The Response of the Multilateral Development Banks to the COVID-19 Pandemic

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Abstract: The purpose of this paper is to present the response of the Multilateral Development Banks (MDBs) to the COVID-19 pandemic from its outbreak in January 2020 to May 2021. It focuses on the assistance they provided to their member countries during the health and economic crisis, the changes in their internal operations in the emergency situation and their vision of the post-pandemic future and future plans. The paper uses an analytical approach based on secondary research. Data is from open access sources through the Web. Findings show that MDBs reacted quickly, adapted and intensified their funding activity, adjusted their internal operation due to the pandemic and they are seeking to "build back better" in the future. It can be concluded, that the pandemic response of the MDBs has strengthened their role in the global development arena.

1. INTRODUCTION

The COVID-19 pandemic erupted in China in early 2020 and then spread to almost every part of the world without knowing borders. The new coronavirus disease was declared first a Public Health Emergency of International Concern on 30 January 2020 and later a Pandemic on 11 March 2020 by the World Health Organization (WHO). Its rapid spread and devastating effects soon deepened and widened it into a global economic crisis not seen since the Great Depression of 1929-33.

During the past one and a half years the COVID-19 pandemic swept over the world like a tsunami. It made some 170 million people sick, caused the death of more than 3.5 million people worldwide and is still not over. It pushed 100-150 million people into extreme poverty and reversed the steadily improving trend in poverty eradication in recent years. It halted the process of globalization for a while and jeopardized the achievement of the UN Sustainable Development Goals (SDGs) by 2030. According to the WHO (n.d.) estimates, the pandemic causes $375 billion in losses to the world economy each month.

The fight against the pandemic started immediately worldwide, which required a huge effort and expenditure. The costs were estimated in March 2020 to be at least 10 percent of global GDP (UN, 2020a, p. 1). By the end of April 2021, funding to fight the coronavirus is estimated to be close to $21.4 trillion (Cornish, n.d.). The global economic crisis and social problems caused by the pandemic will require huge spending in the long term and can only be achieved through international cooperation.

Major international organizations and institutions (WHO, UN, OECD, EU, financial institutions) responded quickly to the health and economic crisis. They provided immediate assistance in procuring equipment and tools to contain the pandemic, providing patient care, developing...
the vaccine, mitigating the direct socio-economic effects of the disease and began to prepare for rethinking the post-crisis period.

The paper aims to reveal how a major group of international development financial institutions, the Multilateral Development Banks (MDBs) help the fight against the COVID-19 pandemic worldwide. This topic is highly relevant today as the pandemic affects all of humanity and calls into question the directions of global development so far. It challenges the MDBs as well, and it is important to learn about their reactions which have an impact on their present and future role in the development arena. Research questions of this paper include when MDBs responded to the pandemic, how much help they provided to their member countries and in what form, what their main focus areas were, how it affected their mode of operation, what their vision about the post-pandemic future is and if they could enhance their impact and influence.

The paper seeks to answer these questions with an analytical approach. The method used is secondary research reviewing the literature, documents of the MDBs and media news. The period of the analysis is from January 2020 to May 2021.

The structure of the paper consists of five parts. After the Introduction, Part 2 reviews related literature. Part 3 provides a conceptual framework, initial hypotheses, scope and data sources. Part 4 presents findings on MDBs response to the pandemic in terms of their commitments, mode of operation and future vision. The paper ends with drawing conclusion.

2. LITERATURE REVIEW

There are four lines of literature reviewed for this paper. The first regards multilateral development banks in general, being major international financial institutions specialized in providing development finance. The idea and necessity of their establishment, their role, characteristics, the funding they provide and their relations to other development institutions as well as to the private sector and the civil society is widely discussed (Babb, 2009). Methods for measuring the links between their actions and the results in development is a research subject for a long time (Vinod & Xubei, 2012). Funding and oversight have an effect on global power relations, so even the US Congress is discussing these issues regularly (Congressional Research Service, 2020).

The second line relates to their countercyclical assistance. Supporting the economy during an economic slowdown or crisis is one of the roles of all public development banks, amongst them of the MDBs (Léon, 2020, p. 6). Galindo and Panizza (2018) prove that government borrowing from MDBs is countercyclical mainly led by the World Bank, while regional development banks tend to be more acyclical, and counter-cyclicality of MDB lending is - in general - weakening. Fleiss (2021, p. 43) draws the attention that „CRAs limit MDBs’ counter-cyclicalit“ and points out that MDBs could extend their lending during crises if they were ready to risk their highest rating.

The third line of the literature review is concerned with the emergency response of the MDBs. These banks are not aid providers (relief agencies) but development finance institutions. They considered natural disasters, like earthquakes, floods, landslides, storms, etc. to be emergencies to which they responded ex-post. Mukherji (2019) discusses the role of the MDBs in post-disaster recovery in detail. MDBs started to consider natural hazards together with climate change as development concerns only from the early 2010s and provide ex-ante support for building
resilience (The International Bank for Reconstruction and Development, & The World Bank, 2012). Up till now, they were less concerned with human and social disasters except for economic migration and forced displacement where they coordinated efforts (Reliefweb, 2017).

Finally, the fourth line reviews the latest studies on the COVID-19 crisis response given by the MDBs. Assessments on their contribution are mixed. The Oxford Business Group (2020) believes that MDBs play a special role in assisting governments of emerging countries suffering from the crisis „as a source of finance to support struggling industries, invest in necessary infrastructure and pave the way out of a recession“. The OECD (2020) argues that „multilateral development organizations have reacted swiftly to the crisis, launching a timely response to step into the financial vacuum generated by the global pandemic“. However, Humphrey and Prizzon (2020) express an opposite opinion stating that the response given by the MDBs is not commensurate with the scale of the crisis caused by the pandemic. Masood (2020) also holds the view that “It is entirely feasible, and ... necessary, for the MDBs to play a much larger role during this critical time.“ Lee and Aboneaaj (2021) note that commitments by the MDBs’ increased considerably during the COVID-19 crisis, but this is much below the increase during the global financial crisis in 2009 and falls far behind the finance needs of the emerging countries.

3. CONCEPTUAL FRAMEWORK, SCOPE AND DATA SOURCES

The premise of this paper is that the COVID-19 pandemic posed challenges for the MDBs being major providers of international development finance. The assumption is that this affected the focus and extent of their activities, mode of operation as well as their vision and strategy for the future. In the light of all this the paper forms and checks three hypotheses:

**Hypothesis One:** MDBs increased their financing activity, changed its direction and time horizon to help to combat the pandemic.

**Hypothesis Two:** MDBs introduced innovations in their operation in order to cope with the challenge caused by the pandemic.

**Hypothesis Three:** MDBs’ vision for the post-pandemic future remains sustainable development.

The scope of the paper covers the response to the COVID-19 pandemic of two global and seven regional MDBs, namely the World Bank (WB), New Development Bank (NDB), African Development Bank (AfDB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IADB) and Islamic Development Bank (IsDB).

Data is obtained from open sources that are publicly accessible through the Web.

4. FINDINGS: MDBS’ RESPONSE TO THE PANDEMIC

Multilateral Development Banks were established after the Second World War as part of the Bretton Woods system to provide development finance in the forms of concessional loans, grants, guarantees and technical assistance to their member countries. The World Bank is the most well-known of them operating globally, while the others are regional. Their subscribed capital is provided by the governments of their member countries. Typically, their paid-in capital is much smaller than their callable capital which serves as a kind of reserve in case of problems. Up till now, there were no such cases as MDBs manage risks strictly, so they are rated
very high by the Credit Rating Agencies (CRAs). They fund large mid-and long term projects that have long return such as infrastructure development. They assist their eligible member countries, mainly for the governments. They have a countercyclical role. They cooperate and attract private capital for co-financing, so they can increase or even multiply funding resources. Instead of maximizing profit like commercial banks, they aim to maximize development impact. They are also committed to achieving the United Nation’s Sustainable Development Goals (UN SDGs) by 2030.

4.1. Speed of the MDBs’ response to the pandemic

MDBs mobilized their financial and human resources immediately after the pandemic was declared in order to help their member countries fight the coronavirus and coordinated their efforts to that end. They responded to the pandemic first in spring 2020, at the same time as the major international organizations, almost as soon as the virus began to spread globally. Their further response initiatives followed the waves of the pandemic later that year and were even extended to 2021. Their reaction was flexible and selective, taking into account the urgent needs and the pandemic situation in their member countries. Some MDBs provided help even to non-members to cope with the dramatic situation which is exceptional.

The rapid response has been facilitated by the fact that the MDBs have recently gradually restructured and supplemented their disaster response policies. Originally these policies were limited to natural disasters and, rarely, to post-conflict situations. They primarily aimed at physical reconstruction programs for restoring assets and production, but were not suitable for humanitarian and social assistance. In such cases, MDBs had to apply for exemptions and make procedural adjustments on a case-by-case basis. However, as demand grew, MDBs broadened their disaster response policies and practices. They included anthropogenic disasters and epidemics in disasters and supported temporary measures aimed at protecting human, institutional and social capital. They speeded up the assessment and disbursement of aid and simplified their procurement procedures. As a result, their redefined disaster response policies could be used as a basis to help the fight against the COVID-19 pandemic (New Development Bank, 2020, June 10, p. 3).

4.2. Size and focus of the response packages of the MDBs

After COVID-19 was declared a pandemic, MDBs developed their initial response packages, which they expanded later. The World Bank announced a $160 billion emergency response and crisis management package for 15 months, and the regional MDBs pledged an additional $80 billion in funding. These together amount to a total of $240 billion to combat the coronavirus and mitigate the effects of the economic crisis as a result (Wilson, 2020). Besides the World Bank’s package that is exceptional in size, the regional MDBs offered initial funding worth $10-25 billion each for COVID-19 response in spring 2020 and later they provided additional resources, too.

- The World Bank committed $21 billion in 105 countries until July 2020. In October 2020 it approved a $12 million program for developing countries to buy vaccines, tests, and treat patients, that will allow 1 billion people to be vaccinated. With the help of its private sector development institution (the International Finance Corporation - IFC) the World Bank set up a $4 billion Global Health Platform to support vaccine manufacturing (World Bank, 2020).
- The African Development Bank (AfDB) launched a three-year Fight COVID-19 Social Bond in the amount of $3 billion in March 2020 targeting the economic and social impact of the pandemic (AfDB, 2020a). A few days later it approved a $2 million emergency as-
The size and composition of the MDBs’ response packages can be assessed in comparison with the assistance provided by some of the major international organizations, like the WHO, the UN and the EU.

The World Health Organization (WHO), a specialized agency of the United Nations, initially dedicated $675 million for the immediate and direct response to the COVID-19 for the three months from February to April 2020 (WHO 2020). Later it revised and increased this amount to $1.5 billion till the end of 2020 (WHO 2021). One year later the WHO dedicated a new $1.96 billion for the fight against the pandemic, out of which $1.2 billion...
was planned to be spent on providing diagnostic tools, vaccines and medicine, while $643 million on humanitarian aid (UN News, 2021).

- The United Nations (UN) estimated about $2 billion as needed for supporting the local health systems for nine months from April to December 2020, especially in countries with insufficient health institutions (UN, 2020b). In order to cope with the socio-economic effects of the pandemic, it planned to modify and redirect most of its $17.8 billion development portfolio, too (UN, 2020c). In addition to it, the UN created a fund in the amount of $2 billion to support the fight against the pandemic in the least developed and most vulnerable countries (UN, 2020d).

- The emergency response of the European Union (EU) to the pandemic included a €540 billion support package for jobs and workers, businesses and member states. Out of it €100 billion was devoted to mitigating unemployment risks, €200 billion to guarantee funds for loans to companies and €240 billion to pandemic crisis support for member states. The EU promoted research for treatments and vaccines with €384 million, too. For the period 2021-2027, the overall EU budget is €1,824 billion. It is planned to help the EU to rebuild after the COVID-19 pandemic (European Council, & Council of the European Union, n.d.).

4.3. Adjusting MDBs’ internal operation to the emergency

The pandemic made MDBs adjust their internal operation to the emergency situation. This had an effect on their procedures, tools and projects.

As for their procedures, speed and flexibility became particularly important during the emergency response period. To this end, MDBs set up pandemic and crisis management teams, speeded up their decision making procedure and the delivery of their assistance. In the beginning, they let their Board of Directors decide on a case-by-case basis and endorsed waivers of specific features of the emergency response that did not fit in the existing policies. Later they adopted new, simplified fast-track procedures for the processing, approval, procurement and disbursement of their assistance. It enabled a loan to be disbursed even within a month of approval, allowed pre-payment and covered expenditure occurred before the loan approval but arouse as a direct consequence of the pandemic. They offered simplified methods of selecting suppliers, provided the borrowers with interactive georeferencing and supply chain maps. Due to travel restrictions, they outsourced some of the tasks that needed to be executed on the spot at distant locations. Since emergency assistance needs are different from country to country, these fast-track and innovative procedures allowed the response to be flexible and country specific.

Regarding tools, MDBs developed and started to use new tools and launched new initiatives. These included emergency assistance, crisis response and recovery facilities and frameworks, support programmes, solidarity packages, special windows, emergency program loans and pandemic response options, just to name a few. MDBs also utilized their disaster financing instruments and provided trade finance for the short run for the first time - being entirely atypical for MDBs earlier.

As far as projects are concerned, MDBs launched many new projects as well as restructured and redirected ongoing ones. They started to exploit reserves that were built in the projects but usually were not used before. Some of the projects were labelled as catastrophe financing that enabled them to use fast-track procedures. The time-frame of the projects also shifted from the mid and long-term to mainly short and medium-term due to the emergency situation.
4.4. MDBs’ vision of the post-pandemic future

After the immediate response to combat the pandemic and the global crisis, MDBs started to think about and work on „shaping the future“. Their vision of recovery is quite similar, best expressed by the slogan „Building back better“. It conveys two very important messages. One of them is that they want to „build back“, instead of creating something new. The other message is that MDBs envisages a „better“ future than they did before. This combination of wording suggests that the financing activity of the MDBs will be modified but will not take a completely different direction after the pandemic.

However, it is worth exploring the expected shifts in their financing activity based on their vision. The analysis of their ideas about the „better future“ shows that MDBs envisage a green, resilient, inclusive, well-governed, competitive and digital future. Taking this into account, it is most likely that in the post-pandemic era these will be the preferred areas where they will fund development projects and attract co-financing from the private sector. At the same time, MDBs expressed, that they remain committed to the UN Sustainable Development Goals and are ready to increase their efforts to help to achieve them.

5. FUTURE RESEARCH DIRECTIONS

The current state of knowledge on the response of the MDBs to the pandemic suggests that they play a very important role globally to help their member countries to combat the coronavirus and recover from the crisis. In order to do that they adapted to the new challenges quickly and reacted effectively. However, since the pandemic is still not over, it is too early to give a final summary. Further research might add value to a deeper understanding, especially in three areas.

First, current modifications regarding the focus, timeframe, tools, internal processes and funding capacity of the MDBs will certainly have an effect on their ordinary post-pandemic mode of operation. Longer lasting operational innovations due to the coronavirus and the crisis is a subject worth further studying.

Secondly, MDBs could extend resources for development through cooperating with international organizations, co-financing with the private sector and involving the civil sphere. Research is also needed on how MDBs could further enlarge and intensify cooperation in order to increase funding capacity and development impact.

Finally, MDBs are still committed to achieving the UN Sustainable Development Goals but the pandemic made it more difficult than it was before. Further work might be required to understand how MDBs can best support it, what changes might be necessary on their side in order to make SDGs realize in due course.

6. CONCLUSION

The analysis of the response of the MDBs to the COVID-19 pandemic and the economic crisis confirms all of the three hypotheses of the paper.

Regarding Hypothesis One, MDBs reacted quickly to the emergency situation. Their pandemic response packages were huge, even compared to the support provided by large international
organizations like the WHO, the UN and the EU. In the emergency situation they focused on health (medical infrastructure, direct health expenditure, vaccine research and development, production, distribution and purchase) and social-economic protection (small and medium sized enterprises, banks, state budgets and trade finance), and provided immediate and short-term help as well. This confirms that they increased their financing activity, changed its direction and time horizon, to help to combat the pandemic.

As for Hypothesis Two, MDBs’ response was flexible and innovative. They adjusted their procedures to the emergency situation introducing fast-track processes, developed new facilities, programmes, options and launched not only new projects but reshaped ongoing ones. Some of them provided support outside their member countries to other countries in need, which goes beyond the regular cases. This proves, that MDBs introduced innovations in their operation.

As far as Hypothesis Three is concerned, MDBs seek to „build back better“ after the destruction caused by the pandemic. According to their vision, the future is green, resilient, inclusive, well-governed, competitive, digital. Their firm commitment to realizing the UN Sustainable Development Goals certifies, that MDBs’ vision for the post-pandemic future remains sustainable development.

In addition to all of this, it might be stated, that MDBs have a unique impact on the survival and recovery worldwide and their pandemic response has made their role stronger in the global development arena.

REFERENCES


