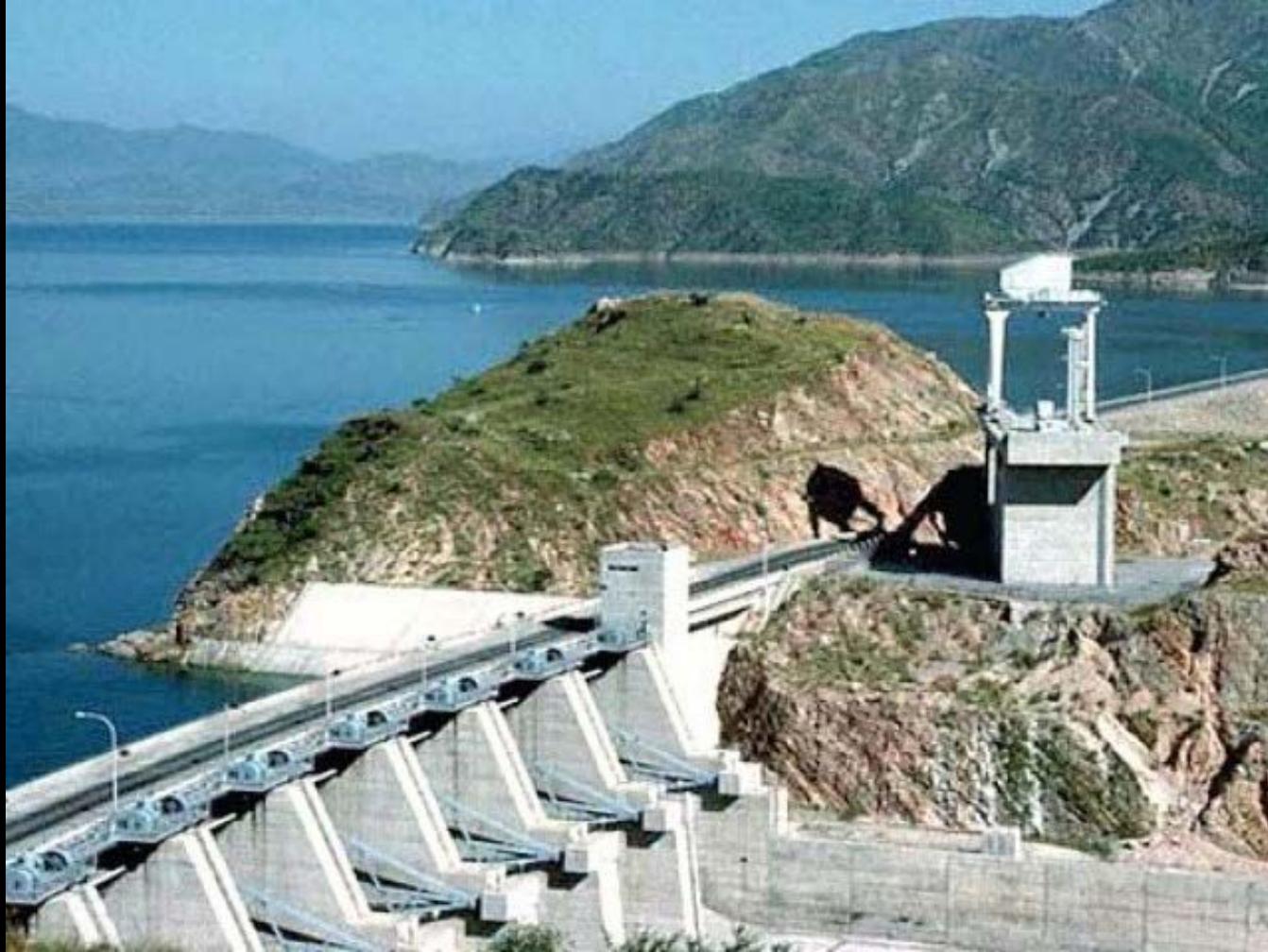




# The Role of the IFIs in the Future Financial Architecture

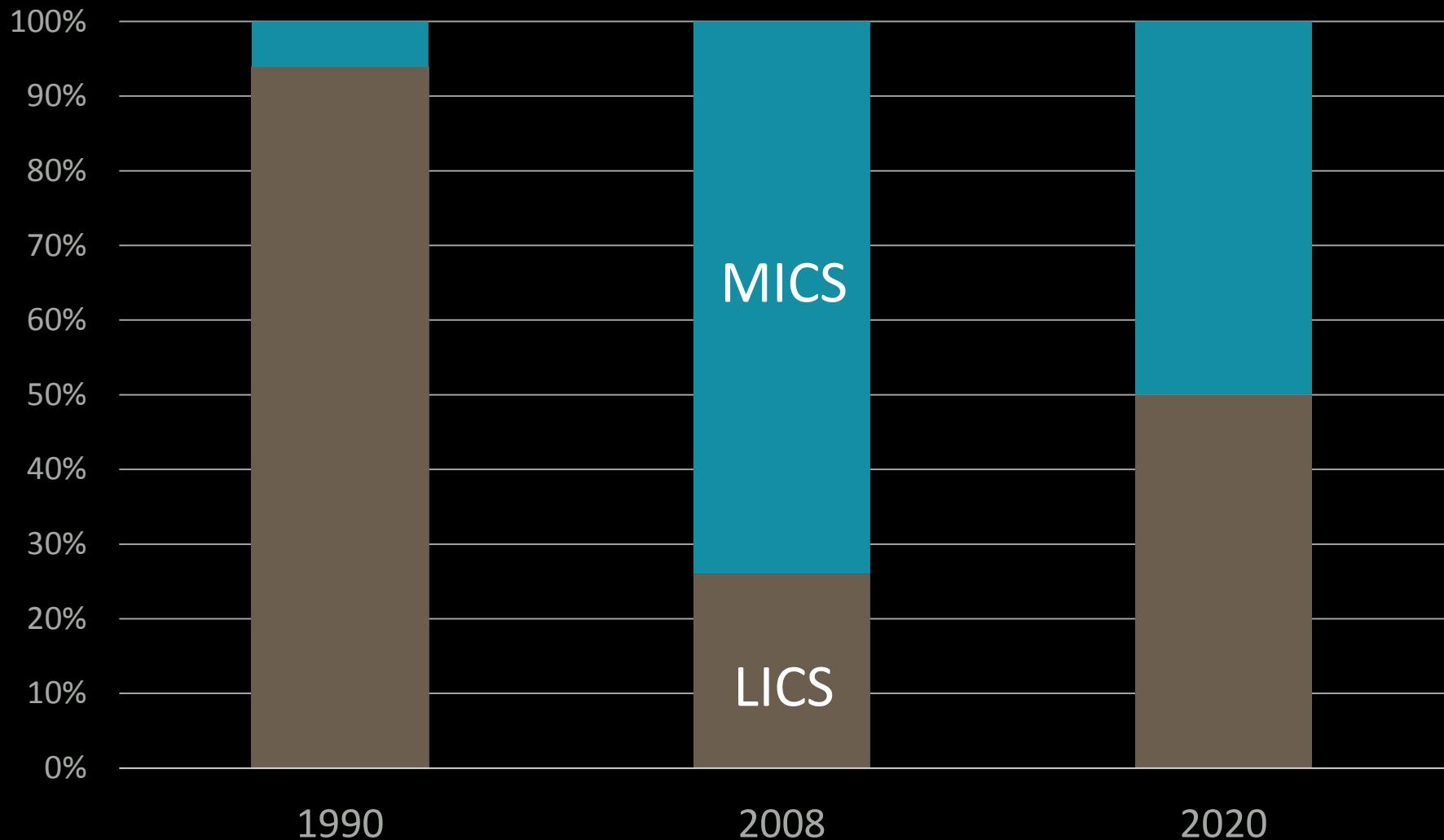
Owen Barder

Copenhagen  
January 30th, 2014



Tarbela Power Station Extension  
to be built by Sinohydro & financed by World Bank

# Changing Landscape of Poverty



Proportion of people who live on less than \$1.25/day who live in low income countries  
Source: Sumner (2012) CGD Working Paper 305

# Changing Landscape of Poverty

2014 GATES  
ANNUAL LETTER



## MYTH ONE

### *POOR COUNTRIES ARE DOOMED TO STAY POOR*

by Bill Gates

*I've heard this myth stated about lots of places, but most often about Africa. A quick Web search will turn up dozens of headlines and book titles such as 'How Rich Countries Got Rich and Why Poor Countries Stay Poor.'*

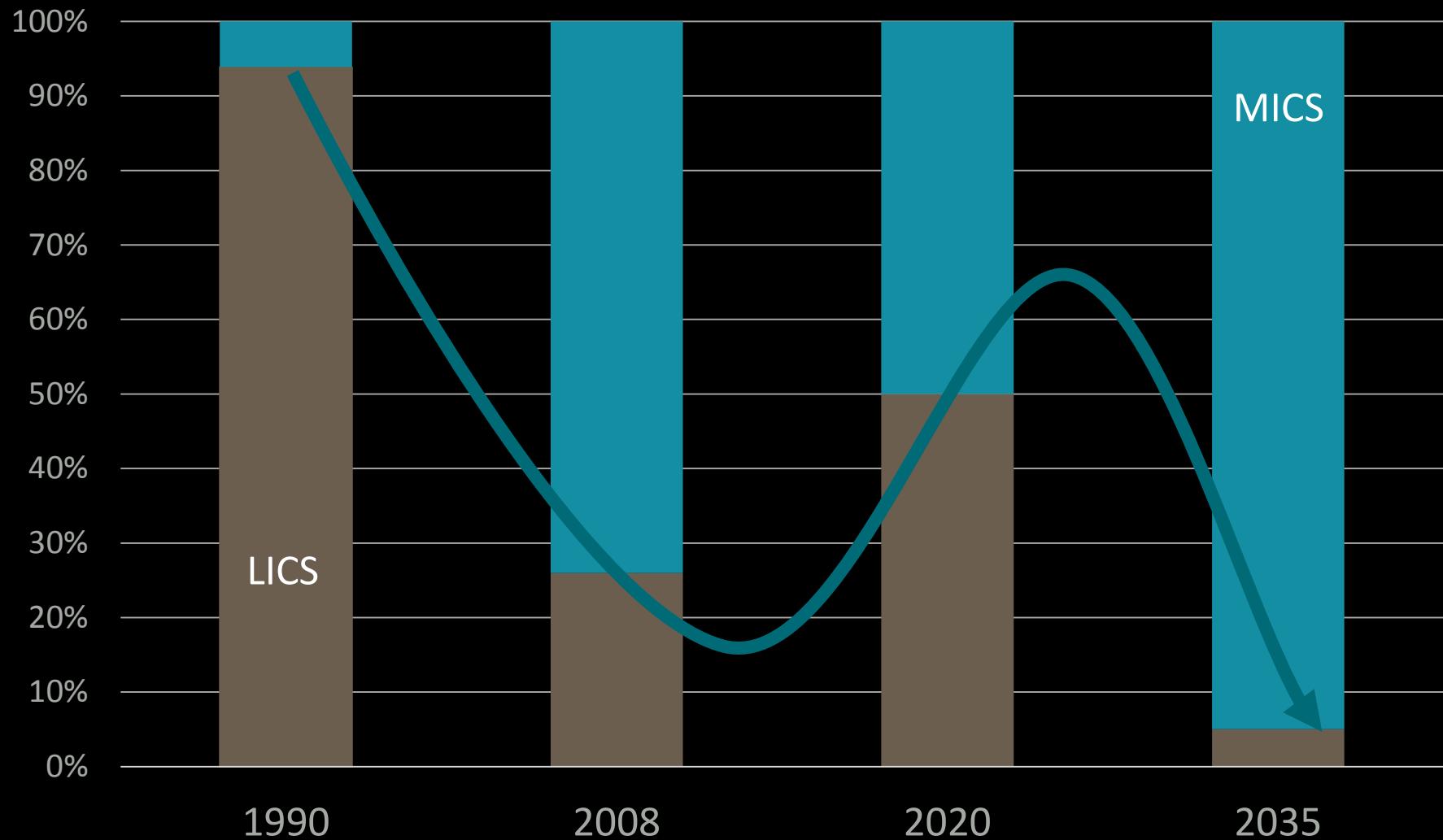
Thankfully these books are not bestsellers, because the basic premise is false. That is, incomes and other measures of human welfare are rising almost everywhere, including in Africa.

So why is this myth so deeply ingrained?

*"By 2035, there will be almost no poor countries left in the world."*

Bill Gates

# Changing Landscape of Poverty



Proportion of people who live on less than \$1.25/day who live in low income countries

# Changing Landscape of Finance

2011 US \$ billion

Lower Middle Income Countries

250

200

150

100

50

0

Remittances

Long-term debt\*

FDI (net inflows)

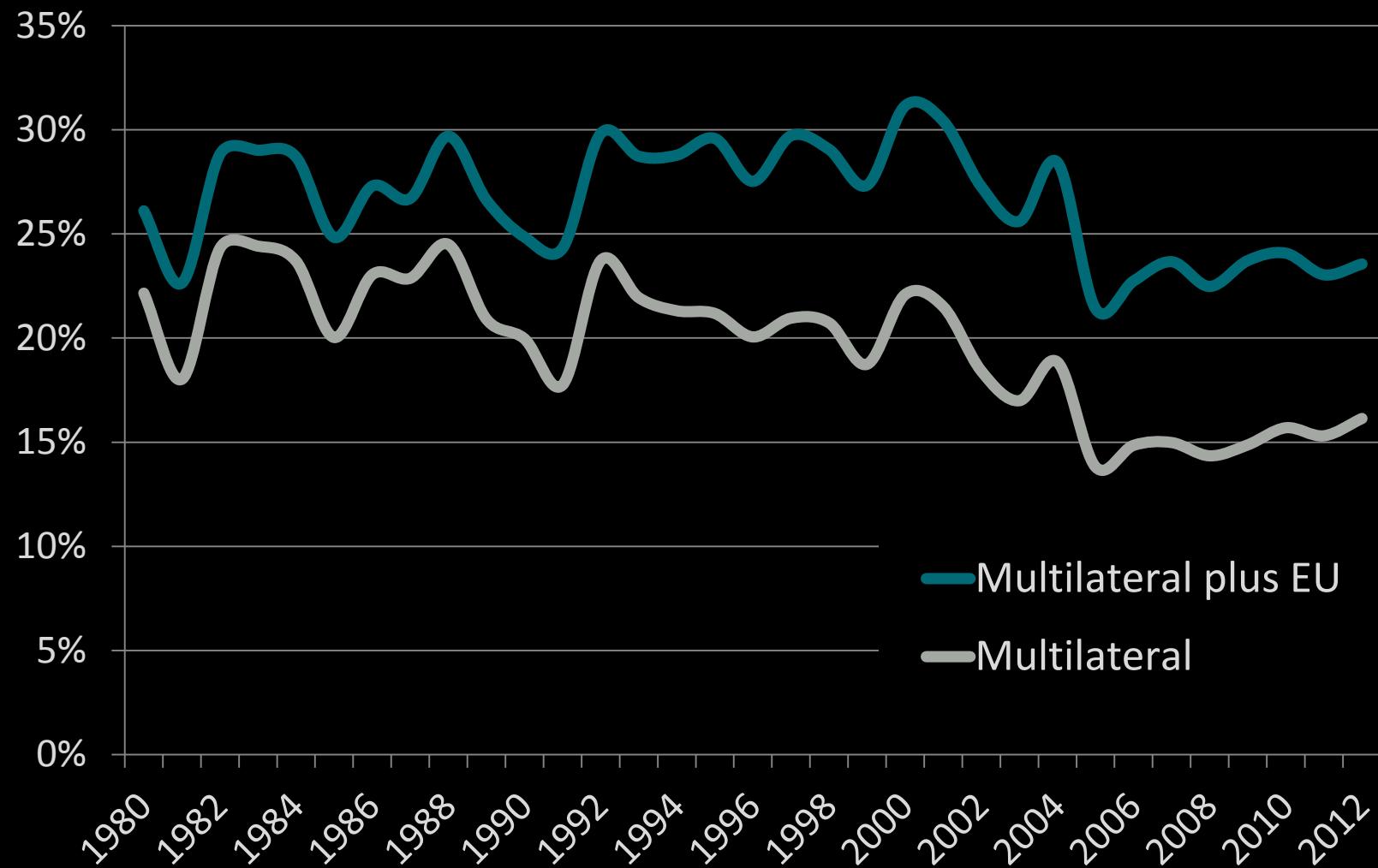
Gross ODA

Gross OOFs



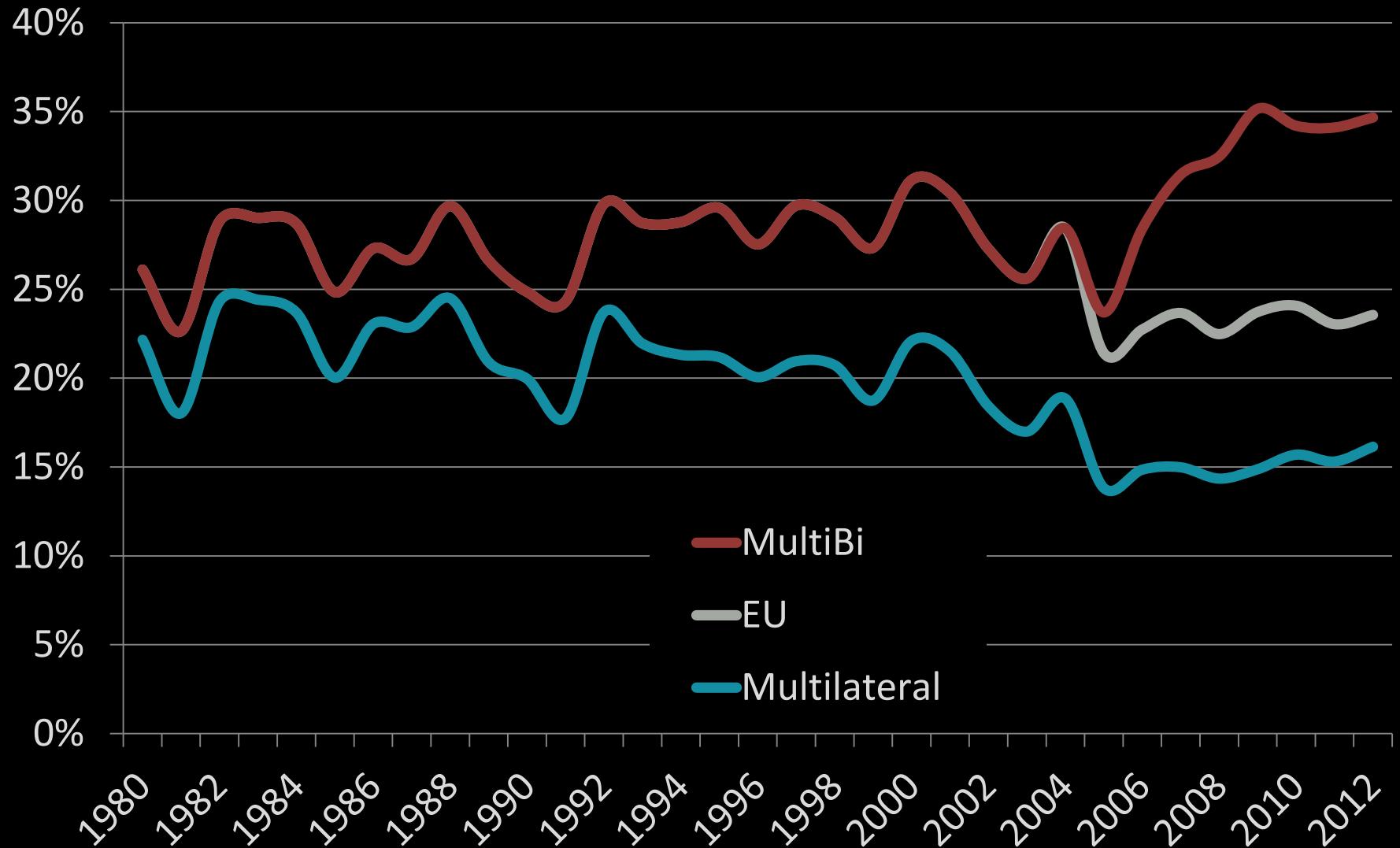
Source: Development Initiatives Investments to End Poverty (2013)

# Changing Landscape of Multilateral Aid



Source: OECD DAC QWIDS statistics database accessed 27 January 2014

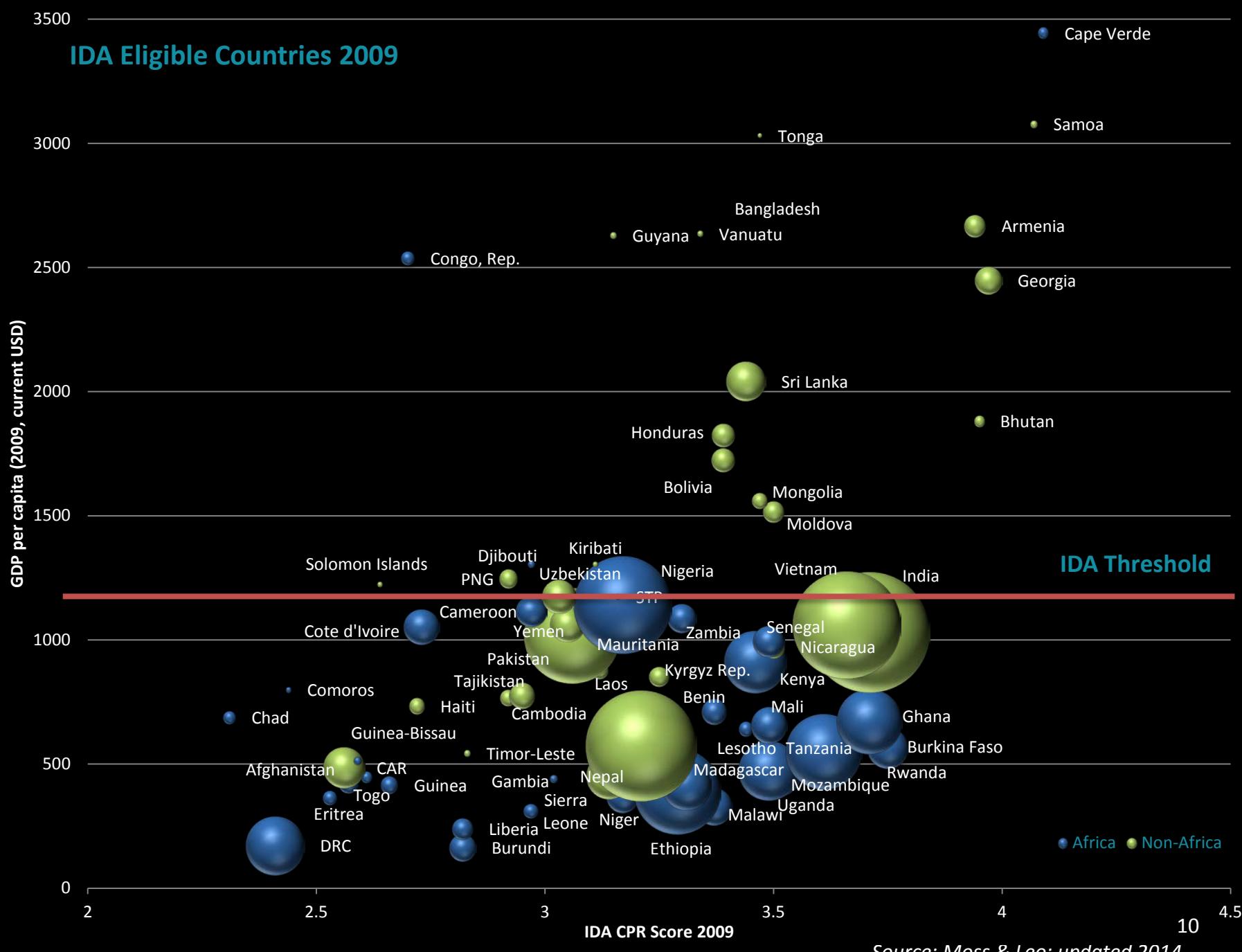
# Changing Landscape of Multilateral Aid



Source: OECD DAC QWIDS statistics database accessed 27 January 2014

# Hard choices





3500

## IDA Eligible Countries 2025

3000

2500

GDP per capita 2025,(2009 USD)

1000

500

0

Uzbekistan

Bhutan

Vietnam

India

Congo, Rep.

Djibouti

Lesotho

Honduras

Bolivia

Laos

STP

Nigeria

Zambia

PNG

Cote d'Ivoire

Cambodia

Yemen

Mauritania

Cameroon

Tajikistan

Pakistan

Kenya

Kyrgyz Rep.

Nicaragua

Senegal

Ghana

IDA Threshold

Comoros

Afghanistan

Haiti

Chad

Eritrea

CAR

Guinea-Bissau

Timor-Leste

Gambia

Sierra Leone

Nepal

Uganda

Madagascar

Tanzania

Rwanda

Burkina Faso

Togo

Guinea

Liberia

Burundi

Ethiopia

Malawi

Niger

Africa

Non-Africa

DRC

IDA CPR Score 2009

11

# The Success Problem

IDA 17	Angola, Armenia, Bosnia & Herzegovina, Georgia, <u>India</u>
IDA 18 to IDA 20	Bhutan, Bolivia, Cambodia, Cameroon, Cote d'Ivoire, Congo Rep, Djibouti, <u>Ghana</u> , Honduras, Kenya, Kyrgyz Rep, Laos, Mauritania, Moldova, Mongolia, Nicaragua, <u>Nigeria</u> , <u>Pakistan</u> , PNG, Senegal, Sri Lanka, Tajikistan, Uzbekistan, <u>Vietnam</u> , Yemen, Zambia
And then	Bangladesh, Benin

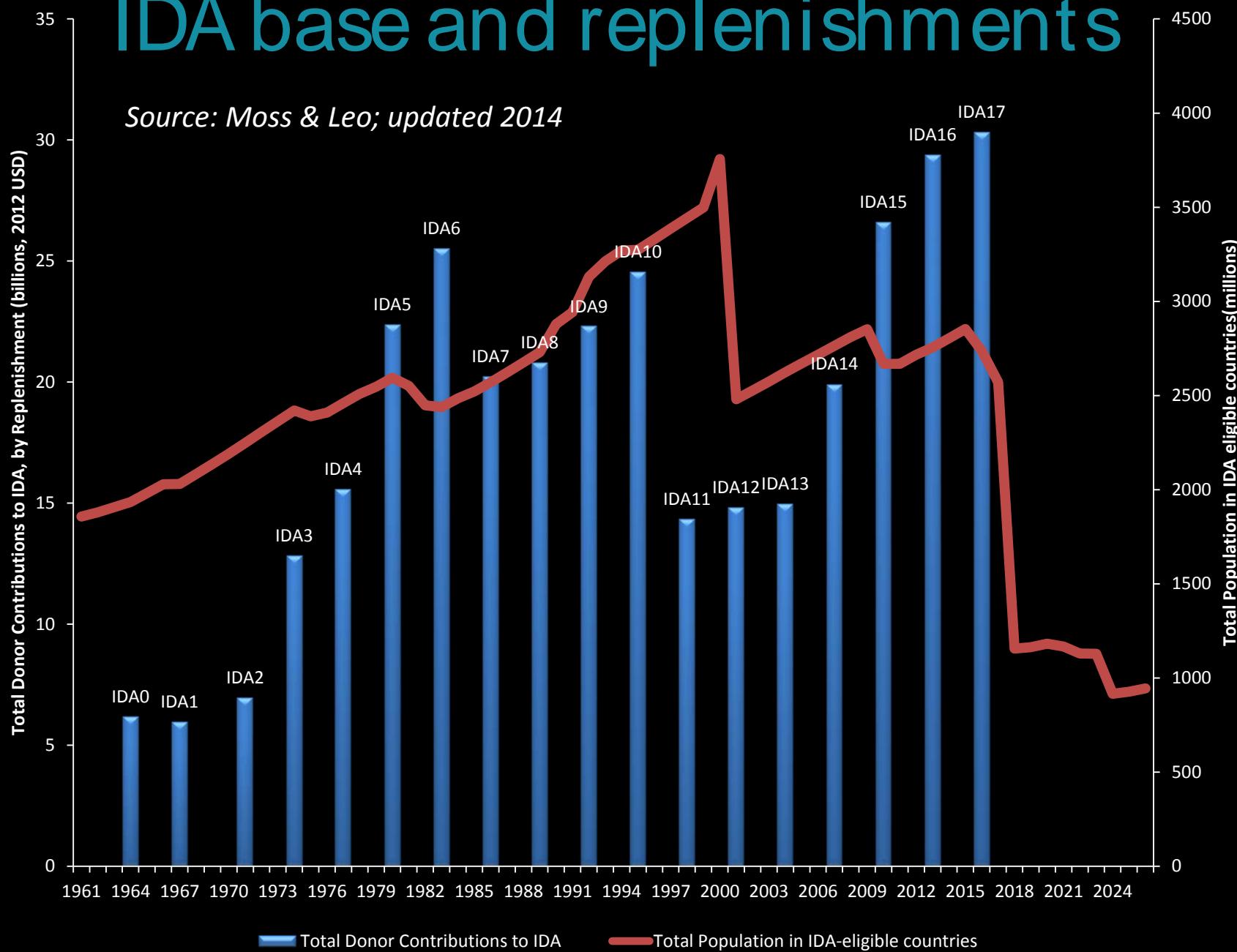
*Source: Moss & Leo; updated 2014*

# IDA on Auto Pilot

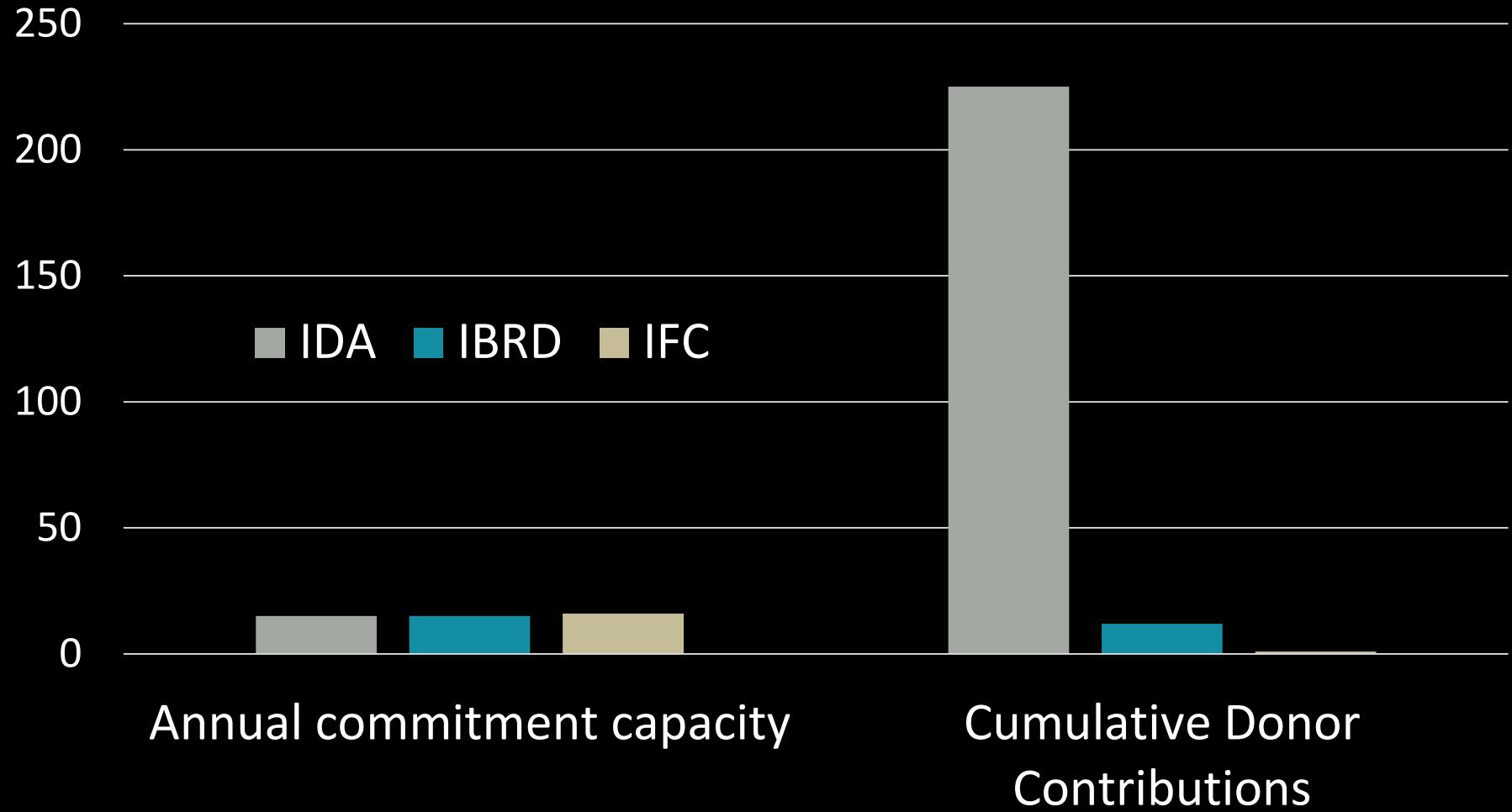
	2010	2025
Number of IDA-only countries	82	31
Total Population (millions)	2820	997
% sub-Saharan Africa (countries)	55%	81%
<i>% sub-Saharan Africa (people)</i>	31%	65%
% Fragile State (countries)	41%	58%
<i>% Fragile States (people)</i>	17%	38%
Percent of world's \$1.25/day poor	79%	25%

# IDA base and replenishments

Source: Moss & Leo; updated 2014



# The World Bank Mash Up



Source: Scott Morris 2014

# Changing Composition of Finances

2011 US \$ billion

India

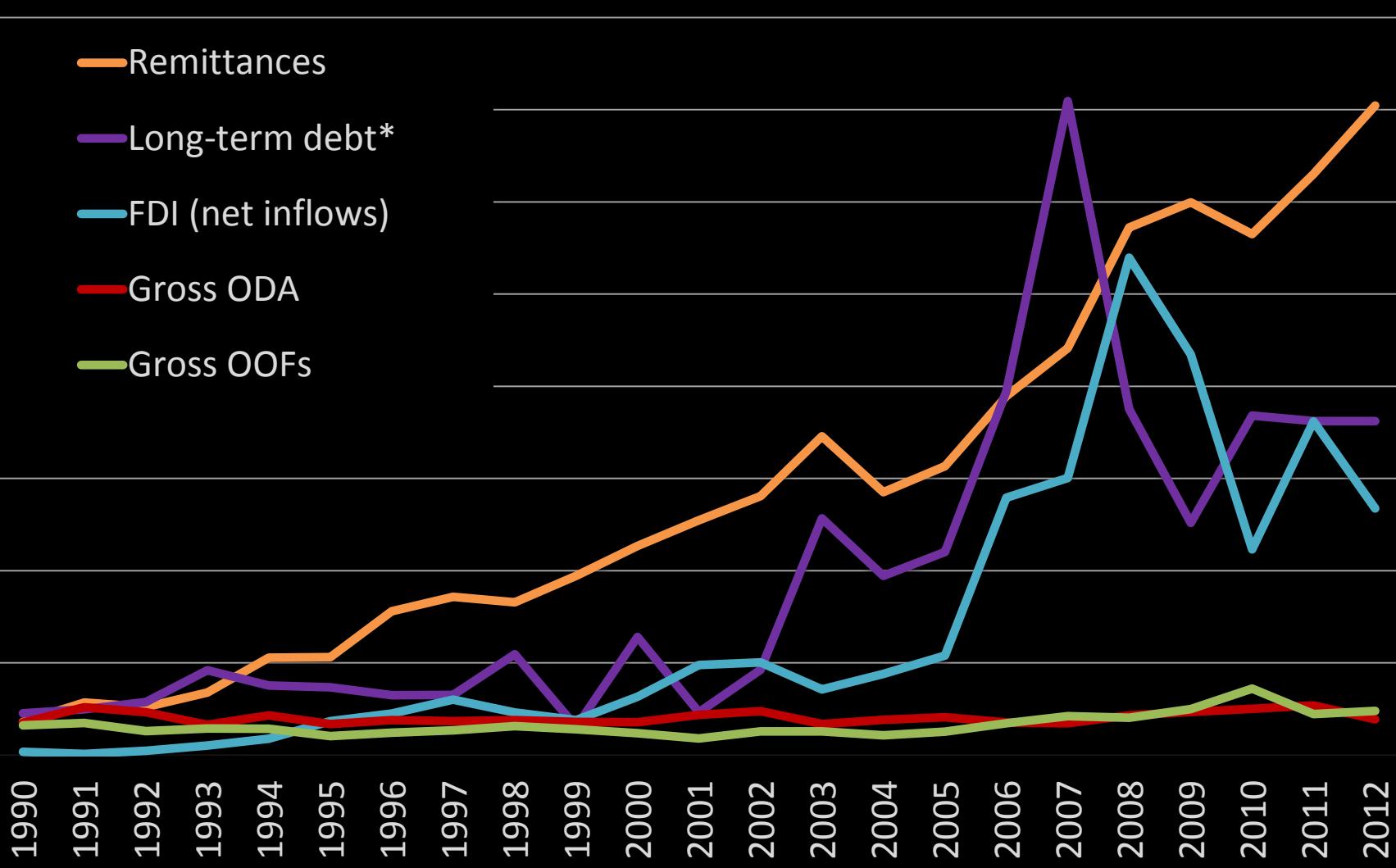
Remittances

Long-term debt\*

FDI (net inflows)

Gross ODA

Gross OOFs



Source: Development Initiatives Investments to End Poverty (2013)

# Changing Composition of Finances

2011 US \$ billion

Vietnam

Source: Development Initiatives  
Investments to End Poverty(2013)

12

10

8

6

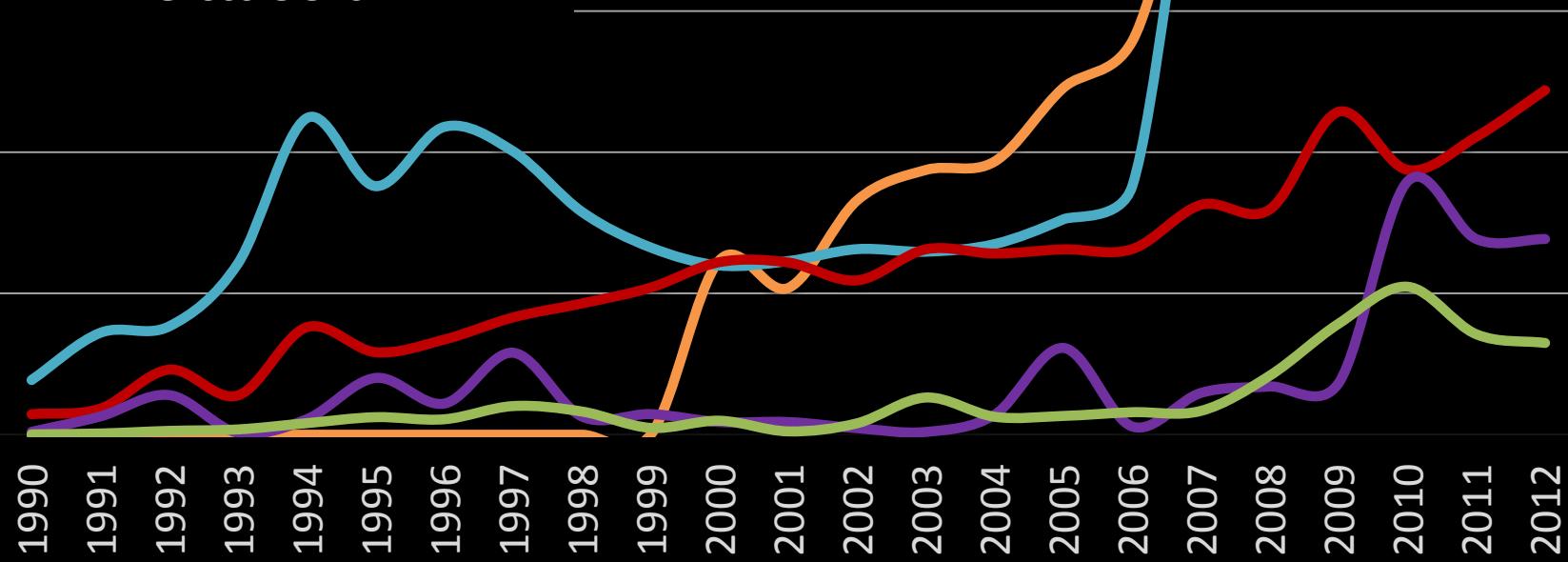
Remittances

FDI (net inflows)

Gross ODA

Long-term debt\*

Gross OOFs



# “The age of choice”



The age of choice: developing countries in the new aid landscape

A synthesis report

Romilly Greenhill, Annalisa Prizzon and Andrew Rogerson

- Ethiopia, Ghana borrowing at 3-6% over LIBOR
- Speed & certainty (rather than standards)

Working Paper 364

Results of ODI research presented  
in preliminary form for discussion  
and critical comment

# A middle income club or an aid agency?



# The politics of capital subscriptions



**Multilateral Development Banks:  
Overview and Issues for Congress**



# Three options:

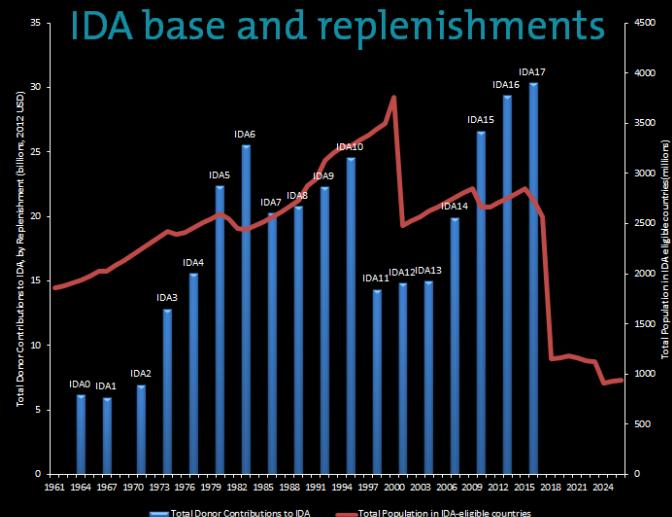
- 1 – Retreat
- 2 – Reform
- 3 – Reinvent



# Option 1: Retreat

- Phase out IDA replenishments
- Non-concessional finance stagnates
- Stick to existing instruments
- Capacity & funding fall
- Leave governance broadly unchanged
- Use regional banks more
- New BRICS bank

“Declare Victory  
and Get Out”



## 2a. Reform Concessional finance: build market

- New products
  - Global public goods
  - Green growth
  - Innovative instruments (P4R, DIBs)
  - Transitional terms
  - Segmented concessionality
- New clients
  - Sub-national borrowers
  - Foundation model

“Don’t harmonize,  
multilateralize”

## 2b. Reform

### Non-concessional finance: build market

- Cut borrower costs
- Crowd in private investors
- Streamline safeguards – speed & certainty
- Improve south-south learning
- A cooperative of middle income countries

# 2c. Reform: Non-concessional finance: build supply

- Sweat the equity
- Increase leverage
- “Bank Resource Review”
- Grand bargain
  - Taper concessional flows
  - Reduce IBRD transfers
  - General capital increase

**Rethinking the Financial Design of the World Bank**

**Devesh Kapur and Arjun Raychaudhuri**

**Abstract**

Since their inception, through 2012, the institutions comprising the World Bank group have been involved in lending nearly a trillion dollars. In this paper, we focus on the IBRD, which is the core of the World Bank's official financial institution in sectors ranging from agriculture to infrastructure.

The paper argues that the financial structure of the IBRD is difficult to constrain because of the gearing ratio, which has increased since the inception of the bank.

This paper seeks to understand why such constraints are difficult to overcome and how they can be overcome.

**JEL Codes:** F3,  
**Keywords:** World Bank, International Development Association, concessional loans, capital structure, governance, World Bank group

**CENTER FOR GLOBAL DEVELOPMENT ESSAY**  
**Shaking Up the Donor Shakedown at the World Bank**  
Scott Morris  
January 2014  
[www.cgdev.org/publication/shaking-donor-shakedownworldbank](http://www.cgdev.org/publication/shaking-donor-shakedown-worldbank)

**ABSTRACT**

The World Bank has developed a remarkably effective fundraising model over many decades in the form of triennial replenishments of the International Development Association (IDA), the arm of the bank that provides grants and highly concessional loans to the world's poorest countries. IDA has raised \$225 billion in donor grant funding since it was founded in 1960. The just-concluded 17th replenishment [IDA-17] resulted in another \$52 billion amassed for IDA's work in low-income countries.

But even as IDA appears to be at the peak of its fundraising prowess, some threats to the model require fundamental thinking by the World Bank and its member countries about the future of fundraising for the bank as a whole. The World Bank should declare the IDA-17 replenishment its last and move to replace it with a broader bank resource review. Sticking with the status quo risks an underfunded institution and one that is increasingly isolated from its shareholders.

CGD is grateful to the Australian Agency for International Development and the Bill & Melinda Gates Foundation for support of this work.

The Center for Global Development is an independent, nonprofit policy research organization that is dedicated to reducing global poverty and inequality and to making globalization work for the poor. CGD is grateful for contributions from its board of directors and funders in support of this work.

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[www.cgdev.org](http://www.cgdev.org)



Scott Morris (2014) “Shaking Up the Donor Shakedown at the World Bank”

Devesh Kapur and Arjun Raychaudhuri (2014) “Rethinking the Financial Design of the World Bank”

# 3. Reinvent

Reforms from above, plus ...

- Reform governance & voice
- Operate like a mutual
- Or otherwise spread ownership
- Simplify procedures
- Invest in global public goods
- More heterodox ideas
- Learn from RDBs



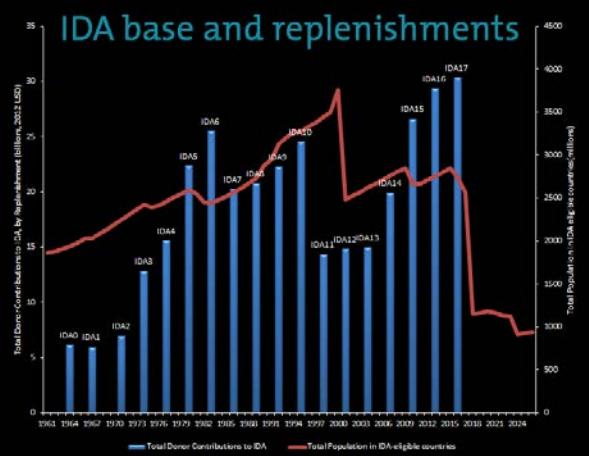
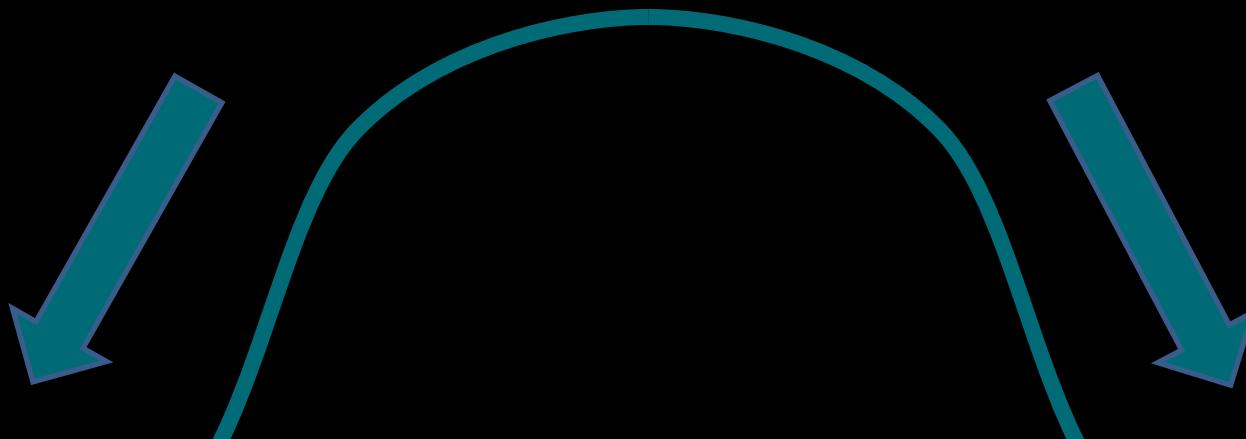


“Always include a third choice which is totally unacceptable, like bomb Warsaw or invade France.”

# Retreat

# Reform

# Reinvent



Charles Kenny

THE  
UPSIDE



OF  
DOWN

*Why the Rise of the Rest Is Good for the West*





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