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Title: Financing SDGs in Latin America and the Caribbean: the role and perspectives of Multilateral Development Banks

This paper analyses the role that Multilateral Development Banks (MDBs) have played in the financing development of Latin America and the Caribbean and how they will support the Sustainable Development Goals (SDGs). We argue that MDB’s will remain relevant players even though donor countries are moving their resources away from middle-income countries and MDBs’ represent a declining share of total debt in the region.

Long-term investment needed to support the expansion of productive capacities necessary to attain the SDG’s in Latin America and the Caribbean requires a vast mobilization of domestic and external resources. We argue that MDBs will play an important role in helping the region complete this economic transformation. For this, MDBs must make more efficient use of their balance sheets, increase their mobilization-to-lending ratio, harmonize their operations, and keep all clients on board, irrespective of their size and risk level.

Using information from the Development Bank of Latin America (CAF), the Inter-American Development Bank and the World Bank, we provide a historical perspective on the MBDs stock and flows to the region and their relative importance in financing development. We also analyze their ownership, capital structure, and voting rights for borrower versus non-borrower countries from each institution to interpret the significance of capitalization versus resource mobilization and client selectivity according to their income status.

We predict that the following trends from the last decade will continue to deepen: MDBs will continue to prioritize their global public goods and private sector lending and will continue to play a fundamental counter-cyclical role because it benefits shareholders to prevent lack of access to capital markets.

While maintaining their role as lenders, MDBs will likely emphasize mobilization over lending and knowledge over financing. However, while mobilization will become more important, it cannot substitute adequate capitalization. Ownership of MDBs will slowly but continuously shift towards client countries, while shareholding will continue to determine how quickly these institutions grow. While borrowers-majority-owned institutions will rely primarily on capital expansion and continue to gain in market share, non-borrowers-majority-owned institutions will rely on mobilization and client selectivity.