Take proactive approach to incorporation of ESG factors in rating methodologies.</p>	<p><u>Status :</u></p> <p><u>Comments :</u> If already / to be implemented: - What impact will it have on the MDBs lending? How could MDBs implement this recommendations? -What benefit could you expect from this measure if implemented? If not considered: why not ?</p> <p><u>Financial impact :</u> How much amount of lending headroom would the implementation of the relevant recommendations create?</p>



Area	Recommendation	Comments
		<p><u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
<p>5. Increase access to MDB data and analysis</p>	<p>5a. Strengthen the ability of shareholder boards to effectively set parameters of capital adequacy policies and overseeing their implementation.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: - Would you set up a group of audit and risk experts to support board's decision-making process ? - How would it affect the split of responsibilities between the board and the management ? If not considered: why not ? <u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>5b. Establish yearly capital benchmarking report presenting key elements & data in comparable format with harmonized definitions. Support regular reviews of capital resources.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: - Would you agree to have this yearly report ? How could it be conducted? If not considered: why not ? <u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
	<p>5c. Establish enhanced dialogue and cooperation on capital adequacy and risk management.</p>	<p><u>Status :</u> <u>Comments :</u> If already / to be implemented: - Would you agree to set up such a forum? How could it be implemented? If not considered: why not ? <u>Impact on the rating</u> <u>Expected Timeline and milestones over the next 3 years :</u></p>
		<p><u>Status :</u></p>

Area	Recommendation	Comments
	5d. Transform GEMs into stand-alone entity to support improved knowledge for MDBs, private investors and CRAs.	<p>Comments :</p> <p>If already / to be implemented:</p> <ul style="list-style-type: none"> - How can the G20 and shareholders support the cross-MDB coordination needed to implement this recommendation? - Which data do you already share and which additional ones could you share? - Which difficulties do you need to overcome to implement this recommendation? <p>If not considered: why not ?</p> <p><u>Impact on the rating</u></p> <p><u>Expected Timeline and milestones over the next 3 years :</u></p>

Annexures 2: Synthesis of the measures implemented and the work still to do for each of them

Recommendation	Good examples of progress to date	Work still to do
1a Shift risk appetite definition toward shareholder-defined limits.	ADB, WB, and EBRD have made a good start on this recommendation. The WB's agreement with shareholders to reduce its Equity: Loans ratio threshold to 19% is expected to unlock \$40bn in additional lending over 10 years. The ADB's move to re-calibrate risk limits within its existing CAF, combined with several other CAF measures, is expected to unlock \$80bn-\$120bn over the same period. Neither ADB, EBRD nor WB have made significant design changes to their CAFs (as considered in the original report); however, these changes have been carefully considered, discussed, and implemented. These changes by WB and ADB demonstrate the positive potential of CAF reforms to others considering changes.	This was one of the most substantial recommendations in the G20 report and there is considerable work still to do. All MDBs should continue to analyse what further changes are possible, and where the opportunities are to move towards shareholder-defined limits.

1b Ensure frameworks account for MDB-specific features.	No major changes have yet been made in response to this recommendation. There has, however, been relevant further research, such as that by Risk Control, into the strength of MDBs' Preferred Creditor Treatment (PCT), which provides a basis for future changes.	As set out in the G20 report, the MDBs could benefit from a more uniform approach to how PCT and concentration risk are incorporated into their frameworks. MDBs should continue to collaborate on this.
1c Relocate specific numeric leverage targets from MDB statutes.	Strong progress has been made on this recommendation. WB, AfDB, EBRD, and ADB have all taken steps towards removing these targets.	Other MDBs should look to follow the lead of the WB, AfDB and ADB where relevant.
2a Incorporate a prudent share of callable capital into the calculation of capital adequacy	No major changes have yet been made in response to this recommendation. IDB is the only MDB accounting for Callable Capital (CC) significantly in its methodology.	This is a challenging recommendation to implement, which will require close collaboration with shareholders. It is recommended that the Banks/shareholders commission further work to explore this option.
3a Endorse MDB consideration of non-voting capital classes (paid-in equity or hybrid) to contribute to available capital.	Strong progress has been made on this recommendation. Consideration of non-voting capital (paid-in equity or hybrid) by MDBs will result in varied estimates as per the issuance of the hybrid capital to capital markets., The current expectation is 75-100% of equity treatment. If 75% equity treatment, a \$1 billion of hybrid capital is estimated to increase lending capacity by a total of \$6 billion over 10 years.	MDBs should continue to collaborate on this issue to ensure that current proposals are implemented.
3b Introduce & scale portfolio risk transfers to the private sector, including through outright shares, insurance and securitization.	No major changes have yet been made in response to this recommendation. There are, however, useful precedents already set on this recommendation. For example, the AfDB's Room-to-Run non-sovereign transaction.	The MDBs should consider further work to implement this recommendation.
3c Encourage shareholder guarantees on loans related to crosscutting priorities.	Strong progress has been made on this recommendation. A good example is the ADB's work to develop the IFCAP guarantee platform. IBRD has indicated that an expanded bilateral shareholder guarantee program could provide up to \$5 billion of additional lending headroom if the	Progress on this recommendation depends crucially on shareholders' willingness to provide guarantees. MDBs' should continue good work scoping options and presenting alternatives to shareholders.

	guarantee is provided by triple-A rated shareholders. For IDB, it could be \$10 bn over 10 years.	
3d Support collective shareholders commitments of pools of additional callable capital.	No major changes have yet been made in response to this recommendation, except for AfDB	It is expected that this recommendation will be de-prioritised in the short-term given limited appetite amongst shareholders and the limited impact estimated by CRAs
3e Support adaptation of MIGA's products & reinsurance capability to transfer portfolio level risk from MDB balance sheets.	No major changes have yet been made in response to this recommendation.	It is expected that this recommendation will be de-prioritised in the short-term given limited appetite amongst shareholders.
3f Consider ways to provide MDBs access to central bank liquidity.	No major changes have yet been made in response to this recommendation.	It is expected that this recommendation will be de-prioritised in the long-term given very limited appetite amongst shareholders and regulation frameworks and specific mandates applicable to Central Banks
4a Strengthen communication with credit rating agencies.	A good start has been made on this recommendation. Both MDBs and shareholders have met with the Credit Rating Agencies to discuss the G20 review recommendations.	It is important that the MDBs, shareholders and CRAs continue to collaborate on this workstream to allow a smooth follow of information.
4b Encourage steps by rating agencies to strengthen their MDB evaluation methodologies.	No major changes have yet been made in response to this recommendation. It is important that recommendation 4a is implemented more comprehensively first.	It is important that the MDBs, shareholders and CRAs continue to collaborate on this workstream.
4c Take proactive approach to incorporation of ESG factors in rating methodologies.	No major changes have yet been made in response to this recommendation. It is important that recommendation 4a is implemented more comprehensively first.	It is important that the MDBs, shareholders and CRAs continue to collaborate on this workstream.

<p>5a Strengthen the ability of shareholder boards to effectively set parameters of capital adequacy policies and overseeing their implementation.</p>	<p>Strong initial progress has been made, including the establishment of an MDBs' Executive Directors Coordination Network.</p>	<p>Options on this recommendation should be discussed in more detail by shareholders and the MDBs.</p>
<p>5b Establish yearly capital benchmarking report presenting key elements & data in comparable format with harmonized definitions. Support regular reviews of capital resources.</p>	<p>No major changes have yet been made in response to this recommendation.</p>	<p>This remains a very relevant recommendation. Further recommendations on benchmarking are made in this report.</p>
<p>5c Establish enhanced dialogue and cooperation on capital adequacy and risk management.</p>	<p>No major changes have yet been made in response to this recommendation.</p>	<p>This remains a very relevant recommendation which shareholders and the MDBs should do more to explore.</p>
<p>5d Transform GEMs into stand-alone entity to support improved knowledge for MDBs, private investors and CRAs.</p>	<p>A strong start has been made on this recommendation with the support of all the MDBs</p>	<p>Shareholders and MDBs should continue to work t on the rapid implementation of this recommendation</p>

