World Bank & Co.
Do we really need Development Banks?

International Development Finance Architecture

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World Bank & Co. – Do we really need Development Banks?
May 2015

Key Messages

1. Developing countries have made progress, but the agenda remains unfinished

2. Financial flows for development are complex and have been changing

3. The institutional landscape is adapting with new development banks in the making

   ▸ 2015 is a year of major events

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1. Development Context

2015: Millennium Development Goals end

THE MILLENNIUM DEVELOPMENT GOALS (MDGs) ARE THE MOST SUCCESSFUL GLOBAL ANTI-POVERTY PUSH IN HISTORY.

LET'S STEP UP ACTION TO THE 2015 MDG TARGET DATE AND BEYOND.

MDG2

ACHIEVE UNIVERSAL PRIMARY EDUCATION

ENROLMENT IN PRIMARY EDUCATION IN DEVELOPING REGIONS

HAS REACHED 90%

LET'S STEP UP

58 MILLION REMAIN OUT OF SCHOOL

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UN.ORG/MILLENNIUMGOALS

THE MILLENNIUM DEVELOPMENT GOALS (MDGs) ARE THE MOST SUCCESSFUL GLOBAL ANTI-POVERTY PUSH IN HISTORY.

LET'S STEP UP ACTION TO THE 2015 MDG TARGET DATE AND BEYOND.

MDG3

PROMOTE GENDER EQUALITY AND EMPOWER WOMEN

LET'S STEP UP

THE WORLD HAS

ACHIEVED EQUALITY

IN **PRIMARY EDUCATION**

BETWEEN GIRLS AND BOYS

IN MANY COUNTRIES

WOMEN STILL FACE IN ACCESS TO EDUCATION, WORK AND PARTICIPATION IN DECISION-MAKING.

DISCRIMINATION

UN.ORG/MILLENNIUMGOALS

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LET'S STEP UP ACTION TO THE 2015 MDG TARGET DATE AND BEYOND.

MDG5

IMPROVE MATERNAL HEALTH

MATERNAL MORTALITY FELL BY ↓45% SINCE 1990

LET'S STEP UP

ONLY HALF OF WOMEN IN DEVELOPING REGIONS RECEIVE

RECOMMENDED HEALTH CARE DURING PREGNANCY.

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LET'S STEP UP ACTION TO THE 2015 MDG TARGET DATE AND BEYOND.

MDG6

COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES

LET'S STEP UP

9.7 MILLION PEOPLE WERE **RECEIVING LIFESAVING MEDICINES** FOR HIV IN 2012

3.3 MILLION MALARIA DEATHS WERE **PREVENTED** IN THE SPAN OF 12 YEARS

EVERY HOUR 50 YOUNG WOMEN ARE NEWLY INFECTED WITH HIV

IN 2012 MALARIA KILLED AN ESTIMATED 627,000 **PEOPLE**

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MDG7

ENSURE ENVIRONMENTAL SUSTAINABILITY

2.3 BILLION PEOPLE GAINED ACCESS TO **CLEAN DRINKING WATER** SINCE 1990

LET'S STEP UP

2.5 BILLION DO NOT HAVE BASIC **SANITATION** SUCH AS TOILETS OR LATRINES

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THE MILLENNIUM DEVELOPMENT GOALS (MDGs) ARE THE MOST SUCCESSFUL GLOBAL ANTI-POVERTY PUSH IN HISTORY.

LET'S STEP UP ACTION TO THE 2015 MDG TARGET DATE AND BEYOND.

MDG8

A GLOBAL PARTNERSHIP FOR DEVELOPMENT

DEBT SERVICE HAS DECLINED
FOR DEVELOPING COUNTRIES

↑TRADE
CLIMATE CONTINUES TO IMPROVE

LET'S STEP UP

AID MONEY

HIT A RECORD HIGH $134.8 BILLION IN 2013, BUT SHIFTED AWAY FROM THE POOREST COUNTRIES

UN.ORG/MILLENNIUMGOALS

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2015: from MDGs to SDGs

MDGs had 8 Goals, 21 targets

Proposed SDGs have 17 Goals, 169 Targets

GOAL 1 **END POVERTY**

GOAL 2 **END HUNGER**

GOAL 3 **WELL-BEING**

GOAL 4 **QUALITY EDUCATION**

GOAL 5 **GENDER EQUALITY**

GOAL 6 **WATER AND SANITATION FOR ALL**

GOAL 7 **AFFORDABLE AND SUSTAINABLE ENERGY**

GOAL 8 **DECENT WORK FOR ALL**

GOAL 9 **TECHNOLOGY TO BENEFIT ALL**

GOAL 10 **REDUCE INEQUALITY**

GOAL 11 **SAFE CITIES AND COMMUNITIES**

GOAL 12 **RESPONSIBLE CONSUMPTION BY ALL**

GOAL 13 **STOP CLIMATE CHANGE**

GOAL 14 **PROTECT THE OCEAN**

GOAL 15 **TAKE CARE OF THE EARTH**

GOAL 16 **LIVE IN PEACE**

GOAL 17 **MECHANISMS AND PARTNERSHIPS TO REACH THE GOALS**

1 Eradicate extreme poverty and hunger	**Goal 1**	End poverty in all its forms everywhere	**Goal 8**	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
	Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture	**Goal 9**	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
			Goal 10	Reduce inequality within and among countries

2 Achieve universal primary education	**Goal 4**	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
3 Promote gender equality and empower women	**Goal 5**	Achieve gender equality and empower all women and girls
4 Reduce child mortality		

5 Improve maternal health	**Goal 3**	Ensure healthy lives and promote well-being for all at all ages	**Goal 12**	Ensure sustainable consumption and production patterns
6 Combat HIV/AIDS, malaria and other diseases			**Goal 13**	Take urgent action to combat climate change and its impacts*
7 Ensure environmental sustainability	**Goal 6**	Ensure availability and sustainable management of water and sanitation for all	**Goal 14**	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
	Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all	**Goal 15**	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
	Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable		

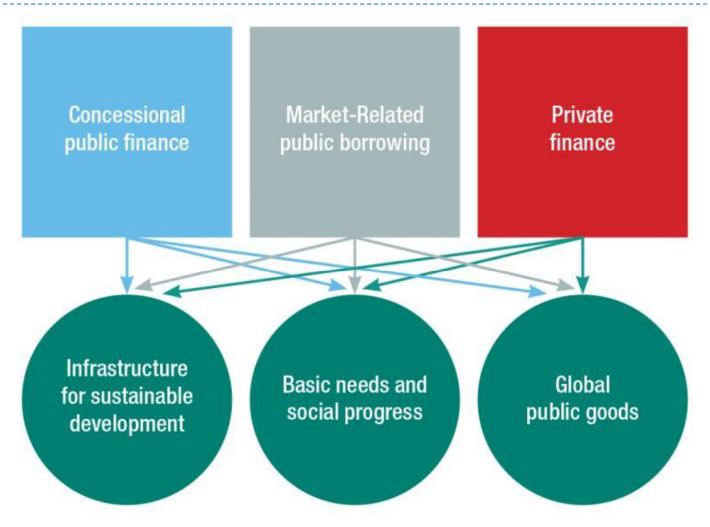|		
8 Develop a global partnership for development	**Goal 17**	Strengthen the means of implementation and revitalize the global partnership for sustainable development

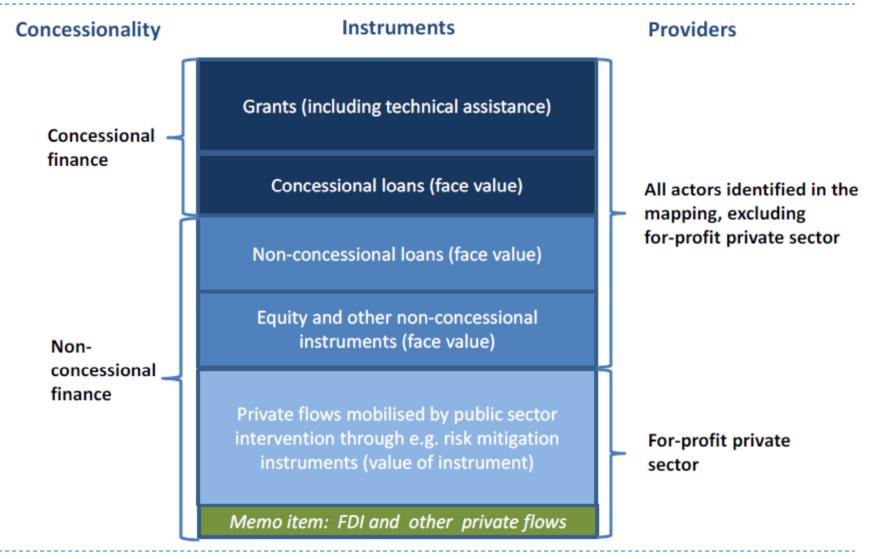International Development Finance Architecture

2. Development Finance

Complex, changing, need for change

Financial flows and development goals
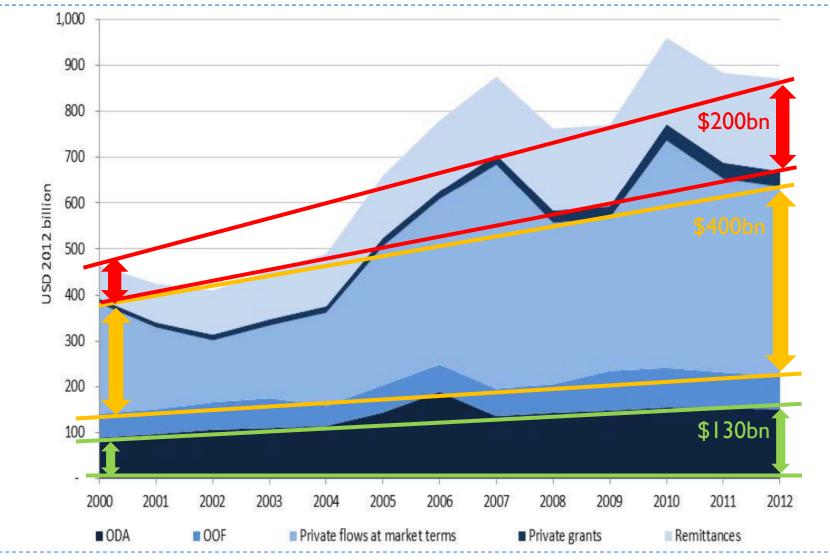
Source: Kharas, Prizzon, Rogerson (ODI), Financing the post-2015 SDGs

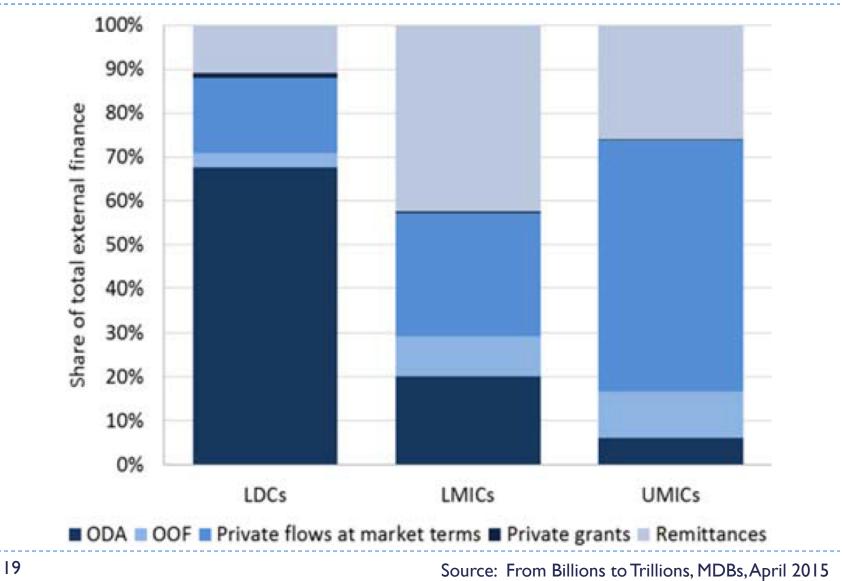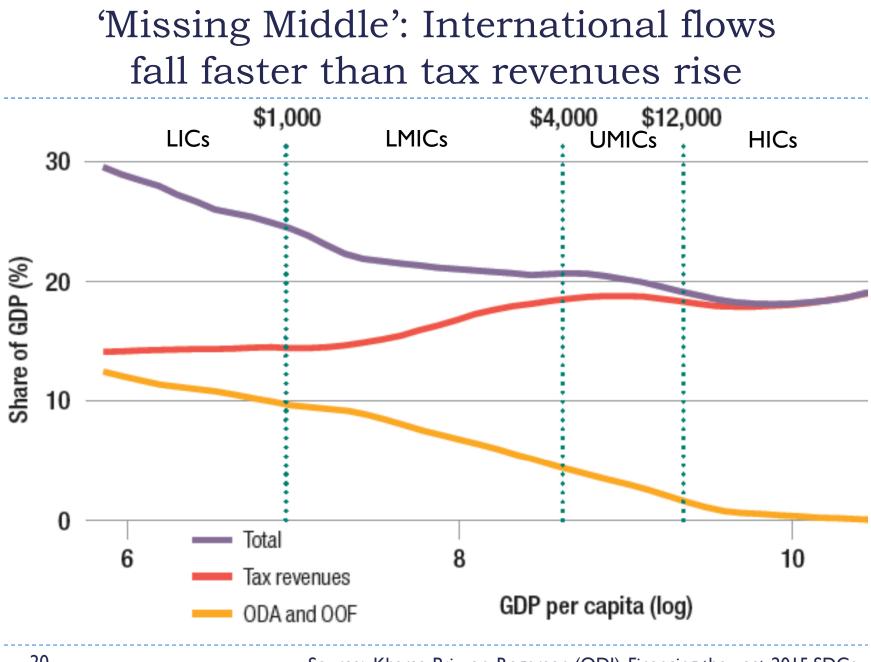# Resource Inflows for Development
Developing Country Perspective

Concessionality **Instruments** **Providers**

Grants (including technical assistance)

Concessional finance

Concessional loans (face value)

Non-concessional loans (face value)

All actors identified in the mapping, excluding for-profit private sector

Equity and other non-concessional instruments (face value)

Non-concessional finance

Private flows mobilised by public sector intervention through e.g. risk mitigation instruments (value of instrument)

For-profit private sector

Memo item: FDI and other private flows

Source: The New Development Finance Landscape, OECD, June 2014

Financial Flows to Developing Countries
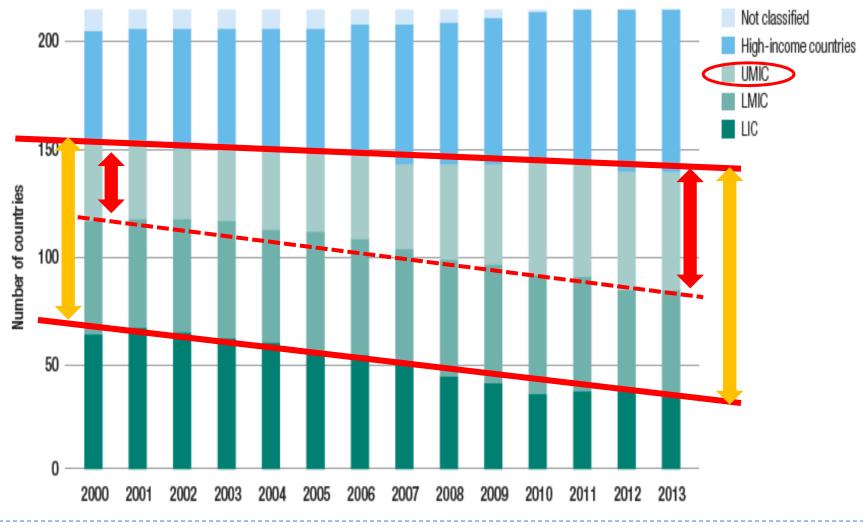
Source: From Billions to Trillions, MDBs, April 2015

Composition of Financial Flows
to Developing Countries in 2012

Source: From Billions to Trillions, MDBs, April 2015

'Missing Middle': International flows fall faster than tax revenues rise

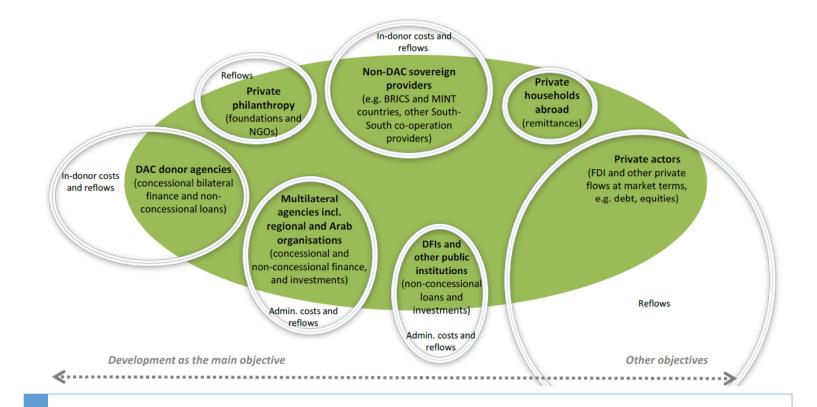Source: Kharas, Prizzon, Rogerson (ODI), Financing the post-2015 SDGs

20

Country Classification
by Income Level

Source: Kharas, Prizzon, Rogerson (ODI), Financing the post-2015 SDGs

Financing the post-2015 SDGs

- Areas for action (supply side)
  - Redirect **concessional assistance** towards the most vulnerable and least creditworthy countries, with the lowest tax capacity (LICs, some LMICs)
  - Raise far more of **market-related public borrowing**, especially through MDBs and bilateral official loans, for countries doing relatively better (UMICs, most LMICs)
  - Improve the 'deal flow' for **private finance** through reducing distortions to uses and unblocking regulatory obstacles to wider access (all DCs)
- In addition, address demand side constraints
  - Increase **absorptive capacity**
  - Ensure **debt sustainability**
  - Generate more **bankable projects**

Source: adapted from Kharas, Prizzon, Rogerson (ODI), Financing the post-2015 SDGs

In-donor costs and reflows

Reflows

Private philanthropy (foundations and NGOs)

Non-DAC sovereign providers (e.g. BRICS and MINT countries, other South-South co-operation providers)

Private households abroad (remittances)

In-donor costs and reflows

DAC donor agencies (concessional bilateral finance and non-concessional loans)

Multilateral agencies incl. regional and Arab organisations (concessional and non-concessional finance, and investments)

Private actors (FDI and other private flows at market terms, e.g. debt, equities)

DFIs and other public institutions (non-concessional loans and investments)

Admin. costs and reflows

Admin. costs and reflows

Reflows

Development as the main objective

Other objectives

3. Institutional Landscape

Revival of the Development Bank Concept

Already a crowded space ...

.. and there are Development Banks, too

▸ **Multilateral Development Banks**

AFRICAN DEVELOPMENT BANK GROUP — Building today, a better Africa tomorrow

IDB — Improving lives

WORLD BANK GROUP

European Investment Bank — The EU bank

CAF — DEVELOPMENT BANK OF LATIN AMERICA

AIIB*

NDB*

European Bank for Reconstruction and Development

ADB — Asian Development Bank — FIGHTING POVERTY IN ASIA AND THE PACIFIC

▸ National Development Banks
  ▸ Belgian Investment Company for Development Countries (BIO)
  ▸ COFIDES (Spanish DFI)
  ▸ Danish Industrialization Fund for Developing Countries (IFU)
  ▸ Development Bank of Austria (OeEB)
  ▸ Entrepreneurial Development Bank of the Netherlands (FMO)
  ▸ Finnish Fund for Industrial Cooperation (Finnfund)
  ▸ French Investment and Promotions Company for Economic Cooperation (Proparco)
  ▸ Japan Bank for International Cooperation (JBIC)
  ▸ Norwegian Investment Fund for Developing Countries (Norfund)
  ▸ Overseas Priovate Investment Corporation (OPIC, US)
  ▸ SIMEST (Italian DFI)
  ▸ SOFID (Portuguese DFI)
  ▸ Swedfund
  ▸ Swiss Investment Fund for Emerging Markets (SIFEM)
  ▸ Bhutan Development Finance Corporation
  ▸ Banco Nacional de Desenvolvimento Economico e Social (BNDES, Brazil)
  ▸ Business Development Bank of Canada (BDC)
  ▸ China Development Bank
  ▸ Croatian Bank for Reconstruction and Development (HBOR)
  ▸ Fiji Development Bank
  ▸ Finnvera plc (Finland)
  ▸ Kreditanstalt für Wiederaufbau (KfW) and DEG
  ▸ Development Bank of the Philippines
  ▸ Rwanda Development Bank (BRD)
  ▸ Uganda Development Bank Lt.
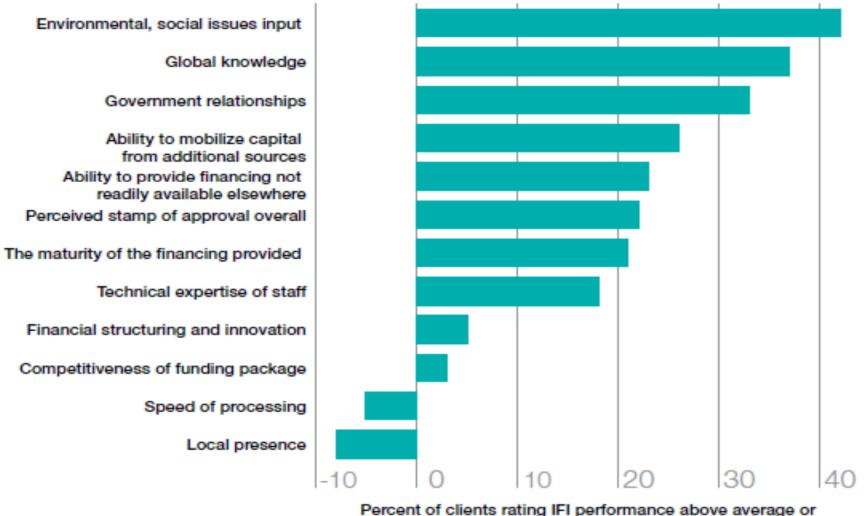 ▸ Development Bank of Turkey
  ▸ ...

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MDBs, IFIs, DFIs

	Public Sector	Private Sector
Multilateral International	Multilateral Development Banks International Financial Institutions	
Bilateral National		Development Finance Institutions

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Business Model: Finance ++

- **Financial leverage**
  - Paid-in capital leverages resources from capital markets
- **Private-finance and investment**
  - Risk-return considerations
  - Getting policies right through PBLs
  - MDBs/DFIs can be innovators, intermediaries, co-investors, honest brokers, thus crowding in private finance (leverage)
- **Policy guidance, technical assistance and knowledge (MDBs)**
  - Work with governments (e.g. on investment climate reform, domestic resource mobilization, public sector management)
  - Can help translate SDGs into country level targets, policies, programs
- **Safeguards, public goods, commons**
  - Environmental, social, governance safeguards
  - Transparency, procurement, anti-corruption
  - Support of global and regional PGs and commons (e.g. climate change mitigation, management of shared natural resources)

IFIs/MDBs vs. Commercial Banks

Percent of clients rating IFI performance above average or high compared to commercial bank rating

Source: IFIs and Development through the Private Sector

Summary

▶ Key Messages

1. The development context is changing with an ambitious agenda ahead

2. Financial flows for development are complex, shifting and must be better utilized to achieve the proposed SDGs

3. Domestic resource mobilization plays a critical role in achieving the SDGs

4. A crowed institutional development landscape is adapting to these trends, and new development banks are in the making

▶ Upcoming Events to Watch in 2015

1. July: FfD Conference (Addis Ababa)
2. Sept: UNGA SDGs (New York)
3. Dec: COP/UNFCCC (Paris)

Sources

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