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# MDB Capital Increases and Treasury's Development Agenda

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May 27, 2009

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# Demand for MDB capital increases

Historic moment, as MDBs financial response to crisis will increase their leverage and puts a spotlight on their financial strength.

- ❑ MDBs are targeting increases to annual lending of between 100-200%.

G20 agreed in November 2008 to review capital adequacy of the IFIs.

- ❑ AsDB—200% capital increase negotiated
- ❑ World Bank- Board-level reviews of IFC and IBRD capital underway; first formal meeting tomorrow (May 28).
- ❑ IDB—Formal review underway. To report back to governors in 3Q09.
- ❑ AfDB—Annual meeting resolution has authorized a formal review.

Exception --- EBRD, where May Annual Meeting called only for further monitoring.

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# Demand for General Capital Increases

Historical perspective: General capital increase (GCI) are very rare.

- ❑ There has not been a GCI in over a decade.
  - ❑ There were just three in the 1990s, despite growing membership of the IFIs (integration of former Eastern Bloc states).
  - ❑ We could be looking at negotiating five or six in 2009-2010.
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# Budget Impact

- GCIs require Congressional authorization and appropriation, like replenishments of concessional windows.
  - Cost of GCI depends on several factors: their size, the ratio of callable versus paid-in capital, the agreed pay-in period, and the U.S. share of the replenishment.
  - We have begun running some scenarios. GCIs would have a significant budget impact.
    - Our estimates suggest a total U.S. share of paid-in capital of between \$3-7 billion, with annual appropriation requirements of between \$600 and \$1,400 million.
    - That is between 30% and 60% of IA's FY2010 budget request.
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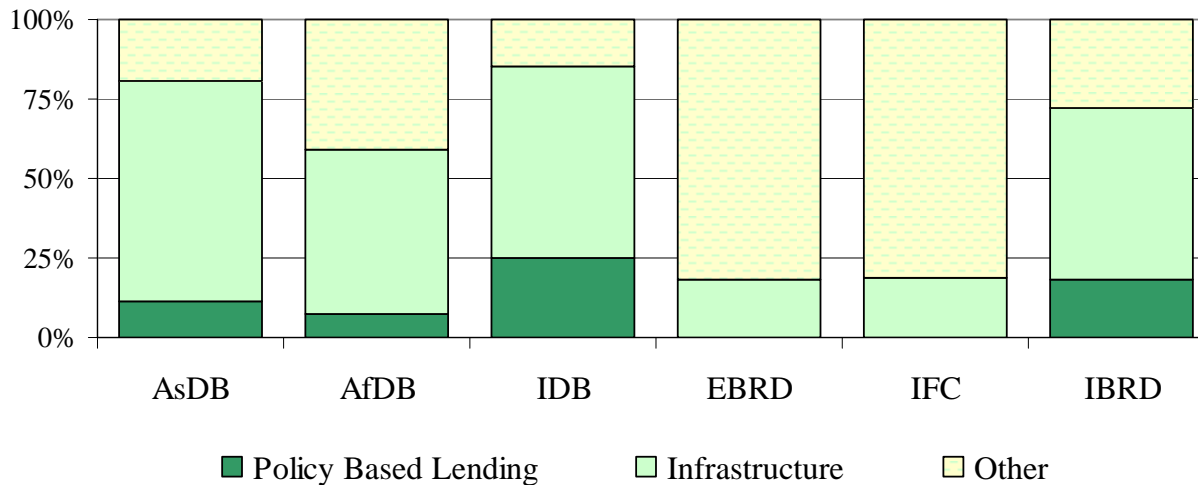
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# Principles for MDB Capital Increases

- 1) *Clear division of labor.*
  - 2) *Flexibility in Balance Sheets.*
  - 3) *Good Governance and Risk Management.*
  - 4) *Achieve results and show innovation.*
  - 5) *Sufficient focus on the poorest.*
  - 6) *Cogent, defensible demand-side analysis.*
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# *Clear division of labor among the institutions*

- Portfolios should reflect comparative strengths, between MDBs and versus IMF



IDB PBL includes the Liquidity window. All 2008 except AsDB, which is 2007-2009.

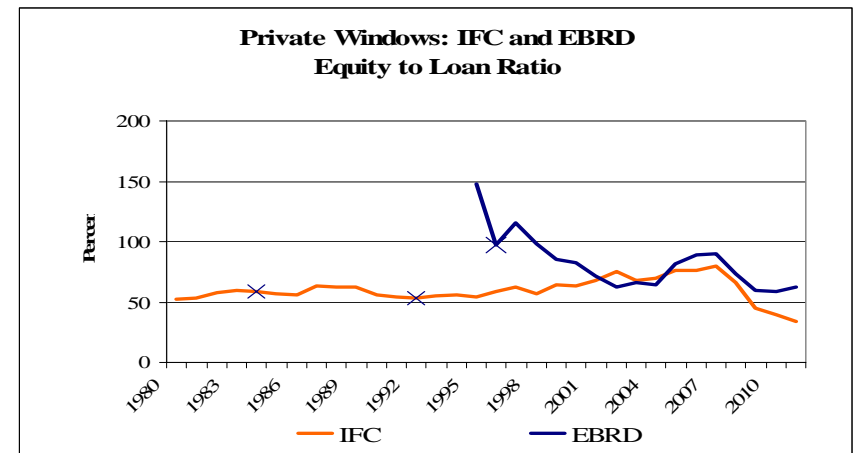
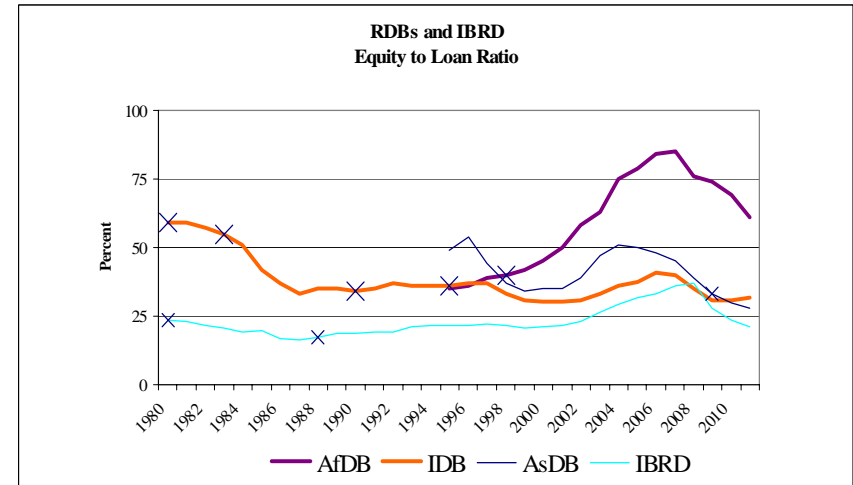
# Flexibility in using Balance Sheets

Are banks showing the ability to leverage public and private financial resources?

Can we assure that other MDBs doing what they can to fully utilize existing capital?

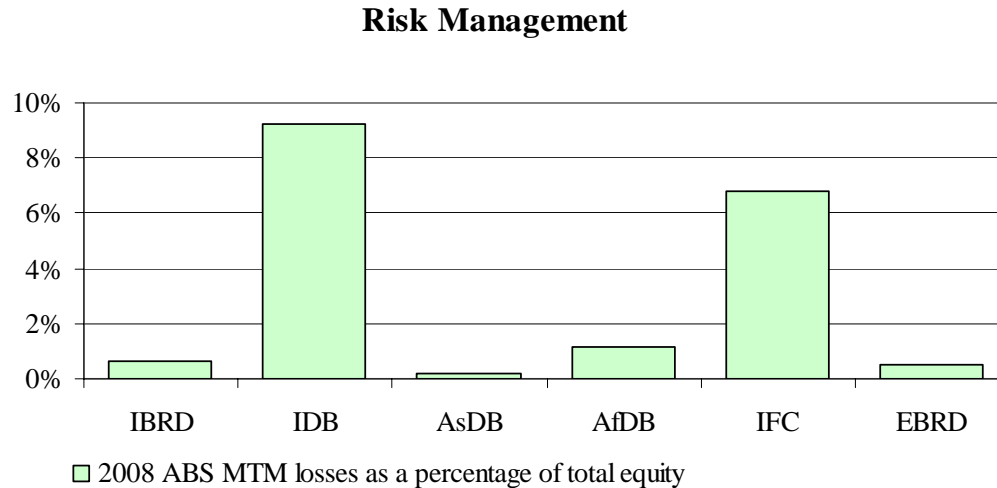
Notes:

- AsDB projections are with a GCI. All other projections assume current capitalization.
- AfDB AAA (S&P): lost in 1995; regained in 2003



# *Good Governance and Risk Management*

- Managing Treasury investment funds, as below, is indicative of only the most basic risk management.
- This measure does not capture risks on the project level such as reputation or corruption.



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# *On Governance...*

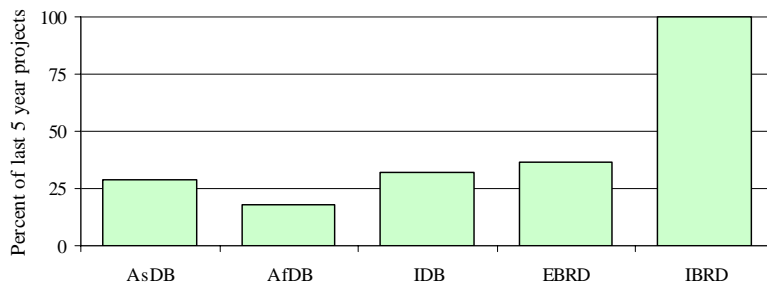
A working paper could help make judgments by incorporating several broadly-agreed critical elements into a matrix, but some qualitative judgments will be necessary:

- Transparency and accountability: Ease of access to information and responsiveness by the MDBs.
  - Evaluation: Quality of evaluation function, including breadth of mission, degree of independence.
  - Financial management: Strength of internal controls and risk management.
  - Social and environmental safeguards: Measured against international best practices and the MDBs' adherence to their own policies.
  - Quality of Board Oversight: Board's contribution to the Banks' missions, Board member's ability to conduct business without undue influence from management, Influence and expertise of subcommittees.
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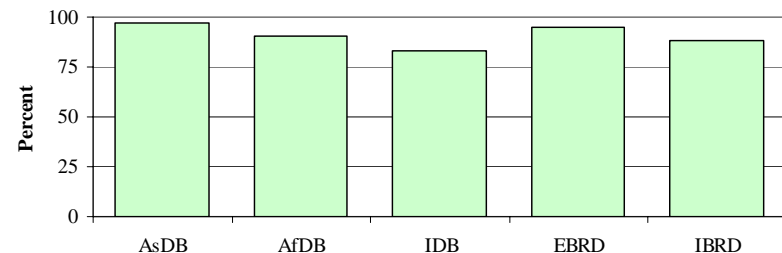
# *Achieve Results and Show Innovation*

- The ability to deliver results and account for them is also critical.
- We should also consider an independent evaluation of the level of innovation in their work programs.

Frequency of ex-post Project Reviews



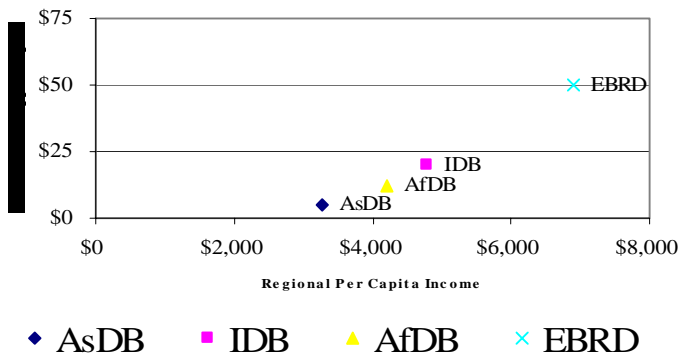
Projects Rated Satisfactory or Better in Implementation, 2006



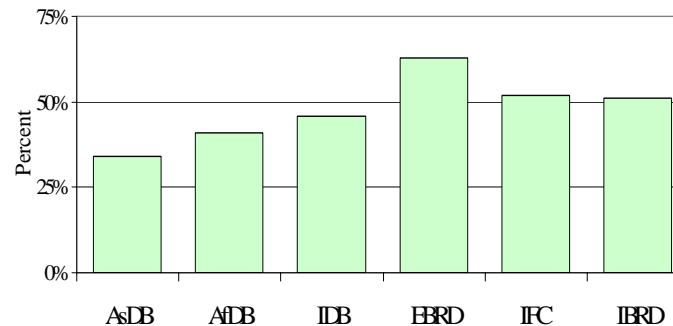
# Sufficient Focus on the Poorest

- Critical that crisis response not detract from MDB's core mission of poverty relief. Potential measures:
  - Per capital RDB lending volume compared to PCI
  - Share of MDB lending in investment grade countries.
  - Contribution of MDB income to concessional lending.

Regional Development Banks  
Lending vs Per Capita Income



Share of Lending to Investment Grade Countries



Share of Net Income  
Transferred to  
Poorest

(Avg of last three years)

IBRD	45.3%
IFC	20.2%
AsDB	8.0%
AfDB	25.2%
IDB	0.0%

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# *Demand-side analysis*

- Critical that MDBs provide solid demand analysis
    - Analysis needs to differentiate between crisis demand and likely post-crisis demand
    - Analysis should identify how lending will be consistent with MDBs comparative advantage
    - Analysis should consider declining role of ODA in some countries and regions
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