MDBs RESPONSE TO THE CRISIS

Lecture 8

LIUC 2009

Multilateral Development Banks (MDBs)

MDBs are institutions that provide financial support and professional advice for economic and social development activities in developing countries. The term Multilateral Development Banks (MDBs) typically refers to the World Bank Group and four *Regional Development Banks*:

- **The African Development Bank (AfDB)**
- **The Asian Development Bank (ADB)**
- **The European Bank for Reconstruction and Development (EBRD)**
- **The Inter-American Development Bank Group (IADB)**

The World Bank Group

- The World Bank Group is owned by **186** member countries
- It is made up of two development institutions - the **International Bank for Reconstruction and Development (IBRD)** and the **International Development Association (IDA)**
- The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world.
- They provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.
- The **International Finance Corporation (IFC)** is also a member of the Group. It provides investments and advisory services to build the private sector in developing countries

The World Bank Group

Total member countries in each institution	
The International Bank for Reconstruction and Development (IBRD)	186
The International Development Association (IDA)	169
The International Finance Corporation (IFC)	182
The Multilateral Investment Guarantee Agency (MIGA)	175
The International Centre for Settlement of Investment Disputes (ICSID)	144

- **Total employees**: 10,000+
- **Headquarters**: Washington D.C.

African Development Bank

- **Shareholders:** 53 African and 24 non-African countries
- **Mission:** to promote sustainable economic growth and reduce poverty in Africa
- **Total Employees:** 1,491
- **Headquarters:** Abidjan, Côte d'Ivoire
- **Temporary relocation:** Tunis, Tunisia

Asian Development Bank

- **Shareholders**: 67 members, of which 48 from the region and 19 from other parts of the globe.
- **Mission**: to help its developing member countries reduce poverty and improve the quality of life of their people
- **Total employees**: 2,500+
- **Headquarters**: Manila

Although most lending is in the public sector - and to governments - ADB also provides direct assistance to private enterprises of developing countries through equity investments, guarantees, and loans

European Bank for Reconstruction and Development (EBRD)

- **Shareholders**: 61 countries and 2 intergovernmental institutions (EIB and European Community)
- **Mission**: promotes entrepreneurship and fosters transition towards open and democratic market economies in Central-Eastern Europe and Central Asia (former soviet bloc).
- **Total employees**: 1,260+
- **Headquarters**: London

Inter-American Development Bank (IADB)

The IADB group is composed of the **Inter-American Development Bank**, the **Inter-American Investment Corporation (IIC)** and the **Multilateral Investment Fund (MIF)**. The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private sector growth through grants and investments, with an emphasis on microenterprise.

- **Shareholders**: 48 of which 26 borrowing and 22 non borrowing
- **Mission**: combat poverty and promote social equity through programs tailored to local conditions.
- **Total employees**: 1,745+
- **Headquarters**: Washington D.C.

What is the "normal" role of MDBs?

The MDBs provide financing for development through the following:

- **Long-term loans**, based on market interest. For funding these loans the MDBs borrow on the international capital markets and re-lend to borrowing governments in developing countries.
- **Very long-term loans** (often termed credits), with interest well below market interest. These are funded through direct contributions for governments in donor countries.
- **Grant financing** is also offered by some MDBs, mostly for technical assistance, advisory services or project preparation.

Impact of the Financial Crisis on Emerging Markets and Developing Countries

- The impact of the crisis has been deeper and more broad based than expected
- The channels of impact for emerging market economies are: sharp decline in export and private investment demand, loss of access to financial resources
- The main channels of impact for low income countries are: decline in export demand, deterioration in terms of trade, decrease in remittances and in private sector financing (including FDI)

The impact of crisis at a regional level

- Growth in emerging and developing economies is estimated at 1.7% in 2009 down from 6% in 2008.
- CIS (6.7%), Central and Eastern Europe (-5%), East Asia (-4.7%) and Latin America (-2.5%) were most affected in terms of growth slowdown
- Africa, Eastern and Central Europe and Latin America are the most vulnerable to downside risks

MDB Response to the Financial Crisis

While the IMF is the focal point for the response to the systemic liquidity threat, the MDBs play a critical complementary role in limiting the spread and the impact of the crisis by:

- Financing for fiscal measures targeted towards maintenance of jobs and social protection of the poor
- Closing gaps and mitigating rollover risks in project financing, including infrastructure directly and by crowding in private and other official financing
- Catalyzing trade financing
- Supporting financial systems and credit flows to private sector and SMEs

How MDBs have responded to the crisis

- Acceleration and expansion of lending
- Streamlined facilities made available
- Increased flexibility to meet the varying needs of emerging markets and developing countries
- Provided much larger *scale* of financing than anytime in their history: they are on track to deliver the promised $100 billion in additional lending.

MDBs' Adequacy of Resources

- All MDBs are currently reviewing their capital adequacy in order to cope with the increasing financing needs stemming from the crisis
- The G-20 Leaders in Pittsburgh reaffirmed their commitment "to ensure that the Multilateral Development Banks and their concessional lending facilities, especially the International Development Agency (IDA) and the African Development Fund, are appropriately funded."

MDBs' role after the crisis

- Even beyond the crisis, the global financial environment is likely to be much more difficult than in the past years.
- MDBs can still play a critical role in mobilizing long-term market financing through its direct borrowing and by catalyzing stable private sector financing.
- MDBs remain the most effective channel to provide concessional financing for low income countries.
- New challenges: climate change and food security, global in nature and require globally coordinated action.

What's next?

- Need for a clear and shared vision and strategy on the role of the MDBs
- Strengthen and reform the global development architecture for responding to the world's long-term challenges. Increase coordination with other bilateral and multilateral institutions.
- Key to learn lessons from the crisis. This includes: promote greater use of guarantees to provide insurance and catalyze private financing, simplify lending requirements, shift from an excessive focus on ex-ante safeguards and conditionality to country systems and ex-post evaluation…