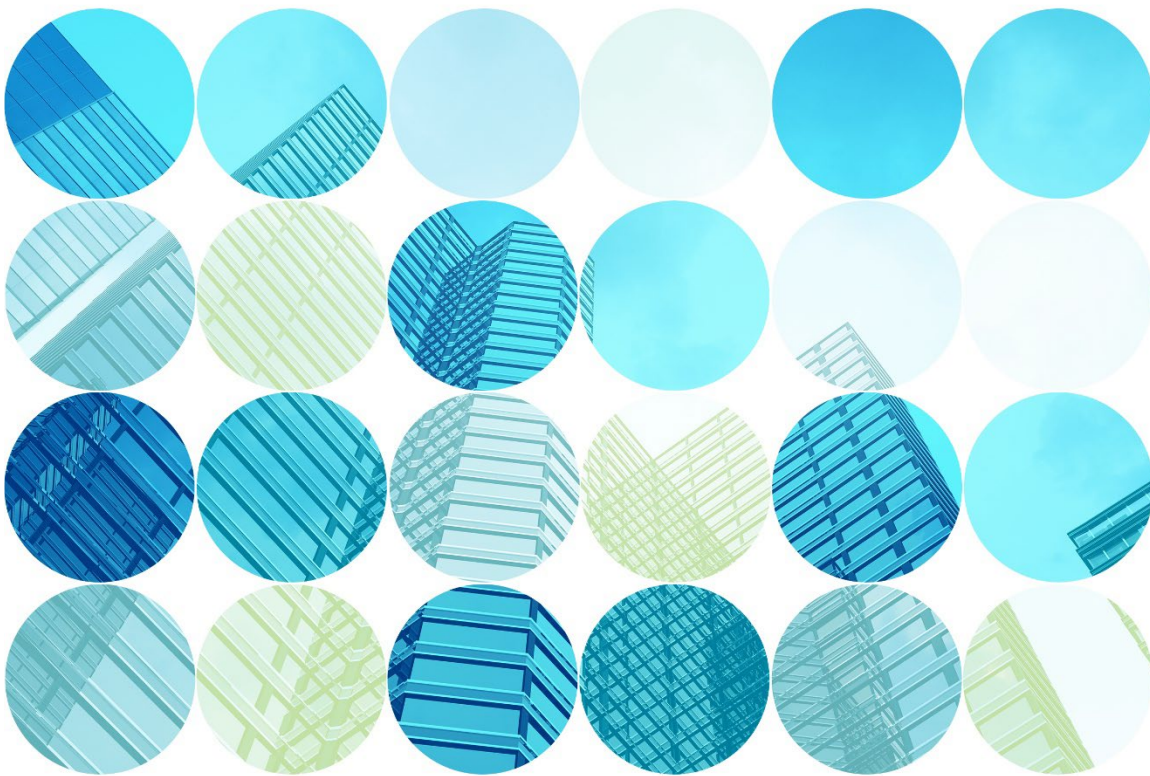


# Credit Rating Agency Methodology for Multilateral Development Banks

Enhancing MDB–CRA Engagement



## DISCLAIMER

This document is intended to support the ongoing and constructive dialogue between Multilateral Development Banks (MDBs) and Credit Rating Agencies (CRAs) regarding the rating methodologies applicable to MDBs. It is not intended to challenge or undermine the independence of CRAs in their analytical processes or decision-making.

The views expressed herein do not necessarily reflect those of any individual MDB, CRA, or stakeholder. The recommendations and observations are offered as inputs to facilitate continued engagement. While informed by collective experiences and technical insights, the applicability or relevance of the recommendations contained in this document may vary depending on the specific mandates, financial structures, and operational context of each institution.

Every effort has been made to ensure the accuracy of the information presented; however, this document may not fully capture the nuances of each credit rating agency's (CRA's) criteria. Readers are encouraged to consult the sources—particularly the specific credit rating criteria published by each CRA—for a comprehensive understanding.

## ACKNOWLEDGEMENTS

The organizations comprising the Global Risk and Finance Forum (GRaFF)<sup>1</sup> wish to acknowledge the leadership of the Inter-American Development Bank (IDB) in advancing constructive engagement between Multilateral Development Banks (MDBs), other International Financial Institutions (IFIs), and the Credit Rating Agencies (CRAs). We appreciate IDB's role in initiating the first draft of this document and in convening periodic roundtables that have served as an effective platform for dialogue and collaboration.

We further extend our sincere appreciation to the risk and finance teams of MDBs and IFIs for their sustained efforts and technical contributions throughout this process.

We would also like to recognize the Credit Rating Agencies for their continued willingness to engage in regular discussions and to consider the concerns and proposals put forth by the MDB community to enhance their credit rating frameworks, while maintaining their independent mandate.

Finally, we acknowledge the valuable support of MDB shareholders and other stakeholders.

We believe it is through sustained and constructive engagement between MDBs and CRAs that rating methodologies have been evolving to reflect the distinct characteristics of MDBs and IFIs more accurately. A credit rating framework that can most fully incorporate the specificities of MDBs not only enhances the efficient use of financial resources available to pursue development finance but also reinforces confidence in the broader MDB system.

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<sup>1</sup> The Global Risk and Finance Forum (GRaFF) was created in response to one of the recommendations contained in the G20 Capital Adequacy Framework (CAF) Recommendations. The Chief Financial and Risk Officers of the following entities are represented in GRaFF: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Caribbean Development Bank (CDB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), International Bank for Reconstruction and Development (IBRD), Inter-American Development Bank (IDB), Inter-American Investment Corporation (IDB Invest), International Financial Corporation (IFC), Islamic Development Bank (IsDB), New Development Bank (NDB), and Nordic Investment Bank (NIB)

## ABBREVIATIONS

### **ADB**

Asian Development Bank

### **AfDB**

African Development Bank

### **AIIB**

Asian Infrastructure Investment Bank

### **CAF**

Capital Adequacy Framework

### **CDB**

Caribbean Development Bank

### **CDO**

Collateralized Debt Obligation

### **CEB**

Council of Europe Development Bank

### **CFO**

Chief Financial Officer

### **CRA(s)**

Credit Rating Agency(ies)

### **CRO**

Chief Risk Officer

### **EAD**

Exposure at Default

### **EIB**

European Investment Bank

### **EBRD**

European Bank for Reconstruction and Dev.

### **ERP**

Enterprise Risk Profile

### **ESG**

Environmental, Social, and Governance

### **ETA**

Equity to Assets Ratio

### **FC**

Foreign Currency

### **FRA**

Fitch's Usable Capital to Risk-weighted Assets

### **FRP**

Financial Risk Profile

### **GA**

Granularity Adjustment

### **GEMs**

Global Emerging Markets Risk Database Consortium

### **G20**

Group of Twenty

### **GRaFF**

Global Risk and Finance Forum

### **IBRD**

International Bank for Reconstruction and Dev.

### **ICR**

Issuer Credit Rating

### **IDA**

International Development Association

### **IDB**

Inter-American Development Bank

### **IFC**

International Finance Corporation

### **IFI**

International Financial Institution

### **IMF**

International Monetary Fund

### **LCR**

Liquidity Coverage Ratio

### **LC**

Local Currency

### **LGD**

Loss Given Default

### **MDB(s)**

Multilateral Development Bank(s)

### **MSCI**

Morgan Stanley Capital International

### **NDB**

New Development Bank

### **NIB**

Nordic Investment Bank

### **PCT**

Preferred Creditor Treatment

### **PD**

Probability of Default

**RAC**

Risk-adjusted Capital Ratio

**RACF**

Risk-adjusted Capital Framework

**RFC**

Request for Comment

**RWAs**

Risk-weighted Assets

**SACP**

Stand-alone credit profile

**SNC**

Single-name Concentration

**ULB**

Undisbursed Loan Balance

**USD**

United States Dollars

**S&P**

Standard and Poor's

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## I. EXECUTIVE SUMMARY

- 1.1 This document constitutes an additional output in an extensive compendium of papers, briefings, and workshops following the publication of the report issued by the Expert Panel tasked by the G20 with the Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (CAF)<sup>2</sup> (CAF Review).
- 1.2 Recommendation 4<sup>3</sup> of the CAF Review recognizes the strategic importance of strengthening the relationship with the Credit Rating Agencies (CRAs)<sup>4</sup>.
- 1.3 Over the years, multilateral development banks (MDBs) have collaborated and taken proactive steps to strengthen their engagement with the CRAs, emphasizing periodic dialogue on key matters pertaining to the sector's financial performance and top institutional priorities. Acknowledging the independence of CRAs, MDBs have provided constructive feedback on credit rating methodologies to highlight the industry's specificities and enable MDBs to more effectively engage and capitalize on the cutting-edge developments and trends in the domain of balance sheet optimization.
- 1.4 This engagement approach has been characterized by extensive collaboration among MDBs and with CRAs through a series of letters and reports addressing specific questions or issues in the rating criteria. Over time, the approach expanded to include the organization of recurring roundtables to openly discuss the evolution of rating criteria.
- 1.5 As a result, the analytical frameworks CRAs utilize today to assess the sector's creditworthiness have meaningfully evolved, and represent the risk profile of MDBs and the unique features of the industry's business model more accurately.
- 1.6 Given ongoing market and sector-specific innovations as well as the publication of default and recovery data by MDBs, dialogue between CRAs and MDBs will remain essential to support the continued evolution in CRA's analytical framework.
- 1.7 This document is intended to provide an overview of the engagements and improvements achieved over time in the rating criteria and present a proposal for further enhancing MDB-CRA engagement going forward, identifying focus areas for further dialogue between MDBs and CRAs. Chapter II outlines the engagement approach and progress to date, while Chapter III identifies priority areas for future dialogue.

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<sup>2</sup> *Boosting MDBs' investing capacity. (2022). An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks.*

<sup>3</sup> *Recommendations 4A and 4B: Strengthen Communication with credit rating agencies and Encourage steps by rating agencies to strengthen their MDB evaluation methodologies.*

<sup>4</sup> *Unless otherwise stated, the term CRAs refers to the international leading credit rating agencies, Standard & Poor's (S&P), Moody's, and Fitch.*

- 1.8 The document concludes with a call to action to reinforce the voice of MDBs in highlighting the unique features of MDBs and their business models. Greater collaboration—through shared technical analysis and unified outreach—will be essential input to ensure that CRA methodologies reflect the distinct risk profiles and development mandates of MDBs.

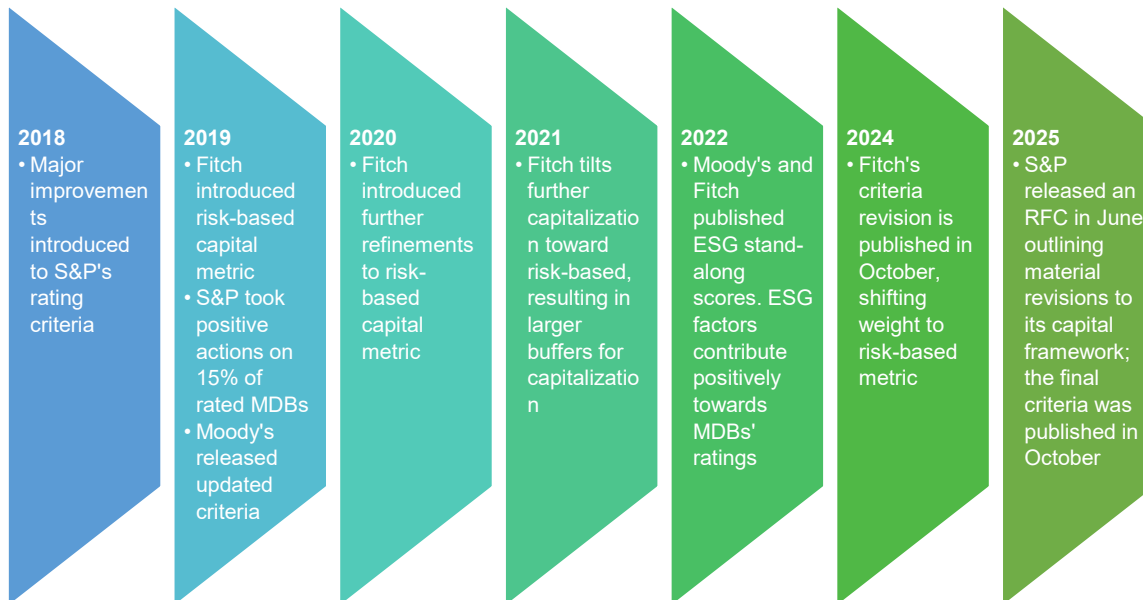
## **II. MDB ENGAGEMENT APPROACH WITH THE CRAS**

- 2.1 Regular dialogue with CRAs has been a strategic priority for all MDBs for more than fifteen years.
- 2.2 This ongoing effort includes, at the individual institution level: (i) regular due diligence meetings to discuss key issues about financial performance and institutional priorities, and to enable CRAs access to senior staff and other subject matter experts, (ii) frequent communications with credit analysts before major announcements and new initiatives relevant to the institution's overall credit profile, (iii) participation in ad-hoc forums and other communication platforms.
- 2.3 Communication at the level of each organization has been enhanced by collective efforts across the MDB space, working as a system. This collaboration has crystallized through (i) joint participation in request-for-comment documents (RFCs) and other collective feedback initiatives, (ii) CFO/CRO workshops and roundtables, (iii) further communication efforts involving the heads of major MDBs, as well as (iv) the establishment of direct communication channels between MDB shareholders and the CRAs.
- 2.4 Credit rating criteria evolve slowly, and the process of changing the criteria usually involves several steps and public consultation led by CRAs. Rating criteria sometimes rely on methodologies used in other sectors (including much larger cohorts of issuers such as commercial banks). MDBs have engaged and collaborated to provide comments from the beginning. However, the publication of the CAF review has provided greater momentum and support to the dialogue between MDBs and CRAs.
- 2.5 We would like to highlight the constructive nature of the MDB-CRA engagements, which have led to concrete progress, as listed in Section A below. Sections B through E provide greater detail on the scope of these engagements, which we expect to continue.

### **A. Progress Achieved**

- 2.6 Significant progress has been achieved over the last few years, also as a result of the engagement described in this chapter. The changes introduced into rating methodologies have contributed to a more accurate representation of MDBs' financial and risk management practices, providing more flexibility for the sector to make more efficient use of its capital and expand financial capacity.
- 2.7 Exhibit 1 summarizes some of the key changes introduced by the CRAs.

## Exhibit 1 – Summary of Progress Made



2.8 The changes introduced in the rating criteria are summarized as follows:

- 2.8.1 **Recalibration of existing criteria parameters** -> Occasionally, as new evidence or information becomes available, CRAs have adjusted the assumptions or parameters used in the criteria. MDBs have played an active role in providing additional information to allow for a fact-based discussion.
- 2.8.2 **Increasing weight to risk-based metrics** -> Considering the risk embedded in loan portfolios allows for a more precise measure of capital adequacy than a non-risk weighted measure of capital, and recognizes the benefits of risk transfer/risk hedging transactions, some of which are included among the CAF recommendations.
- 2.8.3 **Embedding MDB-specific features** -> These changes refer to deviations from commercial bank or other widely used criteria to reflect MDB-specific characteristics, such as callable capital<sup>5</sup>, preferred creditor treatment, etc.

<sup>5</sup> *Callable capital refers to the portion of subscribed capital in a multilateral development bank (MDB) that shareholders have committed to pay only when certain conditions are met, and which has not yet been called or paid in.*

2.8.4 **Instrument-specific changes** -> Usually in response to the broader use of specific instruments, such as risk transfer guarantees, contingent capital mechanisms, or hybrid capital, CRAs introduced MDB-specific guidance in their criteria. These changes have proven critical to materialize or leverage several innovative transactions, including those advancing the CAF recommendation 3.

2.9 Overall, meaningful change has been reported by all CRAs. The impact of those changes depends on the specific financial and business profiles of each MDB.

## **B. RFC Consultations & Other Joint Feedback Mechanisms**

2.10 It has been common practice for the CRAs to launch open consultation processes (usually referred to as Criteria Exposure Drafts, Requests for Comments, or RFCs) requesting feedback from market participants on proposed changes to rating criteria. This process begins with the publication of technical documentation outlining the proposed changes to the methodology, accompanied by a formal request for feedback. CRAs review the information received over a period usually spanning three to six months, after which the revised version of the criteria is published.

2.11 Over the last seven years, there have been four instances in which CRAs have launched comprehensive RFC processes regarding their multilateral and supranational rating criteria: (i) S&P on Oct.11, 2017<sup>6</sup>, (ii) Moody's on Jan.4, 2019<sup>7</sup>, (iii) Fitch on December 12, 2023<sup>8</sup>, and (iv) S&P on June 25, 2025<sup>9</sup>.

2.12 MDBs welcome the practice of issuing RFCs before publishing changes to the rating criteria as it allows both rated entities as well as investors and other stakeholders to engage with CRAs early on in the process, when CRAs are considering the pros and cons of different changes.

2.13 In all four instances, representatives from major multilateral lending institutions reviewed and discussed the proposed changes and have jointly, as well as on a bilateral basis,

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<sup>6</sup> *Request-for-Comment: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology.*

<sup>7</sup> *Proposed Update: Multilateral Development Banks and Other Supranational Entities. In 2024, Moody's published a "Discussion paper on recent developments affecting multilateral development banks".*

<sup>8</sup> *Supranationals Rating Criteria: Discussion Paper.*

<sup>9</sup> *Request For Comment: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology.*

submitted feedback and recommendations to the CRAs<sup>10</sup>. In addition, in March 2019, the same group of multilateral lending institutions provided unsolicited high-level comments and recommendations to Fitch<sup>11</sup>. Joint responses to RFCs have been coordinated by IBRD, working closely with IDB and EBRD. CRAs have in part reflected MDBs feedback in the final version of the rating criteria.

### **C. CFO / CRO Workshops and Roundtables**

- 2.14 On the sidelines of the 2023 Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group, the Inter-American Development Bank (IDB) hosted the first Chief Financial and Risk Officers roundtable with CRAs. The event gathered senior leadership from several MDBs and other international financial institutions (IFIs). The goal of the roundtable was, on the one hand, to reaffirm the sector's strong commitment towards proactive and constructive engagement with the CRAs, and on the other hand, to outline and discuss areas of concern in the rating criteria.
- 2.15 Since 2023, five roundtables have been held, building on each previous event to advance the dialogue on specific topics. The agenda for these roundtables is based on input received from both MDBs and CRAs.
- 2.16 Initially, the dialogue focused on preferred creditor treatment (PCT)<sup>12</sup>, single-name concentration (SNC)<sup>13</sup>, and callable capital, but also included feedback on criteria changes as they evolved. The last roundtable, hosted on the sidelines of the 2025 Spring Meetings of the IMF and the World Bank Group<sup>14</sup>, included other topics such as the treatment of risk transfers and hybrid capital, reflecting the increasing sophistication and financial innovation being pursued by MDBs and IFIs.

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<sup>10</sup> This is a list of the group of MDBs that have participated in either some or all joint submissions: African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), Development Bank of Latin America and the Caribbean (CAF), Caribbean Development Bank (CDB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), Inter-American Investment Corporation (IIB Invest), International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Islamic Development Bank (IsDB), and Nordic Investment Bank (NIB).

<sup>11</sup> This initiative was kicked off by the group of MDBs, as opposed to having been initiated by Fitch through the RFC process.

<sup>12</sup> Preferred creditor status refers to the behavior by MDB borrowers to give preferential treatment in terms of repayment of multilateral debt over that to other creditors. Preferred creditor status is not a legal provision but rather a practice observed and enforced by MDB member countries

<sup>13</sup> Single name concentration refers to the additional capital required by some credit rating agencies to account for material concentration in the loan portfolio of MDBs

<sup>14</sup> At the time of publication, the sixth CFO & CRO Roundtable was scheduled to take place on the margins of the 2025 IMF-World Bank Group Annual Meetings.

- 2.17 Furthermore, complementing other avenues of engagement, the roundtables have proven helpful for MDBs to share progress towards CAF implementation, socialize other products resulting from MDB collaboration, including GEMs additional loss experience disclosure, and more broadly engage with CRAs collectively.
- 2.18 MDBs recognize the importance of fact-based and informed discussions and, depending on the topic, have encouraged and sponsored the participation of subject-matter experts to share their views on critical elements of the credit rating criteria. One example was the discussion on SNC and the presentation of alternatives to assessing and quantifying the risk resulting from portfolio concentration in MDBs.
- 2.19 The success of this format is evidenced by both a growing number of organizations that have attended these roundtables (from thirteen in 2023 to twenty-one organizations that joined the fifth roundtable hosted in April 2025) and the continued interest from CRAs, as evidenced by larger delegations joining these events but more importantly by the steps taken by the CRAs to ensure their criteria better reflect MDBs' unique characteristics.
- 2.20 To promote transparency in these conversations, at the end of each roundtable, a short readout<sup>15</sup> is drafted and published by the participating MDBs and IFIs.

#### **D. Head of MDBs' Interactions**

- 2.21 The dialogue with the CRAs was also elevated to the attention of the Heads of MDBs. The joint statement issued in October 2023 by the Heads of 10 major multilateral lending institutions (*Statement of the Heads of Multilateral Development Banks Group: Strengthening Our Collaboration for Greater Impact*, October 13, 2023<sup>16</sup>) included a commitment to enhance the dialogue with CRAs to help further the joint development goals of MDBs and key stakeholders.
- 2.22 MDB Presidents and Heads of MDBs and IFIs have also engaged in other events, participating together with CRA representatives, to highlight the importance of the MDB-CRA engagement or to discuss specific topics that involve CRAs.

#### **E. Communication Between Shareholders and CRAs**

- 2.23 In addition to MDB Management, MDB shareholders have strongly supported and promoted continuous and more effective dialogue with the rating agencies. Senior managers from MDBs have collaborated with shareholders to support these efforts.

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<sup>15</sup> Readout published after the Fifth MDBs and Credit Rating Agencies Roundtable on May 6<sup>th</sup> 2025:  
<https://www.iadb.org/en/news/readout-fifth-mdb-credit-rating-agencies-roundtable>

<sup>16</sup> <https://www.iadb.org/en/news/statement-heads-multilateral-development-banks-group-strengthening-our-collaboration-greater>



### III. FOCUS AREAS FOR FURTHER CRITERIA EVOLUTION

- 3.1 Based on the experience accumulated through years of interaction between MDBs and CRAs, and reflecting on the progress achieved so far, this chapter intends to (a) highlight the main areas of focus to continue the dialogue between MDBs and CRAs, (b) propose topics that could guide further dialogue with CRAs to advance on the key focus areas identified, and (c) briefly reflect on the role that MDBs working as a system can play.
- 3.2 Despite the overall progress achieved, MDBs believe that credit methodologies could better capture their strengths through greater incorporation of both the loss data that they published (including the disclosure of relevant credit statistics from EMDE economies by GEMs) as well as the financial and non-financial support from their member countries.
- 3.3 MDBs acknowledge and value the independence that must exist for CRAs to carry out their roles effectively. Also, MDBs understand that there is no one-size-fits-all approach to most of the focus areas mentioned in this chapter.

#### A. Key Focus Areas

- 3.4 We propose three key focus areas to guide MDB/CRA interaction going forward:
  - 3.4.1 **Assessment of MDB-specific credit enhancements:** MDB–CRA roundtables, as outlined in Chapter II, have consistently prioritized three critical areas: (i) recognition of PCT in capital adequacy assessments, (ii) valuation of callable capital and other shareholder support mechanisms, and (iii) treatment of portfolio concentration risks, especially for MDBs engaged in sovereign-guaranteed lending. These areas remain central to the financial evaluation of MDBs and warrant continued attention to ensure rating methodologies reflect their unique credit features.
  - 3.4.2 **Recognition of Balance Sheet Optimization and Risk Transfer Efforts:** MDBs have intensified efforts to optimize their balance sheets and capital resources, increasingly employing sophisticated financial instruments such as hybrid capital, securitization, risk transfers, and credit risk insurance. Although these instruments are well-established in the broader financial sector, MDB-specific rating criteria have not yet fully adapted to their use in the multilateral context. Continued alignment between rating methodologies and the evolving financial strategies of MDBs will be important to the evaluation of the sector.
  - 3.4.3 **Strengthening the enabling environment in which ratings are assessed:** This focus area encompasses the ongoing efforts by MDBs to share more information that supports sound design and implementation of rating criteria. Examples of this include the publication of MDB-level information on PDs and LGDs, or the review undertaken by some MDBs around the process to call callable capital.

## **B. Possible Topics to Explore**

3.5 Building on the previously identified focus areas, this section zooms in on topics that we believe deserve further discussion with CRAs.

3.5.1 **Continue improving transparency:** Although significant improvements have been made, greater transparency, particularly regarding all parameters used in assessing MDBs, qualitative adjustments, and the conditions under which qualitative adjustments would be made, is needed.

3.5.2 **Reassess value assigned to MDB-specific risk mitigating factors, such as PCT:** here too, meaningful progress has been achieved in the past few years, but there is room for further improvement. Through detailed empirical loss data compiled by GEMs, MDBs will continue to seek to provide data that CRAs can use for parameterization of Probabilities of Default (PDs) and Loss-given Default (LGDs). The approach to incorporating callable capital also deserves further discussion.

3.5.3 **Continue to account for increasing financial innovation and sophistication among MDBs.** MDBs are increasingly pursuing financial innovation, including the introduction of new capital and risk transfer instruments to achieve balance sheet optimization. CRAs' criteria for these instruments also need to continue to evolve in line with the increasing level of sophistication in the MDB space.

3.5.4 **Minimize or address the risk of double-counting within the criteria.** As an example, some CRAs compute non-performing loan ratios without considering specific loan loss allowances already recognized by MDBs. This results in a double adverse effect on the criteria, as loan loss allowances are disregarded for calculating non-performing loans (thus potentially resulting in a lower assessment) but taken into account when calculating equity value for solvency ratios (potentially resulting in a lower evaluation). Other CRAs take a different approach, netting out specific loan loss allowances from non-performing assets, thus reflecting the net credit risk exposure.

3.5.5 **Revise Treatment of Local Currency (LC) Lending.** LC lending mitigates currency mismatch risks for borrowers, thereby reducing their vulnerability to depreciation-induced defaults and enhancing their creditworthiness. Empirical evidence shows that defaults on LC debt are less frequent than on foreign currency (FC) debt and, in the case of sovereign borrowers, LC sovereign ratings often match or exceed FC ratings. Despite this, CRA methodologies typically default to FC ratings, potentially overstating credit risk. Moreover, LC exposures offer capital adequacy advantages under depreciation stress scenarios—benefits that are currently underrecognized.

**C. Moving towards greater harmonization of definitions in MDB capital adequacy**

- 3.6 In parallel with efforts to contribute to rating criteria discussions, MDBs recognize the value of assessing the merits and challenges of developing a common capital adequacy framework for the MDB system. Greater consistency of definitions across MDBs would enable the sector to present a unified voice when engaging with CRAs.
- 3.7 MDBs have different business mandates, pressure points, and tools to respond to financial stress scenarios. This explains the need for different capital adequacy frameworks. However, certain elements are critical and common across all MDBs, such as their reliance on PCT (for sovereign-guaranteed lending), the support from their shareholders (including through callable capital), and the fact that MDBs are mandated to operate with a finite portfolio of clients (particularly relevant for sovereign-guaranteed lending).
- 3.8 The GRaFF is currently assessing the merits and challenges of greater harmonization of capital adequacy frameworks whilst respecting each MDB's specificities.

## IV. CONCLUSIONS

- 4.1 Regular dialogue with MDBs and other IFIs has been beneficial as CRAs have been adapting their rating criteria. These improvements have provided MDBs with greater flexibility to expand their lending capacity while maintaining the high credit ratings essential for their financing operations.
- 4.2 This paper acknowledges the achievements to date and proposes areas for continued dialogue between MDBs and CRAs. At the same time, and as already noted in the MDB Viewpoint Note issued by the Heads of MDB Group in April 2024<sup>17</sup>, MDBs must continue working to strengthen collaboration and improve how they work as a system.
- 4.3 On the financial front, this includes assessing the merits and challenges of greater harmonization of capital adequacy frameworks while respecting the different business models and pressure points of various MDBs. Notwithstanding room for continuous improvement, CRA-MDB dialogue is an excellent example of the benefits of a unified MDB system. MDBs can amplify the sector's voice by sharing technical analyses and by continuing to engage in collective discussions to complement bilateral dialogue with CRAs.
- 4.4 As calls for capital optimization intensify, MDBs should remain proactive and continue to engage periodically with CRAs to provide all necessary information to support the evolution of CRA methodologies. Strengthening this collective approach will help build a more efficient and effective MDB system—one that is better equipped to tackle global development challenges.

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<sup>17</sup> <https://www.iadb.org/document.cfm?id=EZIDB0000577-986313001-135>

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