



# The Role of MDBs during the Global Financial Crisis and Beyond

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World Bank & Co. – Are Development Banks still Relevant?

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# Outline

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- ▶ Preceding the crisis
- ▶ Onset of the crisis
- ▶ The Eurozone crisis
- ▶ Responses of IFIs/MDBs
- ▶ A new role for the MDBs?
- ▶ MDBs: Prepared for the future?

**Are Development Banks still relevant?**

# 1. Preceding the crisis

The crisis of the MDBs and the MDBs during the crisis

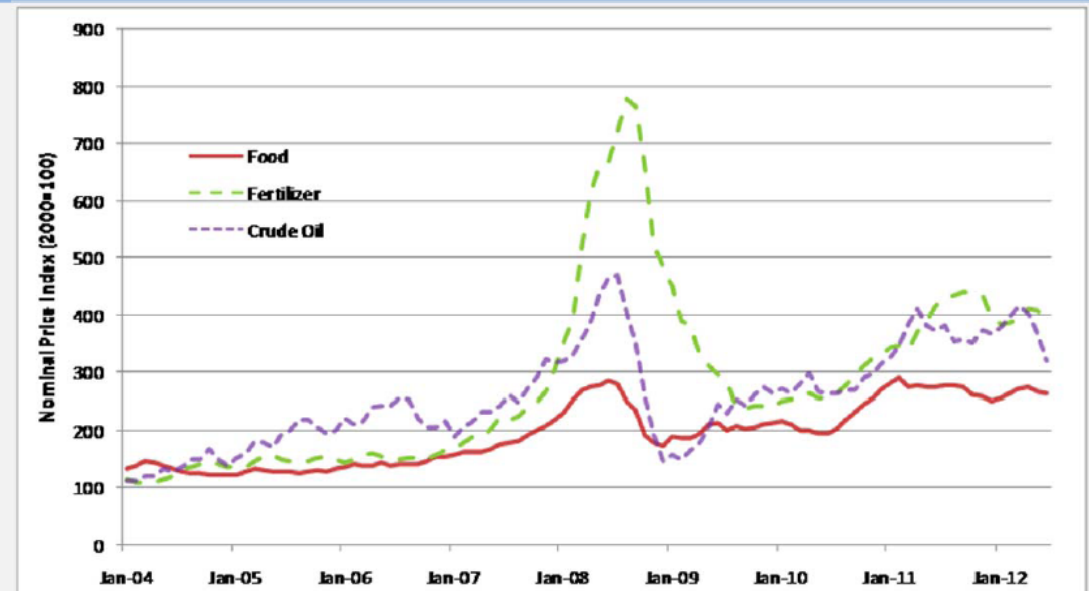
# Crisis after crisis

- ▶ Developing countries in “better” condition:  
**Asia** after earlier crises;  
**Africa**’s growth performance;  
**Latin-America** with new political and economic visions;  
**PRC** as global engine of growth

- ▶ Food crisis

- ▶ Fuel crisis

Figure 1.1. Food, Fertilizer, and Crude Oil Prices, January 2004–January 2012



Source: World Bank Global Economic Monitor (GEM) Commodities Database

# Changes after changes

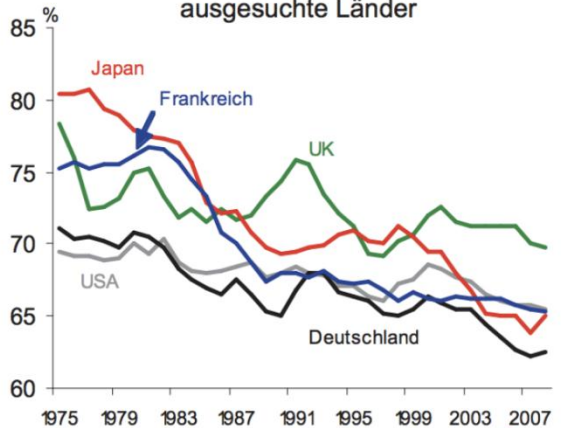
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- ▶ **Losing relevance** of MDBs, especially in MICs:
  - Ability to repay debt;
  - Less borrowing needs (but MDBs need clients to finance new loans)
  - Net official flows negative between 2000 – 2005
- ▶ **Washington Consensus** put into question
- ▶ **Governance changes** in MDBs
- ▶ **Private capital flows** outstripped lending of MDBs

# Long-term trends/reasons for crisis

- ▶ Unequal distribution of income and wealth on a global, national, and individual level

**Bereinigte Lohnquote nach Faktorpreisen**  
ausgesuchte Länder



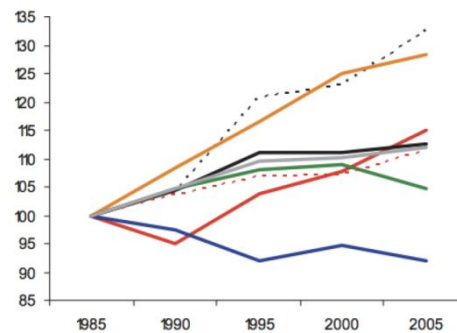
Quelle: IMK-Report 38/2009;  
AMECO-Datenbank



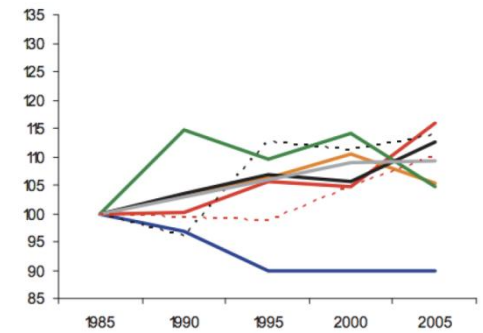
## Personelle Einkommensverteilung

ausgesuchte Länder

(a) Ungleichheit der Primäreinkommen  
Gini Koeffizient; Index: 1985 = 100



(b) Ungleichheit der verfügbaren Einkommen  
Gini Koeffizient; Index: 1985 = 100



— Deutschland — Kanada — Frankreich  
— USA — Großbritannien — Italien

— Japan  
— OECD-15

# Long-term trends/reasons for crisis

## ▶ Macro-economic imbalances

Current account balances in bn. USD

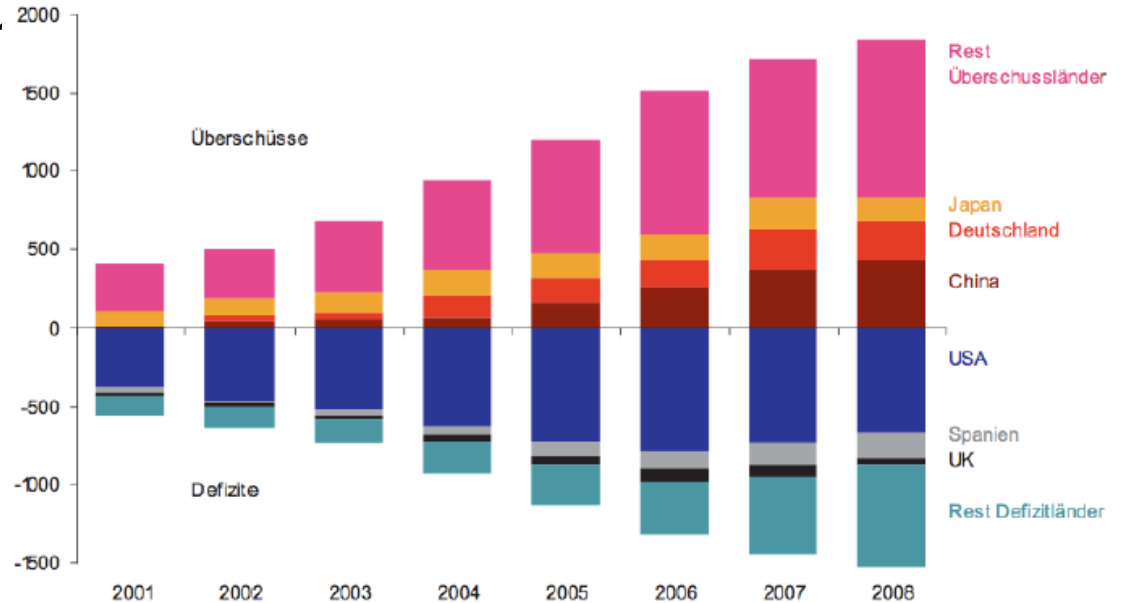
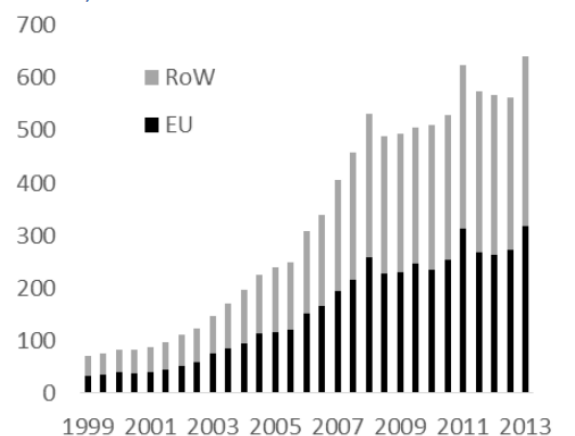


Figure 3: Derivatives by region (notional; US\$tn)



Source: BIS. Chart shows notional amounts outstanding of the main OTC derivatives (rates, FX, equities). Here, a derivative is considered 'European' if it is referenced on a European currency or entity.

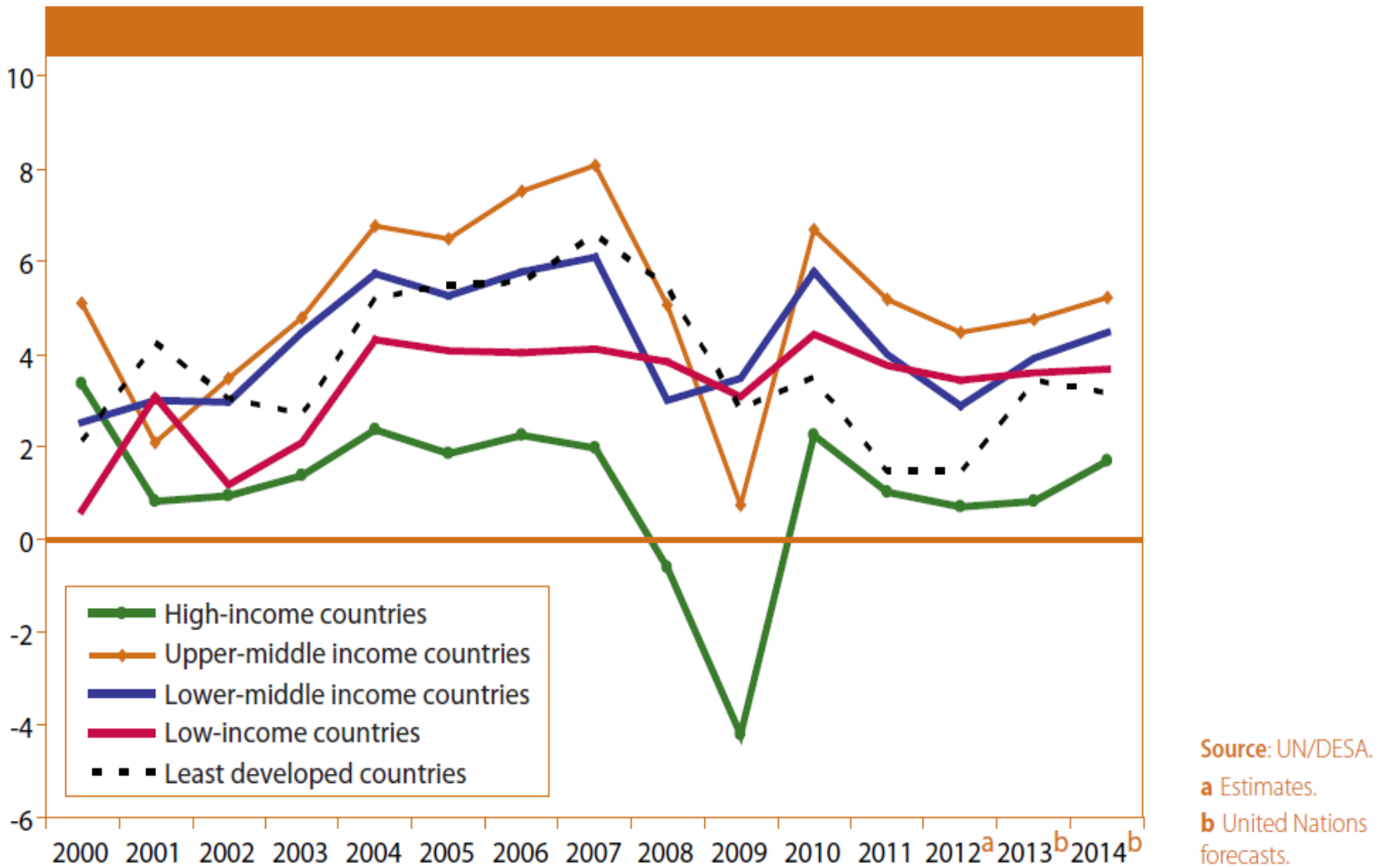
## ▶ Uncontrolled (uncontrollable?) financial markets

## 2. Onset of the crisis

The crisis of the MDBs and the MDBs during the crisis



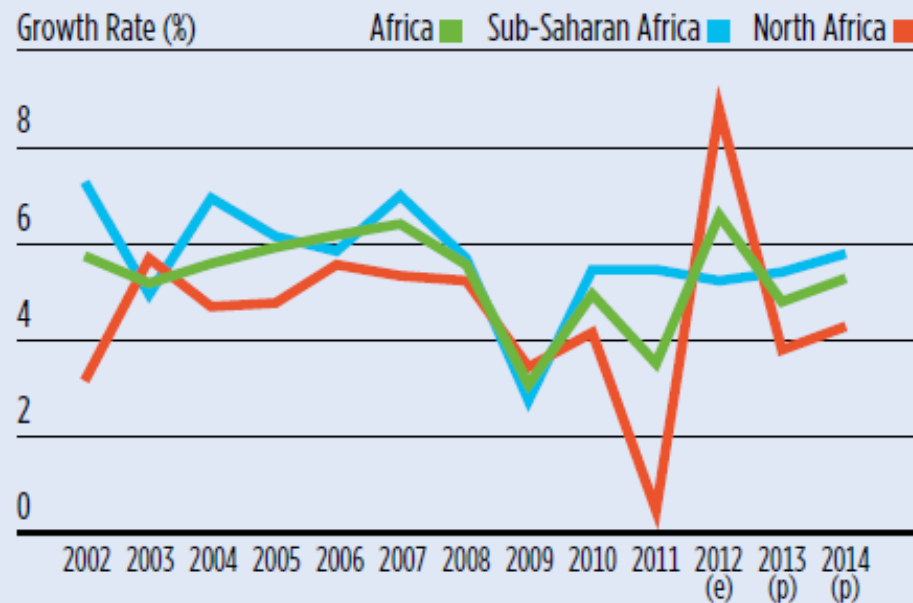
Figure I.2  
Growth of GDP per capita by level of development, 2000-2014



First  
growth  
crisis  
since  
1994

## Figure 0.1

Africa's Economic Growth: The Big Picture



Source: AfDB Statistics Department.

(e) : estimates

(p) : projections

Annual Report 2012, African Development Bank, p. 12

# Impact on Asia

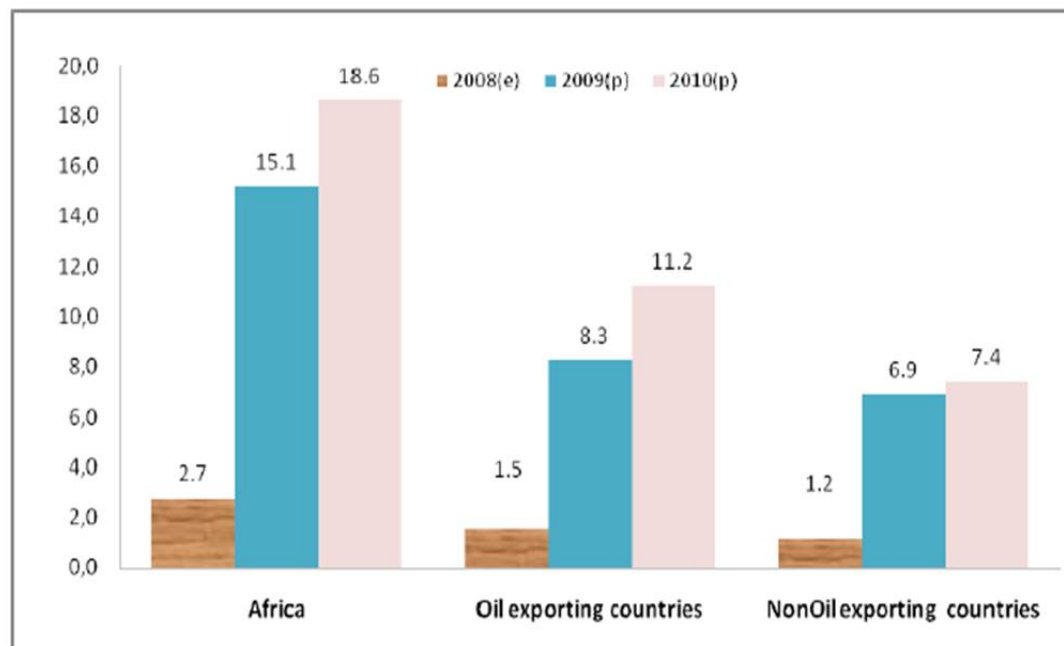
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- ▶ Most affected countries:  
drop of growth from 7 % (05/07) to 1.8 % (08/09)
- ▶ Least affected countries: still growth rates above 5%, only small deceleration
- ▶ Export decline in 2009: 16.4 %
- ▶ Banking sector in Central Asia
- ▶ **Very different impacts of crisis!**

# Special focus on Africa

- ▶ Losses in export revenues (exports -250 bn. USD in 2009) and trade taxes
- ▶ Tourism (in Tanzania about 17 % of GDP)

Figure 1: Shortfall in trade taxes (USD billion)



Source: AfDB Statistics Database

# Remittances

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- ▶ Armenia lost about 30 % of remittances
- ▶ Bangladesh: remittances growth rate from 36.2 % (2008) and 17.7 % (2009) to only 5 % in 2010
- ▶ Tajikistan – where remittances represent the highest ratio to GDP worldwide with about 35 % of GDP in 2009 – saw inward flows declining by 31.3 %
  
- ▶ **Who is receiving remittances?  
Middle-income groups?**

# Impacts of the crisis

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- ▶ Sharp reduction in **private capital flows**:  
Decrease by 1/3 in 2008
- ▶ Private **bank lending** to developing countries decreased by 26 % in 2008, 41 % in 2009
- ▶ **Capital markets/banks**:  
differences in countries and regions; MICs more than LICs (higher integration)
- ▶ **Trade/exports** dropped:  
Countries with less export dependence and higher domestic demand less affected;

## Consequences:

- ▶ Less production, higher unemployment

# Eurozone crisis

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- ▶ Largest contraction since WWII
- ▶ Affected Latin America and Eastern Europe / Central Asia especially  
Switch from formal to **informal labor** in Latin America
- ▶ **Banking sector:**  
Sub-Sahara Africa: 56 % of foreign-owned banks were European in 2000-2006  
LAC: 62 % (with Spain leading the way)
- ▶ **Bond flows** (regaining strength) v/s bank lending for development purposes

### 3. Responses of IFIs/MDBs

The crisis of the MDBs and the MDBs during the crisis



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**“Protect the poorest,  
Stabilize financial and private sectors,  
Secure development expenditures”**

World Bank, 2008

# Reaction of the “Banks”\*

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## Higher lending volume of MDBs:

**AsDB:** 7 bn./2007 → 9 bn./2008 → 11 bn./2009

**IADB:** 9 bn./2007 → 11 bn./2008 → 16 bn./2009

**WBG:** 39.2 bn./2007 → 68.1 bn./2009

IBRD: tripled lending in 2009

## General Capital Increases

▶ AsDB 200 % (2009)

▶ WBG 70 % (2010)

▶ AfDB 200 % (2010)

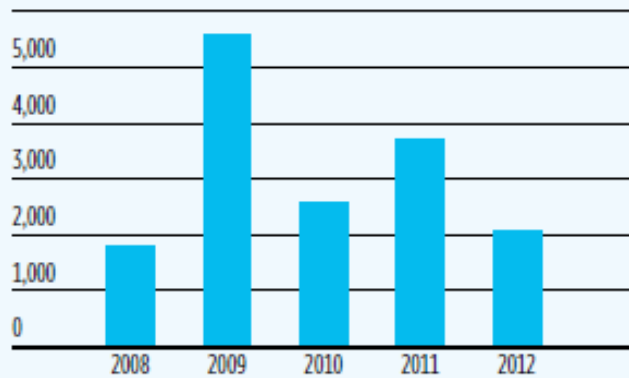
▶ IADB 100 % (2011)

\* MDBs, where Austria is a member country:  
WBG, AsDB, AfDB, IADB, EBRD

# Reaction of AfDB

**Figure 4.4**

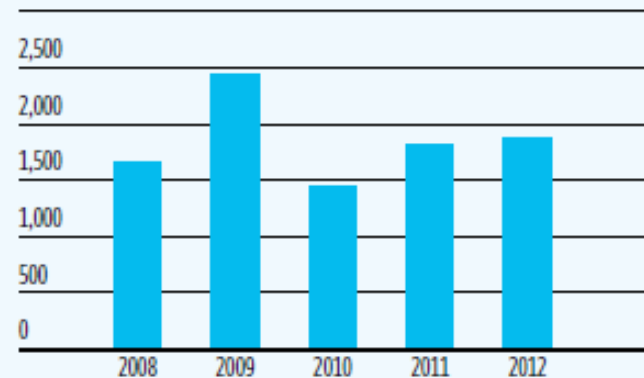
ADB Total Approvals, 2008-2012  
(UA million)



Source: AfDB Statistics Department.

**Figure 4.7**

ADF Total Approvals, 2008-2012  
(UA million)



Source: AfDB Statistics Department.

Annual Report 2012, African Development Bank, p. 24f

# Situation at the AsDB?

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- ▶ AsDB was well prepared:
  - last GCI in 1994
  - longer discussions, new strategic framework (Strategy 2020)
  - crisis not initiator, but accelerator
  - 1<sup>st</sup> Board discussions 25 %-100 % GCI; afterwards: <400 %

# Who was profiting?

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## ▶ **MICs:**

- non-concessional loans
- flows are easier to adjust

## ▶ **LICs:**

- no huge impact on concessional lending
- not heavily affected
- concessional lending is longer planned

# Areas of intervention

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- ▶ Public sector:  
Frontloading  
Higher lending volumes
  
- Development Program Loans / Budget Support
- Middle Income Countries
  
- ▶ Private sector:  
Trade sector improvements  
Refinancing of banking sector:  
Joint IFI Action Plan (for Africa)
  
- ▶ Knowledge products: Rebalancing Growth

## 4. A new role for the MDBs?

The crisis of the MDBs and the MDBs during the crisis

# Effects of the crisis

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- ▶ Increased lending - **depletion of capital stocks**

- ▶ Shift in **global governance**:

IMF: voting rights of sub-Saharan African countries rose by 3 % and the PRC represented 7.47 % (an increase from 6.38 %). The EU shares will fall from about 25 % in 2000 to only 18 % in 2015.

World Bank:

the PRC's shares rose from 2.77 % to 4.42 %.

- ▶ **Rebalancing global powers** and realigning voting rights to economic and demographic realities
- ▶ Emergence of **G20: broader governance** is needed to overcome global problems; another step into a more equal global governance?



## Fault lines: *dirty politics*

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- ▶ Borrowing v/s non-borrowing countries
- ▶ Regional v/s non-regional countries
- ▶ Big v/s small countries
- ▶ Rich v/s poor countries
- ▶ New v/s old “donors”

**→ What kind of banks do we want?**

# Open questions

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- ▶ Did MDBs play an **important role** during and after the crisis?  
2009/Asia: private financial flows 300 bn. USD;  
net transfers by AsDB 5 bn. USD – relevant?
- ▶ Is there a **change in the work** and in the relevance of MDBs?  
Decreasing importance before v/s unknown future
- ▶ **Enough capital** - MDBs for (short-term) crisis interventions? How to measure demand for development financing?

## 5. MDBs: Prepared for the future?

**Are Development Banks still relevant?**

# Future opportunities for MDBs

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- ▶ Knowledge Banks
- ▶ Climate Banks
- ▶ Global public goods
- ▶ Regional integration and cooperation
- ▶ Blending instruments (public – private capital)
- ▶ Vertical funds
- ▶ South-South integration and new donors
- ▶ Most poor people still live in formally MICs



Thank you for your attention

Workshop, April 2014

WU (Vienna University of Economics and Business)

# Bibliography & further readings

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