MULTILATERAL DEVELOPMENT BANKS

GLOBAL ECONOMIC GOVERNANCE SEMINAR
MADRID, MARCH 11TH- 12TH, 2013

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MDBs were created to foster economic and social development

- In broad terms, MDBs have concentrated on providing finance for investment (human and physical capital) and institutional as well as capacity building.

- MDBs priorities and mechanisms to allocate resources have evolved over time
  - ➢ MDB’s have adopted different orientation and sectorial priorities. These have included:
    - ✓ Infrastructure and productive development
    - ✓ Social development
    - ✓ Policy reform, institutional and capacity building
    - ✓ Climate change mitigation

- MDBs have had different ways of channeling resources
    - ✓ Direct lending (to public and private sector)
    - ✓ Indirect lending (through financial intermediaries, both public and private)
  - ➢ The relative share of the public and private sectors as resource beneficiaries has varied over time.
    - ✓ Public sector is still predominant but at the same time the private sector has gained in importance
      - o Private sector allocation has been direct and indirect (channeling through financial intermediaries)

In general MDBs have included concessional and non-concessional lending windows

MDB	Type of Financing	Type of Borrower	Year Founded
World Bank Group			
International Bank for Reconstruction and Development (IBRD)	Non-concessional loans and loan guarantees	Primarily middle-income governments, also some creditworthy low-income countries.	1944
International Development Association (IDA)	Concessional loans and grants	Low-income governments.	1960
International Finance Corporation (IFC)	Non-concessional loans, equity investments, and loan guarantees	Private sector firms in developing countries (middle and low-income countries).	1956
African Development Bank (AfDB)	Non-concessional loans, equity investments, and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region.	1964
African Development Fund (AfDF)	Concessional loans and grants	Low-income governments in the region.	1972

Source: Nelson (2012)

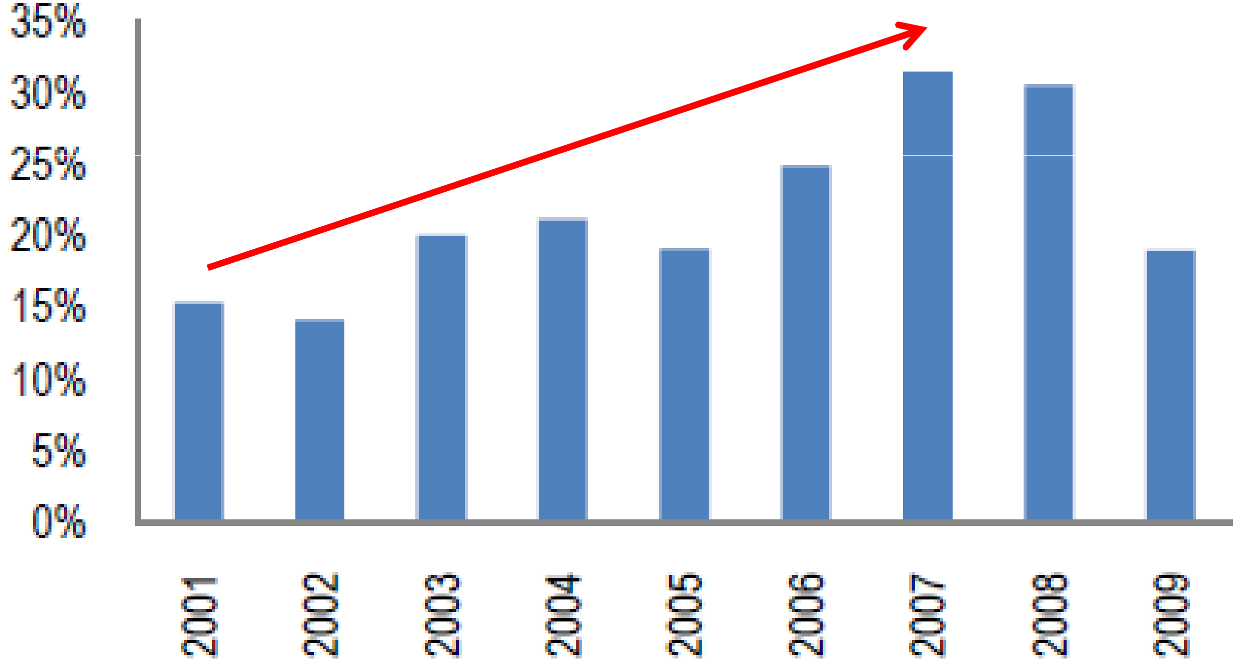
In general MDBs have included concessional and non-concessional lending windows (cont.)

MDB	Type of Financing	Type of Borrower	Year Founded
Asian Development Bank (AsDB)	Non-concessional loans, equity investments, and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region.	1966
Asian Development Fund (AsDF)	Concessional loans and grants	Low-income governments in the region.	1973
European Bank for Reconstructiona and Development (EBRD)	Non-concessional loans, equity investments, and loan guarantees	Primarily private sector firms in developing countries in the region, also developing-country governments in the region.	1991
Inter-American Development Bank (IDB)	Non-concessional loans and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region.	1959
Fund for Special Operations (FSO)	Concessional loans	Low-income governments in the region.	1959
Development Bank of Latin America (CAF)	Non-concessional loans, equity investments, and loan guarantees	Middle-income governments, some creditworthy low-income governments, and private sector firms in the region.	1968

Source: Nelson (2012)

The private sector has increased significantly its share in MDB's lending till 2007, then fell in the financial crisis

MDB's loans to private firms in percent of total loans 2001-2009

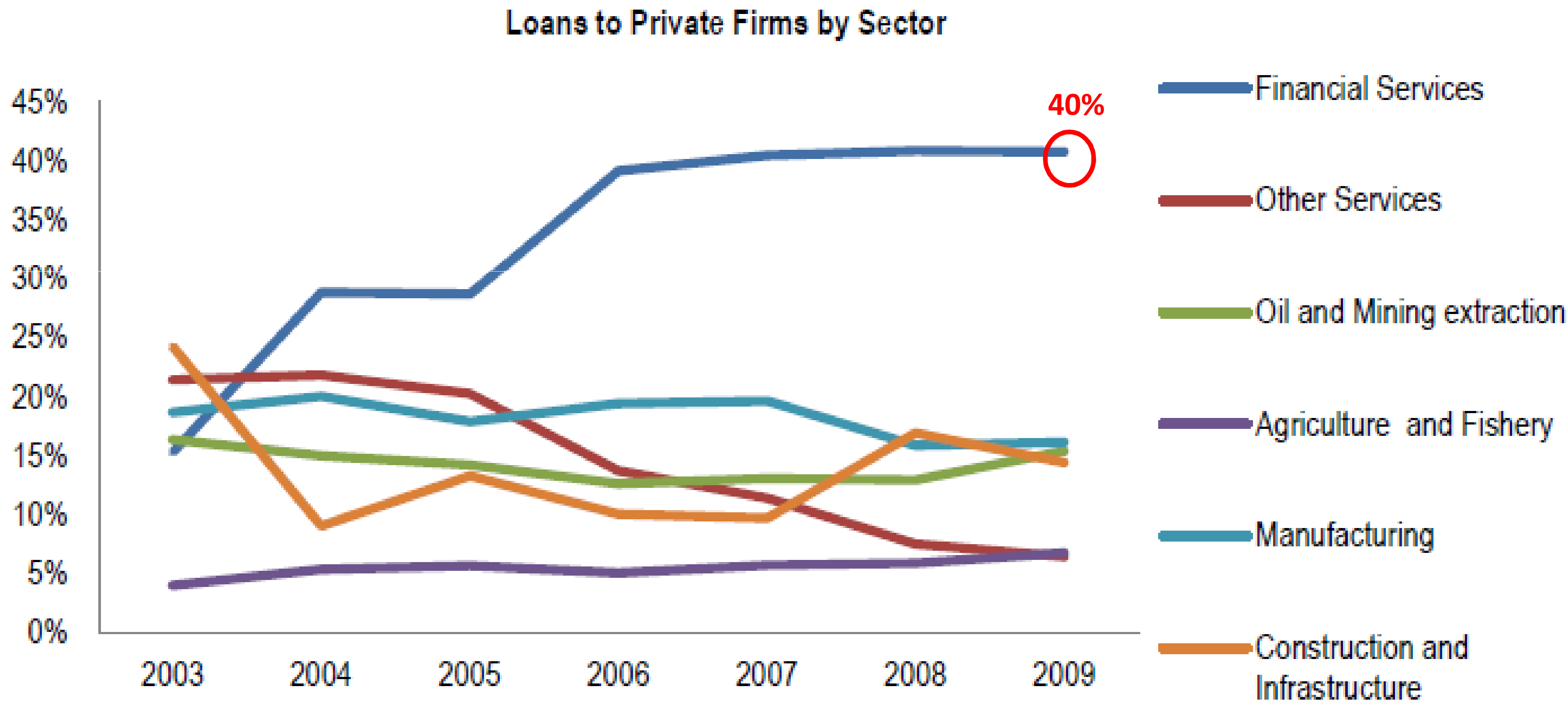


Source: Perry (2011)

Note: Includes IFC, WB, IADB (including IIC), AsDB, AfDB, EBRD and CAF

An increasing share of MDB's financing to private sector is indirectly channeled through Financial Intermediaries

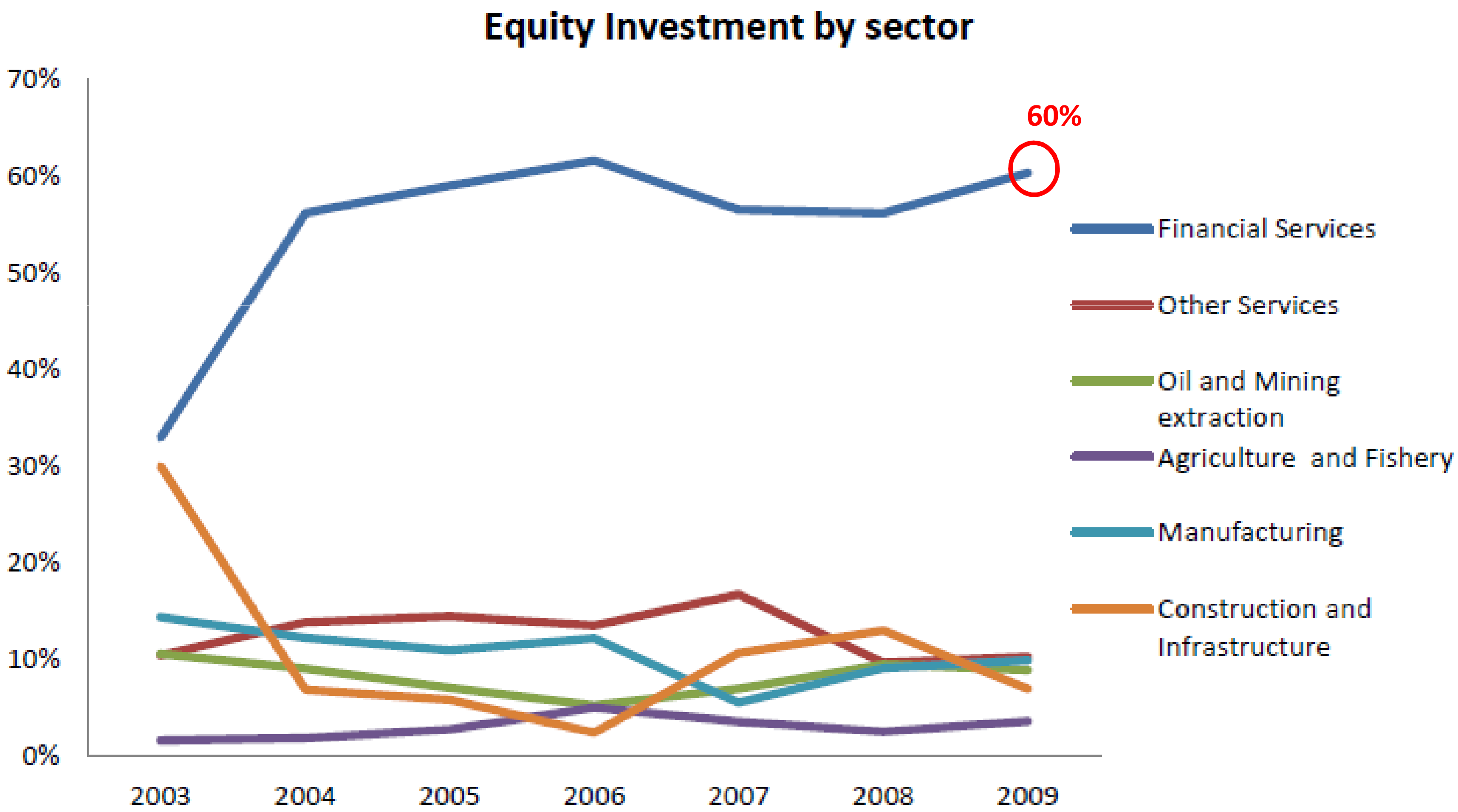
➢The Financial Services sector accounts for 40% of MDBs loans to the private sector (up from only 15% in 2003)…



Note: Includes IIC, IFC, EBRD and AsDB
Source: Perry (2011)

An increasing share of MDB's financing to private sector is indirectly channeled through Financial Intermediaries (cont.)

➢The Financial Services sector accounts for 60% of MDBs equity investment in the private sector (up from nearly 30% in 2003).

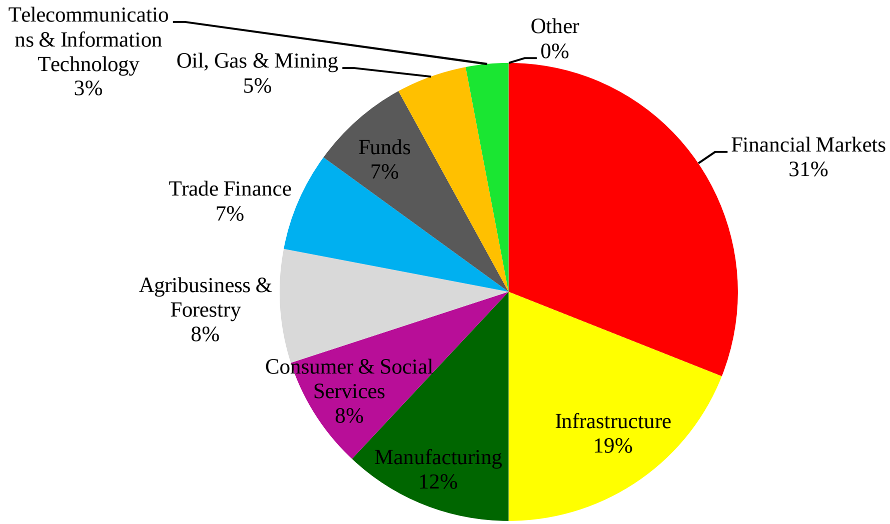


Note: Includes IIC, IFC, EBRD and AsDB
Source: Perry (2011)

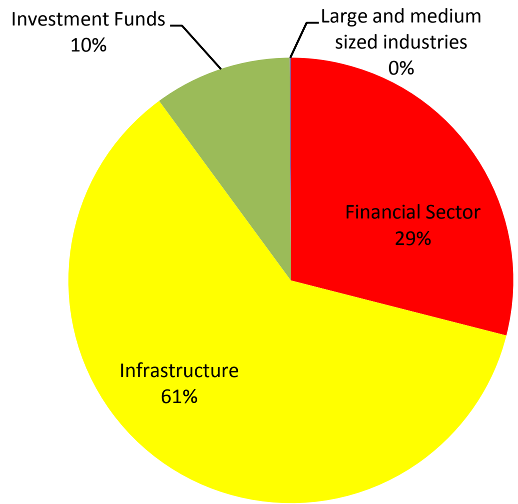
A more disaggregated analysis shows that some MDBs (IIC and CAF) allocate more than half of their private sector portfolio to the Financial Sector

Composition selected MDB's Private Sector Portfolio

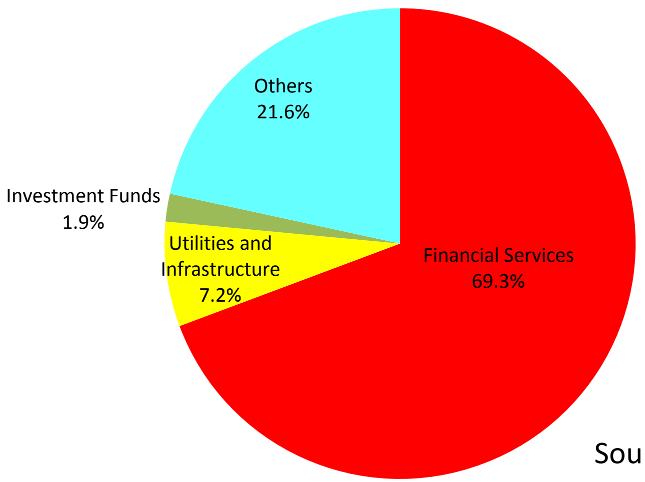
IFC (World Bank Group), June 2012



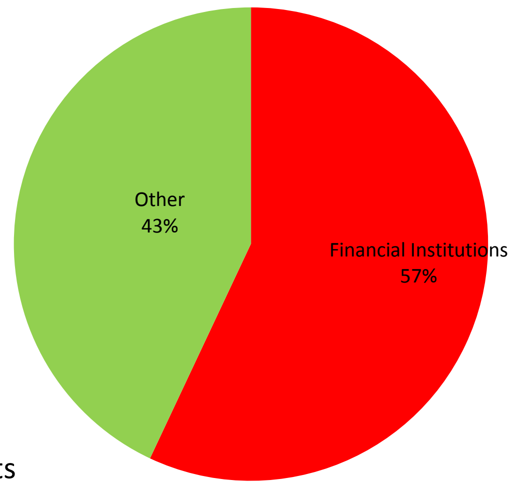
AsDB , 2011



IIC (IDB), 2011



CAF, Sept 2012



Source: MDB's web pages and annual reports

Improving the allocation of financial resources for productive development requires a broader agenda for MDBs…This includes

- Strengthening the provision of productive finance, to support development strategies through:

  <u>Direct lending</u>

  - Financing large infrastructure/other projects.
  - Strengthening public sector capabilities, including of national development banks

  <u>Indirect lending</u>

  - Deeper levels of financial inclusion for SMEs and households.
  - Deeper levels of financial inclusion for innovation and entrepreneurship.
  - Greater financial densification at the institutional and instrument levels.

- Countercyclical actions to support macro-financial stability
  - Maintain the stability in the flow of productive finance.
  - Support the development of countries' counter-cyclical macro mechanisms.

- Addressing global challenges such as climate change mitigation and adaptation

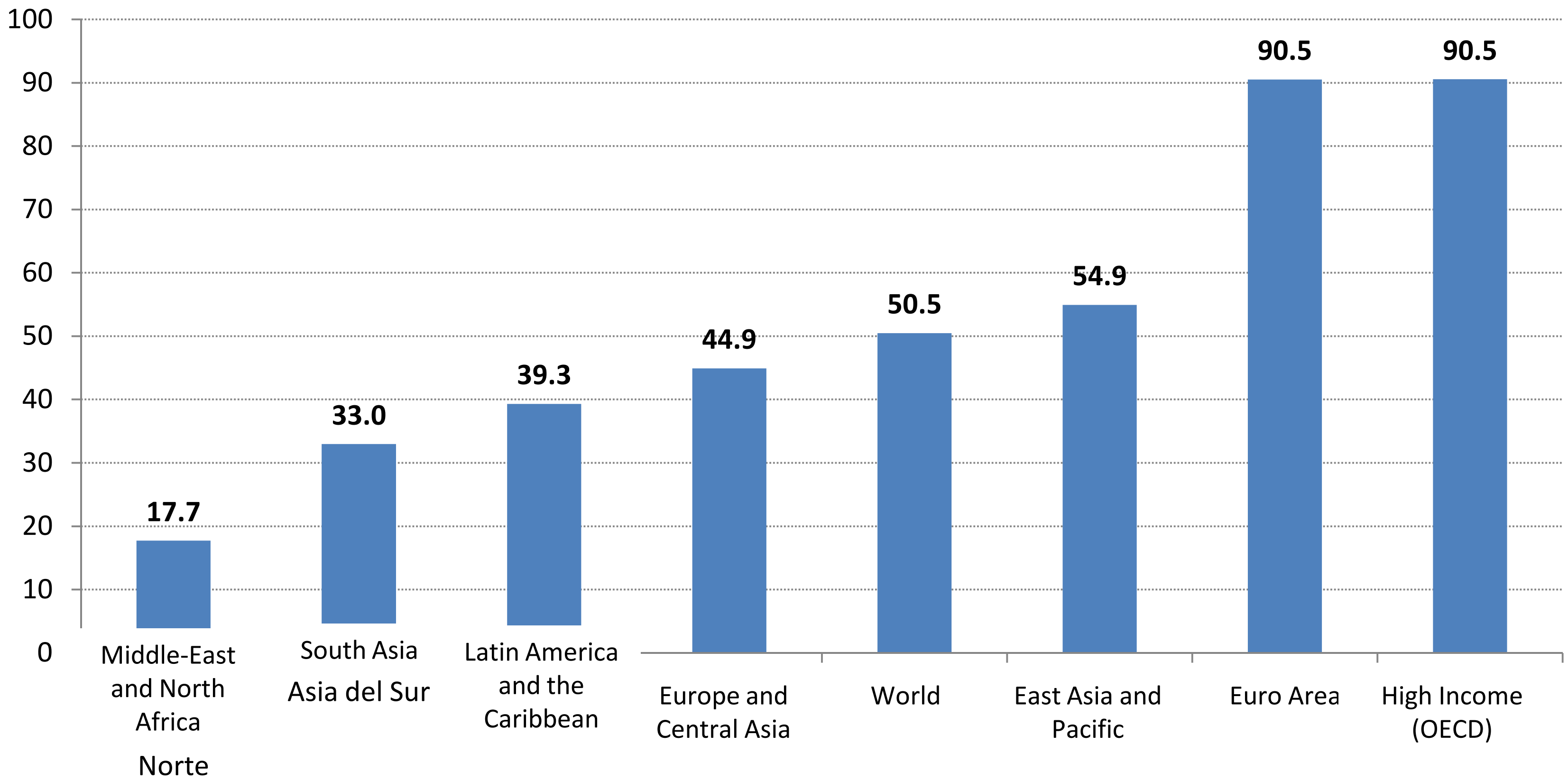
Enhancing the development potential of allocations towards public sector

- Prioritizing sectors, in the framework of so called "industrial policies" in different sectors:
  - ➢ Public investment in infrastructure; support for innovation in other sectors
  - ➢ Institutional and capacity building
  - ➢ Social sector
- Mobilizing broader resources with mechanisms for "doing more with less"
  - ➢ *Blending* of loans and grants
  - ➢ Leverage resources

Financial inclusion is a pre-requisite for productive development, innovation and higher productivity. This is still a pending task in the developing world

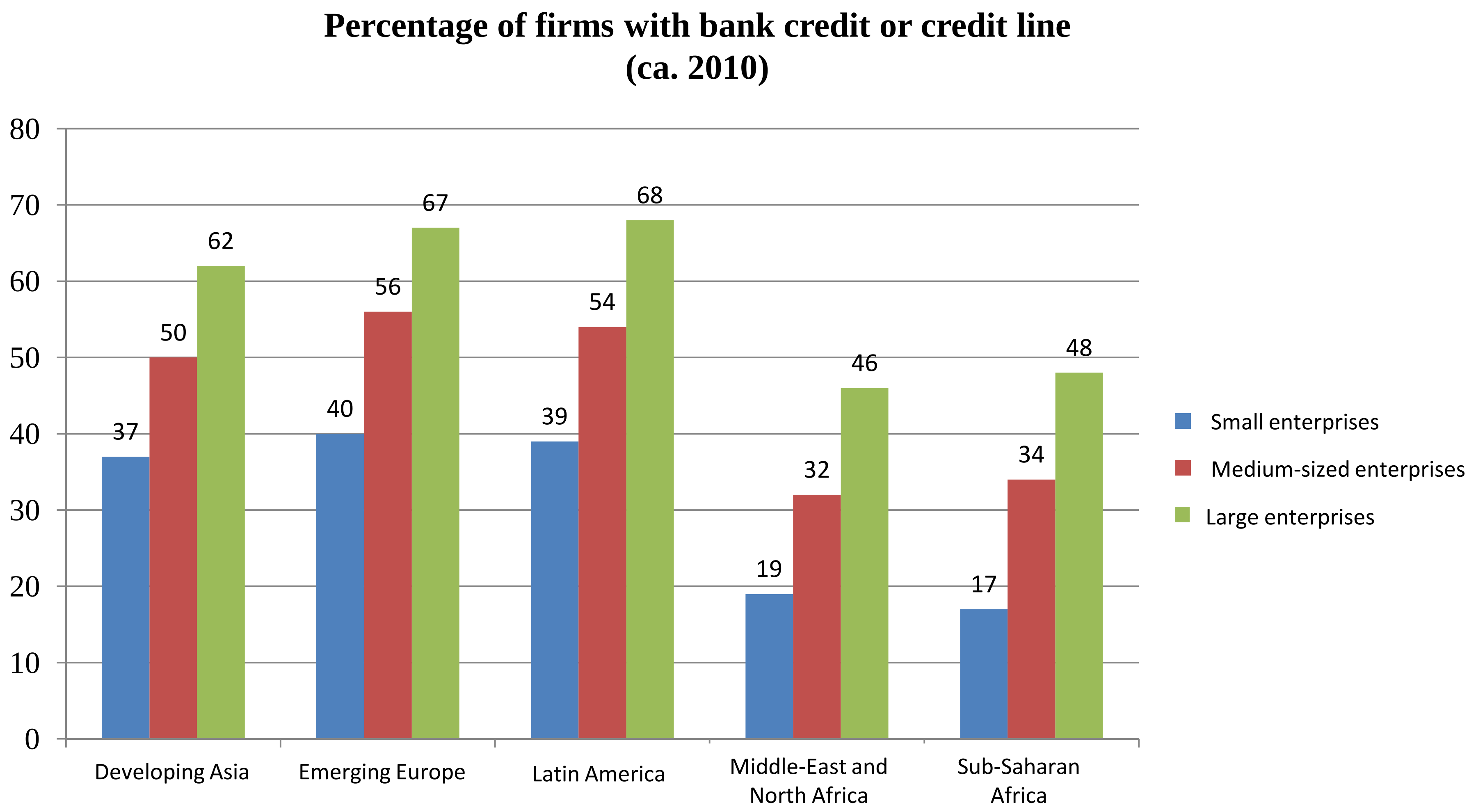
➢A majority of people in developing regions do not have access to formal financial institutions

Population (>15 years) with an account in a formal financial institution
(2011, in percent)



Source: ECLAC, Financing for Development Division on the basis of World Bank (2012)

In the case of the productive sector, on average between 40% and 50% of SMEs have access to formal financial instiutions



Source: ECLAC, Financing for Development Division on the basis of World Bank (2012)

In the particular case of Latin America, SMEs use the financial system mainly for deposits and as a means of payment

Percentage of total SME's using financial system for different services
(Selected Latin American countries, 2010)

	Argentina	Colombia	Chile	México	Perú	Venezuela
Use of financial system for deposit/ savings products						
Current account	100	86.9	100	95.8	89.7	84.6
Savings account		71.1				
Term deposits	12.5	11			52.5	34.3
Mutual funds	2	4.1	27.9	6.7	0.9	0.5
Use of financial system for payments and other related services						
Insurance	63.1	48.3	45	23.5	62.3	-
Payment of taxes	57.2	59.7	60.1	48.7	90.9	0.7
Payment to suppliers	22.5	36.9	23.6	49.7	56	-
Internet banking	53.9	61.7	73	50.9	38	98.1
Transfers	49.8	53.2	35.6	36.1	92	0.6
Automatic debit	40.6	18.5	35	19	27.3	2.1
Debit card	28.6	20.3	29.2	-	32.2	1.1
Collection of receivables	13.3	-	4.9	-	5.8	4.7

Source: ECLAC, Financing for Development Division on the basis of De la Torre et al. (2010)

In consonance, the use of the financial system for credit and financing purposes is very low for Latin American SMEs

Percentage of total SME's using each financing product

(Selected Latin American countries, 2010)

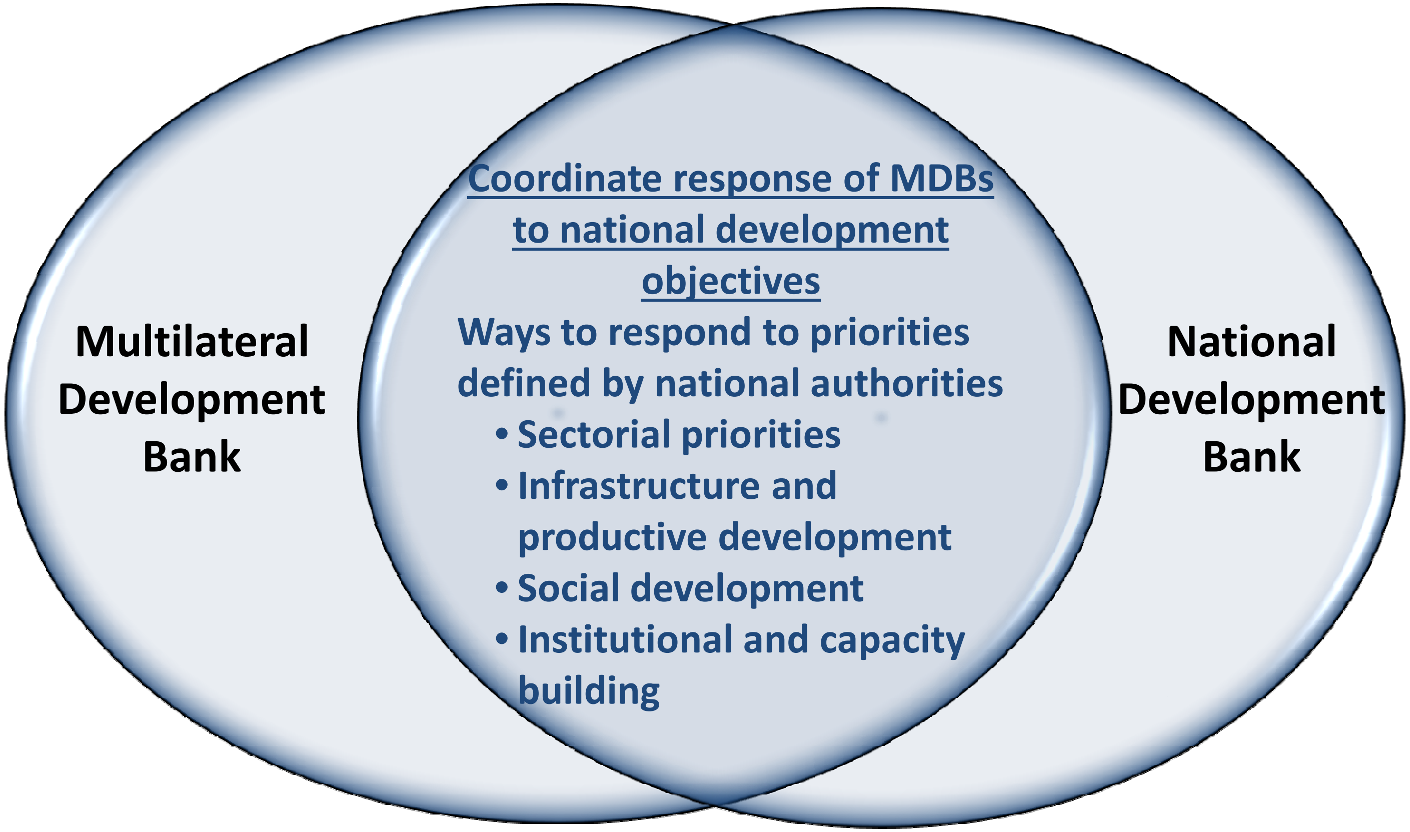
	Argentina	Colombia	Chile	Mexico	Peru	Venezuela
Financing Products						
Long term loans	-	40.5	-	-	-	-
Short term loans	-	-	38.7	-	-	2.8
Working capital financing	-	-		-	40	
Loans backed by public programs or guarantees	2.7	-	8.1	-	-	-
Credit lines	25.7	29.4	75.1	29.8	18	
Overdrafts	28.8	-	-	4.3	20.6	0.7
Document discounts	35.4	2.7	5.1	1.4	10.1	3.4
Leasing	4.3	8.9	12.6	1.2	5.9	0.3
Factoring	1.9	1.8	7.5	1.1	1.7	0.3
Trade finance	2.9	5.6	13.2	2	5.2	3
Credit card	-	13.9	-	-	11.2	-
Documentary letters of credit	-	2.1	1	14.6	1.5	0.3

Source: ECLAC, Financing for Development Division on the basis of De la Torre et al. (2010)

Wider financial inclusion of households and SMEs can be improved through financial densification at the institutional and instrument levels

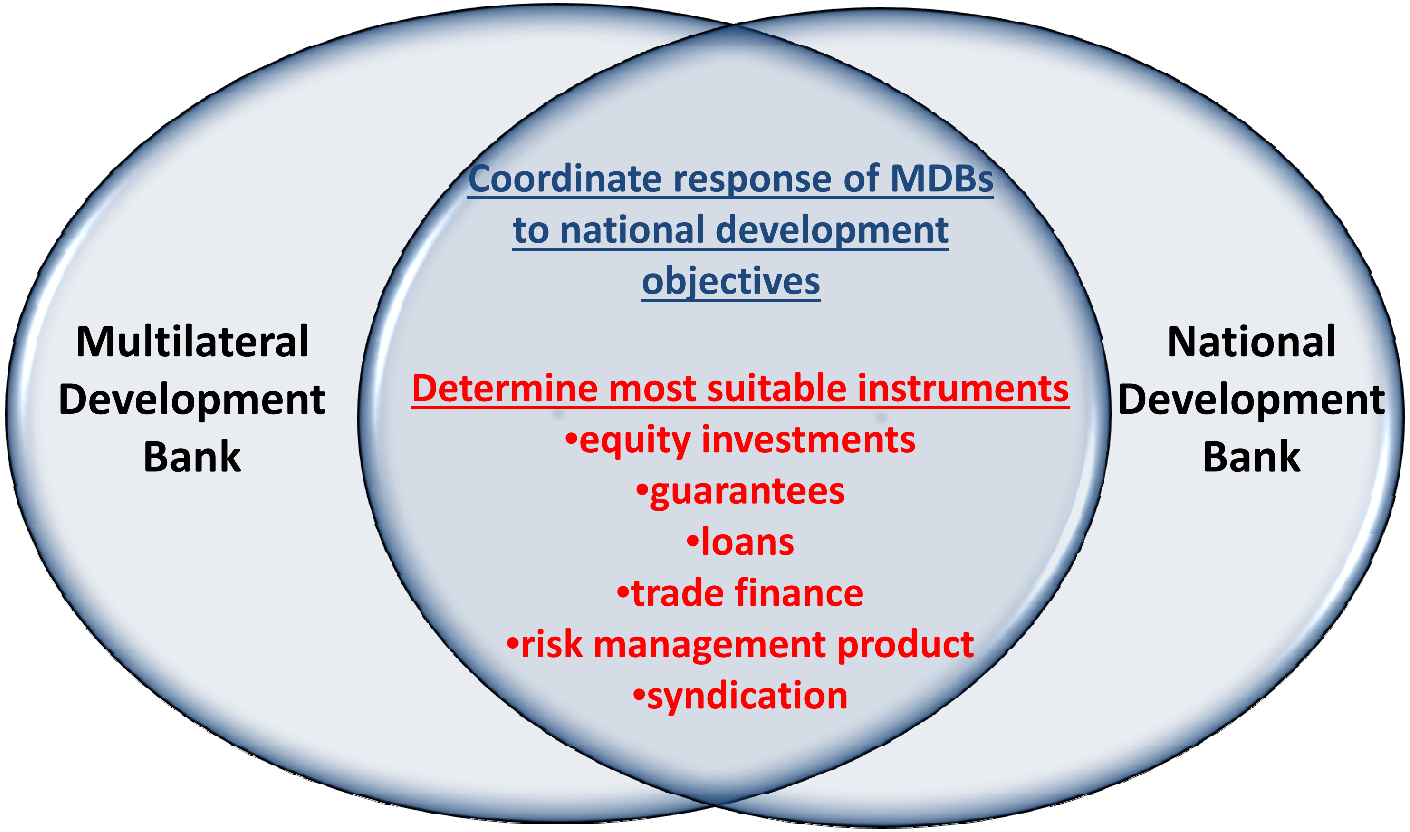
- At the institutional level
  - ➢ Within Development Banks, densification implies improving the articulation between MDBs with regional and national development banks for the determination of development objectives and for the allocation of resources
    - ✓ Regional and national Development Banks have –in broad terms- similar mandates to MDBs.
    - ✓ This implies vast potential complementarities and synergies that should be further exploited For example,MDBs/RDBs often find they can act more effectively if working through national development banks, due to greater local knowledge.
- At the instrument level
  - ➢ Increase the number and specificity of the financial instruments available to manage different types of risk
- Densification can also involve taking advantage of complementarities between MDBs and private financial intermediaries
  - ➢ MDBs should further develop analytical tools and methodologies that allow the monitoring and evaluation of private financial intermediaries' activities after the allocation of resources

The densification process implies better coordination at the institutional level…



Source: Own elaboration

The densification process implies better coordination at the institutional level…and a wider array of instruments



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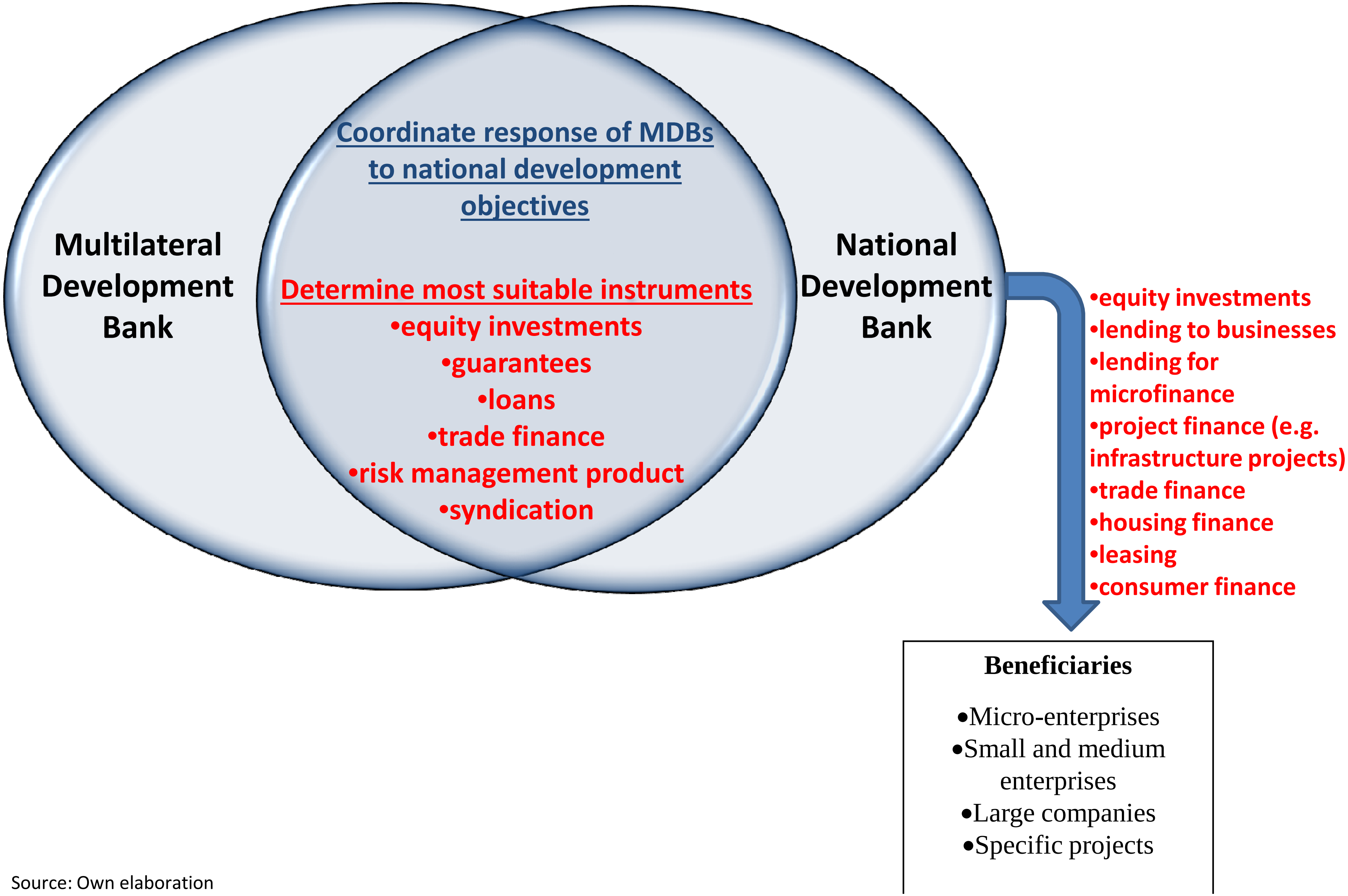


Source: Own elaboration

A third item on MDBs development agenda involves counter-cyclical actions:

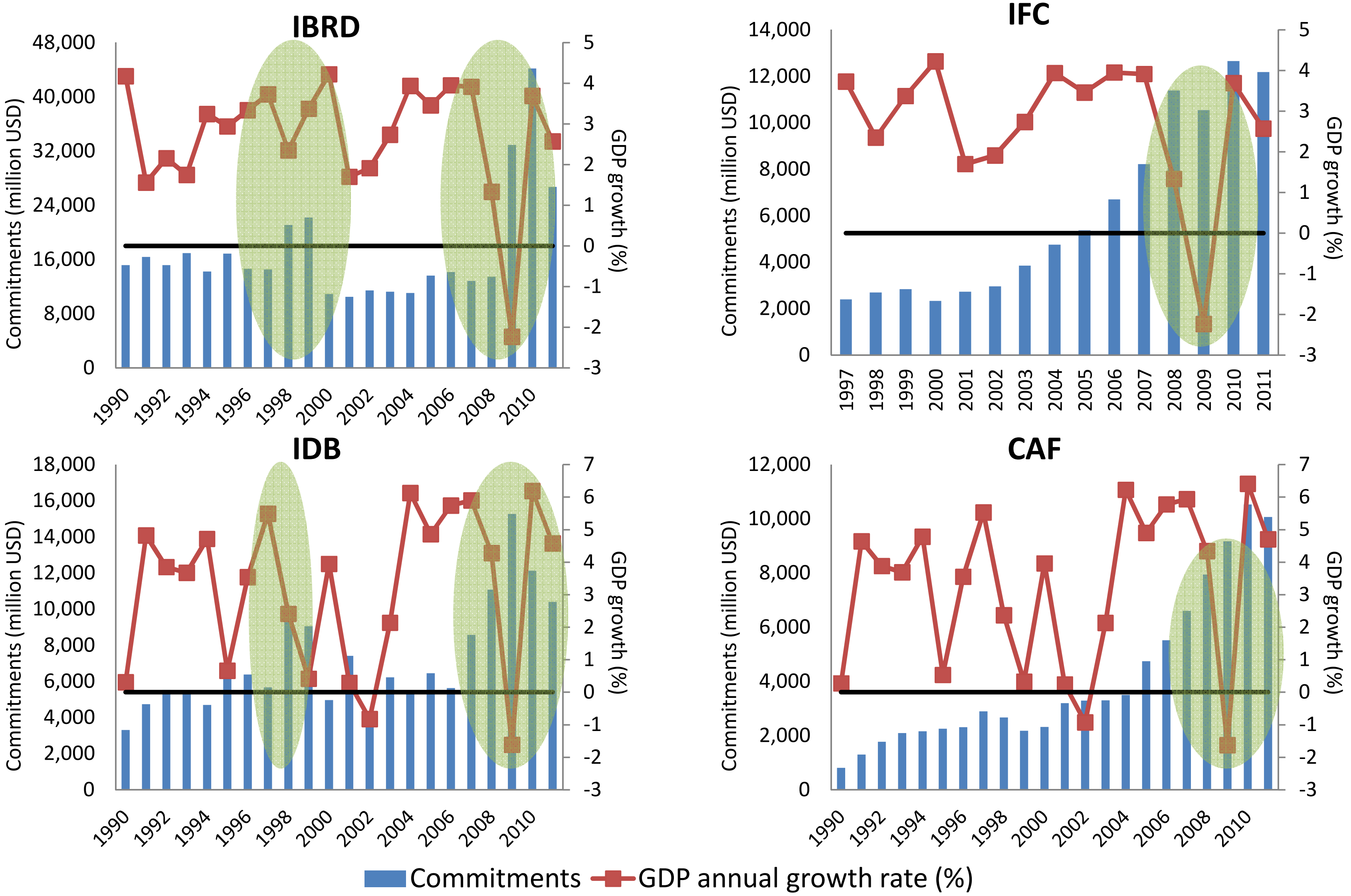
This involves:

- Maintaining the stability in the flow of productive finance through:
  - ✓ Direct lending at times of distress, so investment projects can continue.
  - ✓ Enhancing the domestic financial system's capacity to mitigate the pro-cyclical behavior of credit.

- Fostering the development of countries' counter-cyclical ex-ante macro institutionality.

The evidence on countercyclicality bit unclear. However, in the global financial crisis (2008-2009), all MDBs behaved countercyclically

MDB's Non-Concessional Financial Assistance and GDP growth by regions



Source: MDBs annual reports and World Development Indicators

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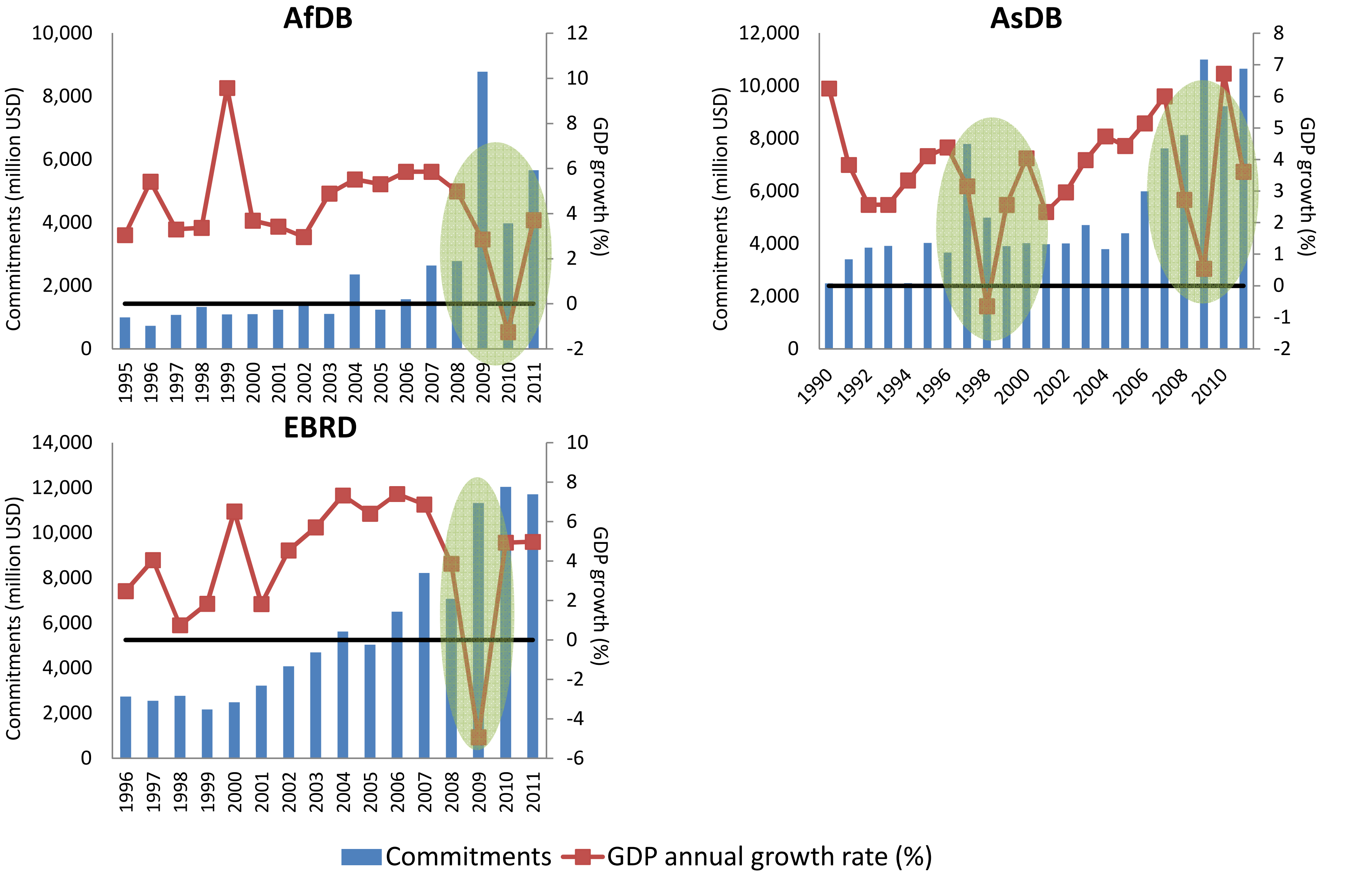

Source: MDBs annual reports and World Development Indicators

Lessons from the 2008-2009 global crisis on the countercyclical response by MDBs

- MDBs' small capital base constituted a limitation to their countercyclical response
  - ➢ All MDBs needed to have their capital base increased
  - ➢ Need to develop mechanisms for greater automaticity in increases of capital ? Or higher levels of capital? Or increase lending capacity via higher leverage?

- Dynamics of rapidly expanding commitments were not always reflected in actual disbursements
  - ➢ Need to create *ex ante* mechanisms for fast disbursements during crises

Disbursements by MDBs did not respond to the crisis as fast as did commitments…

ALL COUNTRIES (USD Billions)	2007	2008	2009	Change 08-09
COMMITMENTS				
World Bank – IBRD	12.8	13.5	32.9	144%
World Bank – IDA	11.9	11.2	14.0	25%
IFC	8.2	11.4	10.5	-8%
IDB	8.6	11.1	15.3	38%
AfDB	4.0	4.9	11.7	139%
AsDB	10.8	11.3	16.1	42%
EBRD	8.2	7.1	11.3	59%
CAF	6.6	7.9	9.2	16%
TOTAL COMMITMENTS	**71.1**	**78.4**	**121.0**	**54%**
DISBURSEMENTS				
World Bank – IBRD	11.1	10.5	18.6	77%
World Bank – IDA	8.6	9.2	9.2	0%
IFC	5.8	7.5	5.6	-25%
IDB	6.7	7.1	11.4	61%
AfDB	2.5	2.9	6.6	128%
AsDB	7.9	9.7	12.9	33%
EBRD	6.0	7.0	7.9	13%
CAF	5.8	5.3	4.6	-13%
TOTAL DISBURSEMENTS	**54.4**	**59.2**	**76.8**	**30%**

Source: On the basis of Ocampo, Griffith-Jones et al (2010) p. 49 and annual reports of EBRD, IFC and CAF

MDB's role in supporting the development of countries' counter-cyclical macro-mechanisms

- Become *market-makers* for instruments that help stabilize Government's spending through the cycle (eg. GDP indexed bonds)
- Become *market-makers* for instruments in local currency (lowering countries' currency mismatches
- Introducing lending instruments that make developing countries less vulnerable during crises
  - eg. adjust repayments of loans in a counter-cyclical manner, so that net lending can increase more in bad times
  - Stage contingent credit contracts
- Increase co-financing in bad times
- Rapid provision of trade credit facilities
- Increase guarantees by MDBs to private lenders

MDB's role in the mobilization of financial resources for climate change

MDBs can and should play an important role in mobilizing resources for climate change mitigation and adaptation:

- Through use of a range of instruments to fund climate change interventions
- Catalyzing climate change investments by the private sector
- Providing technical advice and capacity support to countries
- Becoming *market-makers* and supporters for instruments related to climate change finance

MDB’s role in the mobilization of financial resources for climate change (cont.)

- MDBs are increasingly incorporating climate change considerations into their core lending and operations, eg higher price of carbon in project evaluations
- Also, most MDBs now administer climate finance initiatives : eg. Climate Investment Funds (CIFs)
  - ➢ Established in 2008
  - ➢ Administered by the World Bank, but operating in partnership with other MDBs (the AfDB, AsDB, EBRD and the IDB).
  - ➢ The CIFs have a total pledge of USD 7.6 billion leveraging to a total of USD 43.6 billion (CIF annual report, 2012).
    - ✓ However approvals amount to only around 40% of pledges and actual disbursements by the funds are still very low