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Editorial

Multilateral Development Banks (MDBs) have a vital role to play in supporting the implementation and results monitoring of the 2030 Agenda for Sustainable Development. Not only do they serve as hubs for knowledge and technical expertise, but they are best equipped to mobilize capital and provide long term development finance. In 2016, three MDBs (World Bank, African Development Bank, Asian Development Bank) concluded replenishment negotiations for their respective concessional windows.

The new financing model of the World Bank's fund for the poorest (International Development Association) allows the organization to leverage its balance sheet on the financial market. This answers the call of the Addis Ababa Action Agenda for MDBs to maximize their resources. Switzerland actively engaged in the deliberations on the new model, helping to ensure important issues such as debt sustainability were addressed.

Switzerland strove to inject substance and constructive criticism into the replenishment negotiations. It strongly pushed for the MDBs to intensify their efforts to improve conditions for the private sector given the latter's growing importance in developing countries. It also supported the MDBs in their deliberations to strengthen their results measurement systems and to increase the effectiveness and efficiency of their development projects in fragile contexts through closer cooperation and partnership with other development actors, in particular the United Nations.

Nicole Ruder
Daniel Birchmeier

The World Bank increases support for the poorest countries

A fruit juice wholesaler in Accra, Ghana. IDA18 focuses on the private sector and job creation. Photo Dominic Chavez/World Bank.

For the first time in its history, the part of the World Bank which provides the poorest countries with grants and loans will raise money on the capital market. The increase of available funds will contribute in particular towards financing the Sustainable Development Goals.

It seems like a paradoxical situation – an aid fund for the poorest countries on the planet which has seen its capital grow over the years. However, that is exactly what has happened at the International Development Association (IDA), the World Bank fund that supports the most disadvantaged countries. There is a simple explanation. In addition to the regular contributions from the donor countries, the fund started to receive in the 1990s the repayments on its past loans. The institution, which has traditionally managed its funds prudently, has therefore built up a nest egg that it has been urged to make the most of.

"Radical transformation"

The 18th replenishment of the IDA, which was completed in December 2016, presented an opportunity to change the rules in this respect. The Board of Governors authorised the IDA to raise money on the debt market for the first time based on its solid financial position. The path was opened up three years ago (IDA17) when the donor countries had the chance to lend to the IDA. The World Bank indicated that having access to the markets represents "the most radical transformation" of the IDA since it was established 56 years ago. As a result, the funds committed to the IDA reached a record USD 75 billion at the end of this replenishment round compared to USD 52 billion for the last one. Around a third of this amount will actually be raised on the debt markets and does not therefore constitute a replenishment strictly speaking.

The IDA has an AAA rating thanks to its solid reserves, good reputation, good governance, positive mandate – providing aid for the poorest countries – and of course the support of its donors. This gives it access to favourable rates on the capital market.

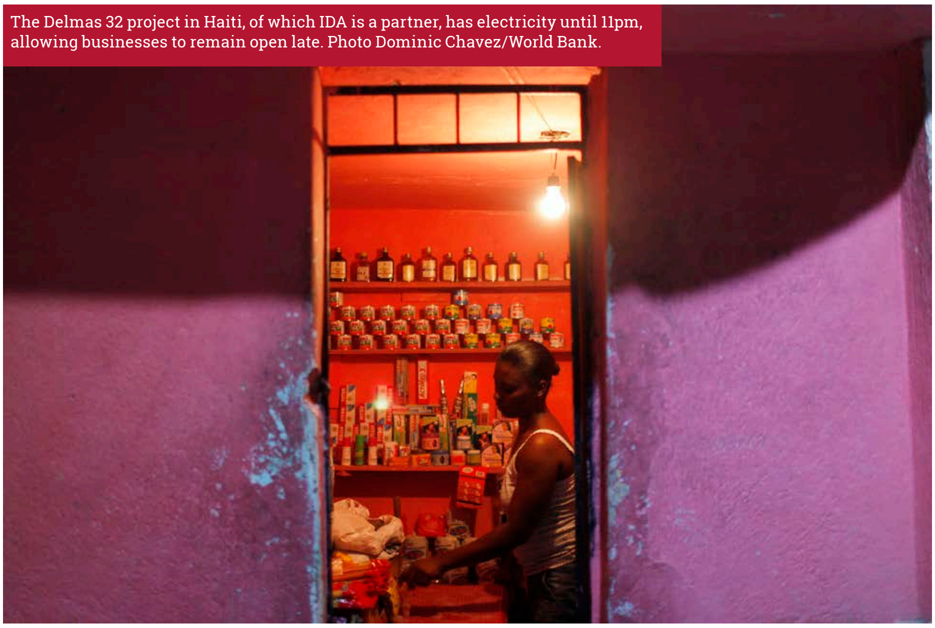
The use of the markets responds to the appeal made by the International Conference on Financing for Development held in Addis Ababa in July 2015. The action agenda set out there calls on "multilateral development banks" to provide finance "by leveraging contributions and capital, and by mobilising resources from capital markets." This appeal was in line with the Sustainable Development Goals (SDGs) and the fight against climate change. A few months later, the G20 endorsed the "balance sheet optimisation" undertaken by the multilateral development banks which it had encouraged.

New developments

Provided the commitments made by the IDA18 are met, the support for fragile and conflict-affected states should double and will include an envelope for the reception of refugees for the first time. This aims to help host countries cope with a massive influx of refugees and to facilitate their socio-economic inclusion in the host country.

The regional integration and infrastructure programme will also be significantly bolstered. The window set up in 2010 to address the economic crisis will now include health emergencies and natural disasters. The increase in resources should also allow additional funding to be provided for countries "at risk of fragility" to help them to get through temporary challenging times without regressing economically.

In another new development, the IDA will – for the first time – open a window for the private sector to which USD 2.5 billion has been allocated to promote private investment in IDA countries, especially fragile ones. This initiative, which is strongly supported by Switzerland, will be introduced in collaboration with two other World Bank


The Delmas 32 project in Haiti, of which IDA is a partner, has electricity until 11pm, allowing businesses to remain open late. Photo Dominic Chavez/World Bank.

Group organisations which promote private investments in developing countries – the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The World Bank believes this collaboration will allow these two entities to significantly increase their investment portfolio in the "IDA countries". This strengthening of the private sector is in line with the direction set by the UN, in particular the 2030 Agenda, and with the recommendations of the Addis Ababa Action Agenda.

The first public consultation organised by the World Bank as part of an IDA replenishment gave civil society organisations the opportunity to express their concerns over the protection of the most vulnerable populations and to urge the IDA to ensure that these private investments will benefit the poorest. The bank included some of these comments and suggestions in the IDA18 final report.

Special themes

The emphasis placed on the private sector has been strengthened by a new "special theme" dedicated to jobs and economic transformation. This replaces the more general one on inclusive growth by focusing on infrastructure, the private sector, job creation and regional integration.

The special themes were introduced in 2005 to improve the institution's efficiency in view of the UN's Millennium Development Goals which had been adopted in 2000. They today include gender, fragility and climate change to which jobs and economic transformation and governance were added in 2016. These transversal themes serve as a compass to ensure they are taken into account at all levels. Governance, for example – which includes the fight against corruption and illicit financial flows – is an area in which the World Bank has been active for a long time. Designating it as a new special theme underlines the IDA's desire to make it a priority.

Collaboration to be stepped up

Around 766 million people in the world live in extreme poverty and 454 million of these are in the "IDA countries". While many of them have seen economic improvement opening the door to a range of different financing instruments, the poorest countries only have access to public aid in the form of grants or concessional loans. Their situation is complicated by aggravating factors, such as violence, demographic pressure and global warming. The latter alone could plunge 100 million more people into poverty by 2030, according to the World Bank.

The IDA18 term will extend from 2017 to 2020. The World Bank has said that if the promises are upheld, the IDA will be able to contribute to providing basic healthcare and food for 400 million people as well as access to drinking water for 45 million and to education for over 300 million pupils. In other areas, it hopes to develop or enhance financial services for four to six million people, improve governance in around 30 countries and enable the equivalent of five gigawatts of renewable energy to be installed.

Apart from the amounts pledged and its "radical" transformation, the IDA has also taken a more discreet step, highlighted by attentive observers. At the insistence of several donors, including Switzerland, it is stepping up its collaboration with the United Nations by explicitly taking account of the 2030 Agenda and the Sustainable Development Goals (SDGs). The UN has welcomed the transformation of the IDA as "one of the most concrete and significant proposals to date" in meeting the demands of the Addis Ababa agenda with regard to the financing of the SDGs.

Small retailers benefit from rising standards of living, which in turn stimulates business, as in the village of Sambok in Cambodia. Photo Chhor Sokunthea/World Bank.

Three questions to…

HOMI KHARAS is a Senior Fellow at the Brookings Institution and a former regional chief economist for East Asia at the World Bank.

For the first time, IDA was allowed to raise financing on the market. How do you analyse this change ?

This is a welcome development that will allow IDA to expand significantly at a time when other forms of concessional assistance are under pressure. Because IDA has received an AAA rating it is able to borrow at the best possible terms and pass these low rates on to developing countries. IDA must now demonstrate that it has the capacity to use this money effectively, a considerable challenge given the prominence placed on assisting fragile states which, by definition, are difficult places in which to achieve good development outcomes.

IDA18 introduced some new developments (private sector window, increased focus on fragility and refugees, jobs, etc…). What are the most important for you? And what was missing ?

The most important IDA innovation is perhaps the new private sector window. IDA resources are being set aside to de-risk private investment flows. Through this window, IDA can crowd-in private capital, thereby mobilizing more development resources for the poorest countries, and at the same time benefit from the job-creating and efficiency contributions of business. What was missing was a substantial expansion of donor budgetary contributions to IDA 18; in fact these declined in real terms (but constant in local currency). So donors have, to some degree, substituted IDA borrowing for the traditional expansion of grants from their budgets. And while IDA has good rhetoric on building resilience, this has yet to be translated into significant projects or institutional-building capabilities.

The replenishments of the African and the Asian Development Funds have also been finalized in 2016. Do you see common trends between them and the IDA ?

The African Development Fund replenishment came in well below expectations and requests for support, with many countries decreasing their contributions in real terms. The disappointment comes from the fact that most poverty is now concentrated in Africa, and, because of the fall in commodity prices, African growth and domestic resource mobilization efforts are below trend. Thus, the available resources in concessional financing is not able to meet the needs of the continent. The Asian Development Fund has been more successful, especially in raising funds from emerging economies. Like IDA, the Asian Development Bank is able to blend grant resources with market borrowing to offer a larger volume of concessional credits to its clients.

Replenishments in Africa and Asia

Just like the IDA, the African and Asian Development Funds successfully completed their replenishments in 2016. They remain the main source of support for the poorest countries in their respective regions.

The Asian Development Fund

Doctor Keo Sarum, the chief consultant at the Ta Phem healthcare centre in Cambodia, still recalls the night when the lights went out in the surgical ward where he and his team were carrying out a high-risk delivery. Only a small emergency lamp enabled him to complete the procedure. That was in 2012 when power failures were a frequent occurrence. A year later, the healthcare centre was connected to a new power grid – as was the entire Tram Kok region where it is located, 80km from Phnom Penh. Electricity has since been transmitted in from neighbouring Vietnam as part of a programme aiming to interconnect six countries through which the Mekong River passes – known as the Greater Mekong Subregion Transmission Project.

Until this investment was made, the Cambodian power grid was fragmented and did not have a distribution network. The USD 76 million project – over half of which was funded by the Asian Development Bank (ADB) – has enabled power to be transmitted from the Vietnamese border to the Cambodian capital via a 109km high-voltage line, before being redistributed in the country via private operators. The price per kilowatt – previously often supplied by diesel-powered generators – has fallen by 75%.

The ADB supported this project through the Asian Development Fund (ADF), its arm which provides loans on concessional terms. The ADF has just completed its 12th replenishment which was marked by a significant transformation of its operations. As a number of countries are now able to vary their financing sources, the ADF will only allocate grants to the poorest countries.

The ADB will increase its contributions to "sustainable and inclusive development" by focusing on seven priorities – the inclusion of gender equality in all of its operations, support for fragile and conflict-affected states, food security, the development of the private sector, governance, climate change and lastly the promotion of regional public goods.

The replenishment amounts to USD 2.5 billion to which Switzerland is contributing USD 28 million.

The African Development Fund

The African Development Bank (AfDB) also completed the 14th replenishment of its fund for the poorest countries in 2016. Thus far 38 countries are eligible – to varying degrees – for support from the African Development Fund (ADF) worth USD 5.8 billion over the next three years. Switzerland maintained its share of 3%.

These projects will be part of five priority areas (energy, food, industrialisation, integration and quality of life) and four transversal areas – fragility, governance, climate change and gender equality. The creation of employment in the formal sector remains a major issue on a continent where 60% to 80% of the workforce are employed in the informal sector. In a report on the ADF-14, the bank underlined the "crucial" role that private investment must play, including in the fragile countries.

The AfDB indicated that its support of the private sector enabled the creation of around three million jobs in the period 2013–15. It is often difficult to measure the direct impact in this area as job creation depends on a number of interdependent factors. In Malawi, for example, the ADF supported a rural development programme which sought to enhance the business activities of some 12,000 beneficiaries, including by helping the poorest to organise themselves economically. The programme created around 3,000 jobs and stimulated economic activity by establishing or strengthening 354 enterprise groups and 10 cooperatives, according to the ADF.

The power plant in Kimbe, New Britain, Papua New Guinea, receives financial support from the Asian Development Bank. Photo ADB.

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