



University of
Zurich^{UZH}

Center for Comparative and International Studies (CIS)

Current Challenges for Multilateral Development Banks

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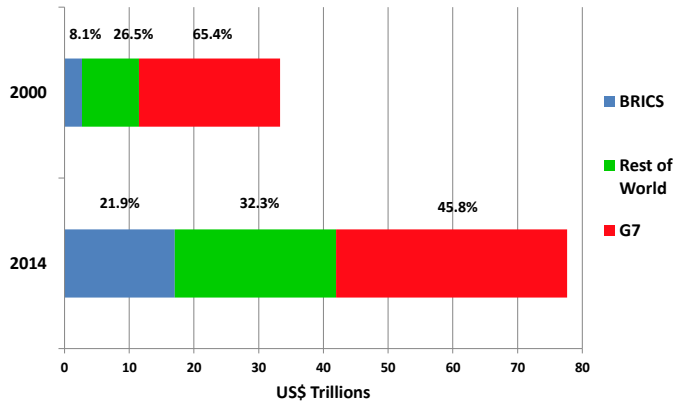
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Overview of Presentation

1. Evolution of Global Context and MDBs
2. Governance as Key Factor
3. Specific Challenges:
 - a. Financial Capacity
 - b. Bureaucracy
 - c. Safeguards
 - d. Budget Support and Policy Conditionality
4. BRICS Bank: Initial Prospects

The World Economy is Fast Evolving

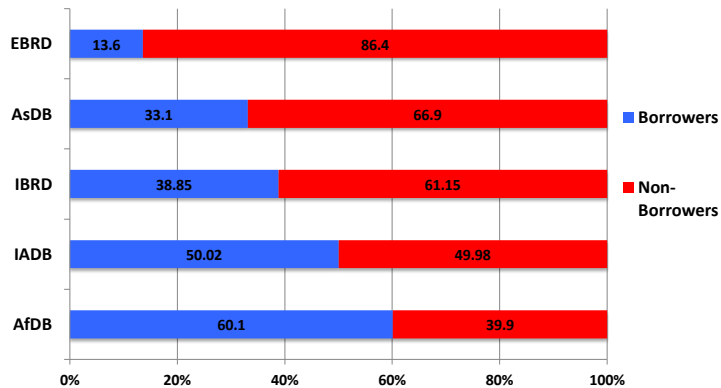
Share of Global GDP, 2000 vs. 2014



1. Context

Governance Underlies Inability of Many MDBs to Adapt

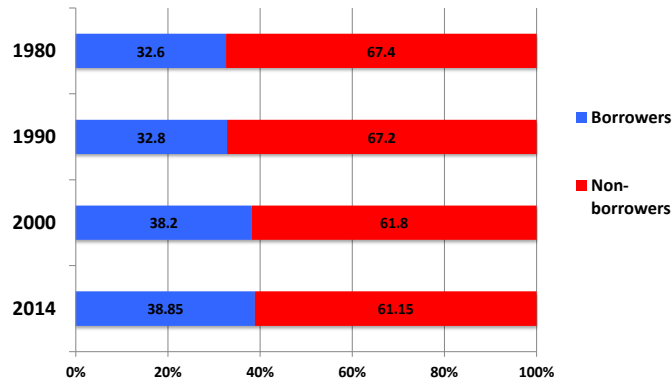
Voting Power at Selected MDBs (2013)



2. Governance

Some Governance Reform, But Not Much

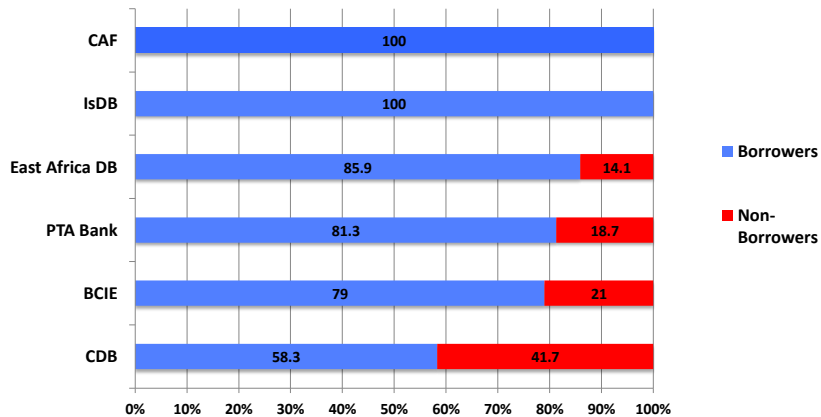
Evolution of IBRD Voting Power, 1980-2014



2. Governance

Different Governance Options Exist

Voting Power at Selected Regional and Sub-Regional MDBs (2013)



2. Governance

MDBs are Under-Capitalized

Recent Capital Increases at Major MDBs

	IBRD	IADB	AsDB	AfDB	EBRD
Date agreed	25 April 2010	23 March 2010	29 April 2009	23 April 2010	14 May 2010
Total capital increase	US\$86 billion	US\$70 billion	US\$110 billion	US\$66.5 billion	US\$15 billion
Paid-in portion	US\$5.1 billion	US\$1.7 billion	US\$4.4 billion	US\$3.8 billion	0
% Paid-in	5.9%	2.4%	4%	5.7%	0

□

Ratio of Reserves to Shareholder Equity

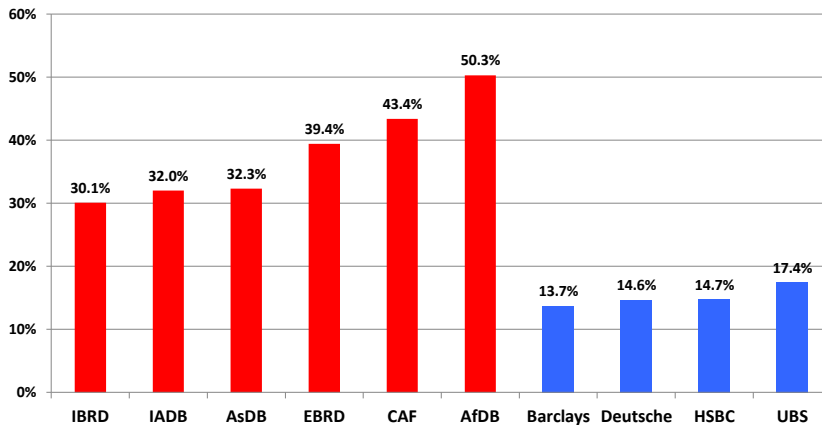
	IBRD	IADB	AsDB	EBRD	AfDB	CAF	IsDB	EIB	IFC
Shareholder equity (US\$ billions)	42.7	22.6	17.1	20.5	5.8	7.8	11.2	79.8	22.2
Of which, % reserves	68.6%	78.3%	66.1%	58.0%	50.0%	50.0%	33.9%	62.5%	89.2%

□

3a. Financial Capacity

MDB Capital Use Highly Conservative...

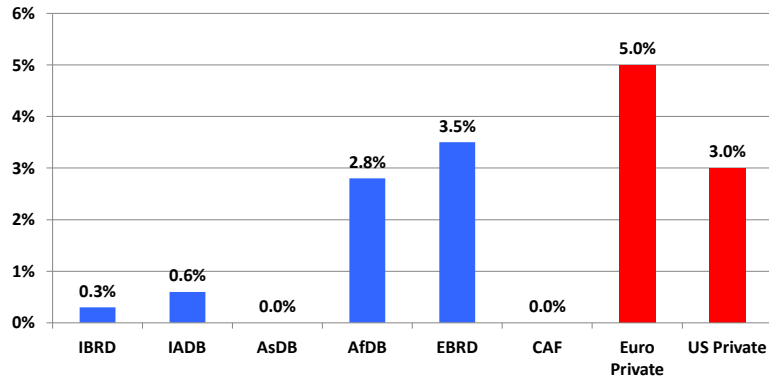
Equity to Loans Ratio, 2013



3a. Financial Capacity

...Despite Low Risks on Portfolio

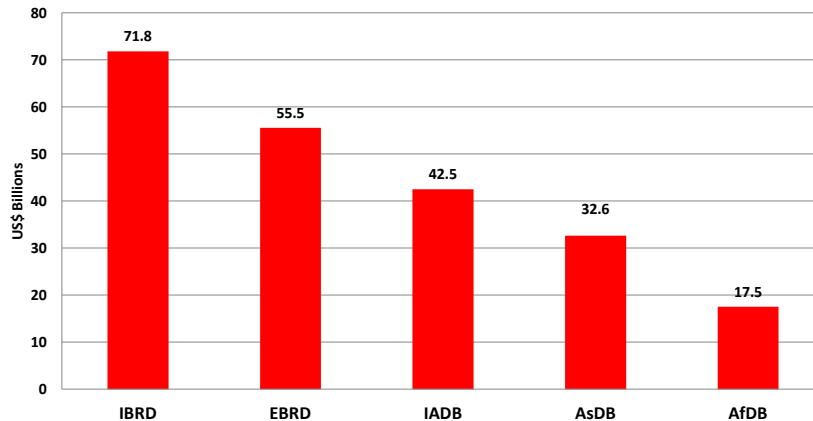
Non-Performing Loan Ratio (2013)



3a. Financial Capacity

Less Conservative Capital Usage = More MDB Impact

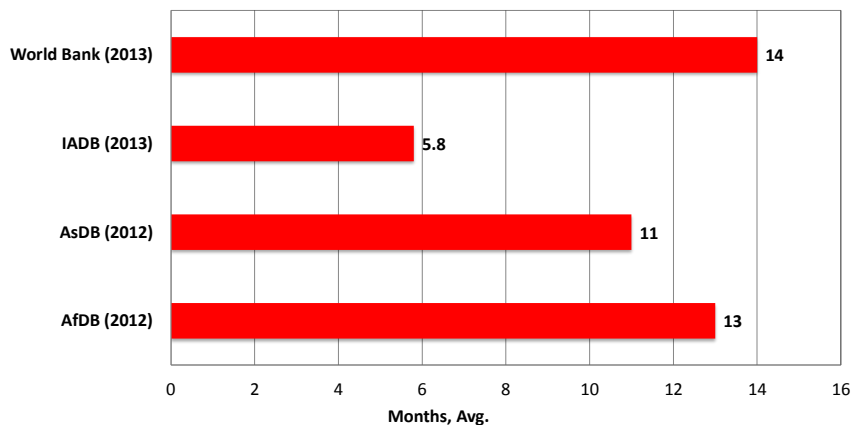
Potential Portfolio Impact of 20% E/L Ratio



3a. Financial Capacity

Loan Approval Bureaucracy a Deterrent to Borrowers

Average Sovereign Loan Approval Times



3b. Bureaucracy

Safeguards: Enviro, Social and Financial

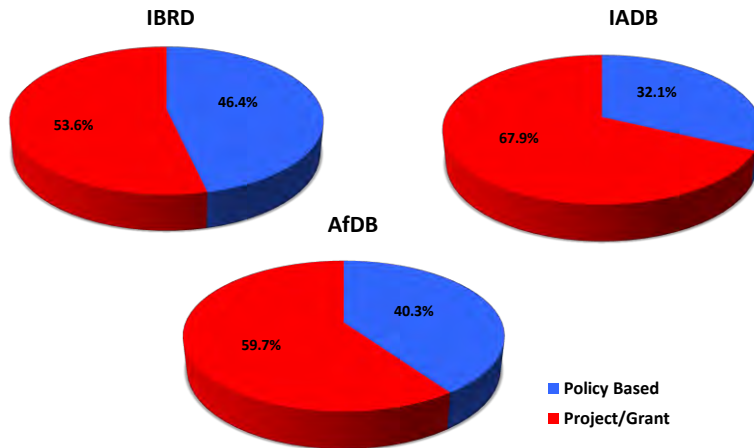
Comparison 2 Safeguards: World Bank, IADB, CAF

	World Bank	IADB	CAF
Environment			
Experts	Independent experts for EA and Category A advisory panel	No stipulation; advisory panel not required	National systems
Consultations	Includes NGOs	Only "affected parties"	National systems
Bureaucracy	Separate regional safeguard team (often conflicts with project team)	No separate safeguard specialists – project team makes decisions	Ad hoc review as part of regular loan approval
Resettlement			
Trigger	Caused by or related to project	Directly caused by project only	National systems
Consultations	Required	"Where possible"	National systems
Dispute resolution	3 rd party mechanism required	Not required	National systems
Type of resettlement	Land-based preferred for those with land-based livelihoods	"Appropriate" resettlement	National systems
Bureaucracy	Social Development Unit, Resettlement Committee, Legal	Only project team	Ad hoc review as part of regular loan approval
Project completion	Not until resettlement completed	No requirement	No requirement

3c. Safeguards

Policy-Based Lending: Missed Opportunity for Devp't Impact?

Sovereign Lending: Policy vs. Project (2013)



3d. Policy Conditionality

The BRICS NDB: Development Dancing to a New Tune?



4. BRICS NDB

BRICS NDB Challenges

- **Won't get off the ground quickly**
 - US\$10 billion in equity capital over 7 years
 - Need to attract new members and build reserves to expand, but might not be easy

- **Loans will be relatively expensive**
 - Not going to be AAA
 - Other financing sources are uncertain
 - Most attractive to LICs

- **Governance questions**
 - *55% voting in perpetuity to BRICS*
 - *Special majority (4 of 5 BRICS plus 2/3 total) for:*
 - Capital, shareholding, Board of Directors, Articles of Agreement
 - *Board of Directors: 10 seats, of which 5 for BRICS*
 - President has deciding vote in a tie; though chairs can split votes

4. BRICS NDB