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

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. 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

Lower Middle Income Countries

2011 US $ billion

- 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
IDA Eligible Countries 2009

- **GDP per capita (2009, current USD)**
  - Values range from 0 to 3500 USD.

- **IDA CPR Score 2009**
  - Scores range from 0 to 4.5.

- **IDA Threshold**
  - Horizontal line indicating the threshold for eligibility.

- **Countries**
  - Non-Africa: Afghanistan, Chad, Guinea-Bissau, Côte d'Ivoire, Cameroon, Pakistan, Tajikistan, Bangladesh, Armenia, Georgia, Sri Lanka, Bhutan, Bangladesh, India, Nepal, and others.

Source: Moss & Leo; updated 2014
# The Success Problem

<table>
<thead>
<tr>
<th>IDA 17</th>
<th>Angola, Armenia, Bosnia &amp; Herzegovina, Georgia, <strong>India</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA 18 to IDA 20</td>
<td>Bhutan, Bolivia, Cambodia, Cameroon, Cote d’Ivoire, Congo Rep, Djibouti, <strong>Ghana</strong>, Honduras, Kenya, Kyrgyz Rep, Laos, Mauritania, Moldova, Mongolia, Nicaragua, <strong>Nigeria, Pakistan</strong>, PNG, Senegal, Sri Lanka, Tajikistan, Uzbekistan, <strong>Vietnam</strong>, Yemen, Zambia</td>
</tr>
<tr>
<td>And then</td>
<td>Bangladesh, Benin</td>
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</tbody>
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*Source: Moss & Leo; updated 2014*
<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IDA-only countries</td>
<td>82</td>
<td>31</td>
</tr>
<tr>
<td>Total Population (millions)</td>
<td>2820</td>
<td>997</td>
</tr>
<tr>
<td>% sub-Saharan Africa (countries)</td>
<td>55%</td>
<td>81%</td>
</tr>
<tr>
<td>% sub-Saharan Africa (people)</td>
<td>31%</td>
<td>65%</td>
</tr>
<tr>
<td>% Fragile State (countries)</td>
<td>41%</td>
<td>58%</td>
</tr>
<tr>
<td>% Fragile States (people)</td>
<td>17%</td>
<td>38%</td>
</tr>
<tr>
<td>Percent of world’s $1.25/day poor</td>
<td>79%</td>
<td>25%</td>
</tr>
</tbody>
</table>
IDA base and replenishments

Source: Moss & Leo; updated 2014

Total Donor Contributions to IDA, by Replenishment (billions, 2012 USD)

Total Population in IDA-eligible countries (millions)

IDA base and replenishments

Source: Moss & Leo; updated 2014

Total Donor Contributions to IDA, by Replenishment (billions, 2012 USD)

Total Population in IDA-eligible countries (millions)

IDA base and replenishments

Source: Moss & Leo; updated 2014

Total Donor Contributions to IDA, by Replenishment (billions, 2012 USD)

Total Population in IDA-eligible countries (millions)
The World Bank Mash Up

Source: Scott Morris 2014
Changing Composition of Finances

Vietnam

2011 US $ billion

Source: Development Initiatives
Investments to End Poverty(2013)
“The age of choice”

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


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
Center for Global Development in Europe

www.cgdev.org/europe

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