

## **MDB RESPONSES IN THE POLYCRISIS ERA**

THE NEED FOR MDB/CAF REFORMS, AND THE SOLUTIONS ALREADY BEING PURSUED

The Rockefeller Foundation, Washington, D.C.

Distinguished Guests, Ladies and Gentlemen,

I would like to thank the Rockefeller Foundation for inviting me to speak, and for organizing this important event. It is my pleasure to be with you all today to discuss how the MDB system can best meet the challenges humanity faces in this era of the polycrisis.

In 1881, American poet Walt Whitman wrote that “the future is no more uncertain than the present.” While these words were written in the wake of the devastation following the American Civil War, they could have been written about the many crises afflicting humanity today.

Much to our chagrin, humanity is firmly tangled in a multi-layered web of interlocking crises: intensifying macroeconomic uncertainty, growing geopolitical instability, ongoing supply chain pressures and ever more frequent natural disasters. The developing countries which comprise the majority of AIIB’s membership are the most exposed despite often bearing the least responsibility.

Uncertainty in our global community has reached a historic high. In the second quarter of 2020, the IMF’s World Uncertainty Index, a measure of economic uncertainty, recorded the highest level of uncertainty since records began in 1959. Forecasts and opinions on future economic events are diverging more than ever.

When the present appears so uncertain, it can be easy to lose sight of what we must do to secure our future. Walt Whitman believed that the greatest poets placed themselves where the future becomes present. The same could be said for policy makers who seek to reform and strengthen our multilateral system so that humanity can meet the challenges ahead.

While uncertainty has never been higher, the future of humanity is chillingly clear for all to see. As the IPCC’s recently released Sixth Assessment Report states: “The choices and actions implemented in this decade will have impacts now and for thousands of years.”<sup>1</sup> Some 3.3-3.6 billion people that reside in highly climate vulnerable places live perched on the precipice of the decisions we make today. Firm and effective action must be taken to drive the transition full throttle towards net-zero. The road ahead that humanity must take is obvious.

As the Chinese philosopher Mencius tells us, “The way of truth is like a great road. It is not difficult to know it. The evil is only that men will not seek it.”

If humanity’s effort to limit global warming to within 1.5 degrees is to be successful, climate financing must grow to USD 4.5 – 5 trillion annually by 2030, up from USD 653 billion in 2020<sup>2</sup>.

<sup>1</sup> [https://report.ipcc.ch/ar6syr/pdf/IPCC\\_AR6\\_SYR\\_SPM.pdf](https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf)

<sup>2</sup> <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/>

According to the IPCC, while sufficient capital and liquidity exist globally to meet this task, current financial flows are 3 to 6 times lower than what is needed, particularly for developing economies.

AIIB has set a very ambitious target of growing our climate finance to at least 50 percent of our total financing by 2025, cumulating to about USD 50 billion by the end of this decade. In 2022, we delivered a record USD 2.4 billion in climate finance, or 56 percent of our total financing, reaching our climate finance goal three years early. In 2021, total climate finance by major MDBs totaled USD 82 billion, of which more than 60 percent went to low- and middle-income economies.

However, humanity's colossal climate financing needs far exceed the balance sheets of MDBs and the fiscal capacity of governments. The private sector must play its part. AIIB is laser-focused on mobilizing private sector capital and expertise. By 2030, our aim is that 50 percent of all our financing will be directed toward the private sector. We are investing in opportunities with the potential to leverage even greater amounts of private capital toward green infrastructure investment.

Blended finance has an important role to play. When used well, blended finance can bring MDBs, philanthropies, private and institutional investors together to better allocate and distribute risks. An example is AIIB's partnership with the Global Energy Alliance for People and Planet (GEAPP), and the Energy Transition Accelerator Financing Platform (ETAF), a public-private platform that aims to mobilize USD 1 billion to support energy transition by 2030. We want to do more of these and show that we can move money faster while keeping true to AIIB's high standards.

How the multilateral system performs in this dawning era of uncertainty will shape the future of human prosperity. To meet the challenges ahead, our multilateral system must focus on getting fit.

The practice of reforming the multilateral system is much like the practice of gardening. Sometimes it is root and branch, sometimes you trim and make small refinements. Always, it is ongoing and never ending. And, always, it must be done with our eyes set firmly on a horizon that goes beyond our lifetimes.

I don't get to garden much these days, but I have some gardening ideas for the multilateral system. The first idea is to create an institutionalized forum for international financial institutions to discuss progress and actions on climate finance. If humanity's moonshot to net-zero is to be successful, then coordination and collaboration on climate finance is mission critical.

In this regard, MDBs must strengthen their ability to operate holistically as a coordinated system. This leads to the second idea of mine: that MDBs hold a joint meeting every two years. We could target 2025 – the year that global emissions must peak to meet our 1.5C degree warming pathway – as the year that MDBs come together to deepen their coordination on climate action.

The third idea is to create a marketplace for climate projects. This would be a platform that matches financing for technical assistance and projects. AIIB is already working on this, and we welcome engagement with other partners.

Now to the recommendations of the G20 Capital Adequacy Framework (CAF) report. In the CAF review, we have an ambitious gardening project indeed!

Our Bank is actively involved with discussions on this important topic. AIIB has contributed to the work of the expert panel, the G20 International Financial Architecture working group and is involved in joint MDB Chief Risk Officer deliberations. Since publication of the expert panel recommendations, our management team has begun addressing recommendations that sit within our remit (particularly recommendations one, three, and five).

As a new MDB, AIIB is adequately capitalized today. However, we take the recommendations of the G20 CAF report very seriously. We have been actively engaging our Board on the implications of the CAF review recommendations and on our progress in implementing them.

A core aspect of MDBs' mandate is providing counter cyclical lending to members in their time of need. AIIB welcomes initiatives that strengthen our capacity to lend new money in times of crisis. To better fulfill the counter-cyclical lending mandate of MDB's, our Bank is committed to exploring new financial instruments and enhancing our risk management practices.

A promising idea we are advancing is guaranteeing portions of other MDBs sovereign portfolios. In line with the CAF recommendation that MDB's pursue new financial innovations, this guarantee would release additional lending capacity within the other MDB's balance sheet and unlock new money for sustainable development financing. At the same time, it would also increase AIIB's capacity to lend to our lower rated members by improving our weighted average credit rating and portfolio diversification. Given the scale of the climate financing needs before us, no stone must be left unturned in the effort to mobilize funding for climate projects.

While we may indeed be living in the era of the polycrisis, we must remember that the future is not as uncertain as the present. The path ahead is clear. The climate financing obstacles ahead are tough, but they are not insurmountable. Reform of the multilateral system and the international financial system should be welcomed, and it must be ongoing. We must see through today's crises and remain laser focused on realizing humanity's moonshot towards net-zero. AIIB stands ready to work with our members, development partners, credit rating agencies and policymakers to ensure that the actions we take today meet the challenges of the future.

Thank you.

### **About AIIB**

The [Asian Infrastructure Investment Bank \(AIIB\)](#) is a multilateral development bank whose mission is financing the Infrastructure for Tomorrow—infrastructure with sustainability at its core. We began operations in Beijing in January 2016 and have since grown to 105 approved members worldwide. We are capitalized at USD100 billion and Triple-A-rated by the major international credit rating agencies. Collaborating with partners, AIIB meets clients' needs by unlocking new capital and investing in infrastructure that is green, technology-enabled and promotes regional connectivity.